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As filed with the Securities and Exchange Commission on July 3, 2006

Registration No. 333-

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

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

OCULUS INNOVATIVE SCIENCES, INC.

(Exact name of registrant as specified in its charter)

California (prior to reincorporation) **Delaware (after reincorporation)** *(State or other jurisdiction of incorporation or organization)*	**3841** *(Primary Standard Industrial Classification Code Number)*	**68-0423298** *(I.R.S. Employer Identification No.)*

1129 N. McDowell Blvd.
Petaluma, CA 94954
(707) 782-0792
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Hojabr Alimi
Chief Executive Officer and President
1129 N. McDowell Blvd.
Petaluma, CA 94954
(707) 782-0792
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Sylvia K. Burks, Esq. **Gabriella A. Lombardi, Esq.** **Pillsbury Winthrop Shaw Pittman LLP** **2475 Hanover Street** **Palo Alto, CA 94304-1114** **(650) 233-4500** **(650) 233-4545 facsimile**	**Michael W. Hall, Esq.** **William C. Davisson III, Esq.** **Latham & Watkins LLP** **140 Scott Drive** **Menlo Park, CA 94025** **(650) 328-4600** **(650) 463-2600 facsimile**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee**
Common Stock, $0.0001 par value	$80,500,000	$8,614

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.
(2) Includes shares of common stock issuable upon the exercise of the underwriters' over-allotment option.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED JULY 3, 2006

PRELIMINARY PROSPECTUS

Shares

Oculus Innovative Sciences, Inc.

Common Stock

We are offering shares of our common stock. This is our initial public offering, and no public market currently exists for our shares. We anticipate that the initial public offering price will be between $ and $ per share. We have applied for quotation of our common stock on the Nasdaq National Market under the symbol "OCLS."

Investing in our common stock involves a high degree of risk. Before buying any shares, you should carefully consider the risk factors described in "Risk Factors" beginning on page 7 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Oculus Innovative Sciences, Inc.	$	$

The underwriters may also purchase up to an additional shares from us at the public offering price, less the underwriting discount, within 30 days after the date of this prospectus to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about , 2006.

A.G. Edwards
First Albany Capital

Jefferies & Company
C.E. Unterberg, Towbin

The date of this prospectus is , 2006

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the respective dates as of which the information is given.

PROSPECTUS SUMMARY

Before you decide whether to invest in our common stock, you should carefully read this entire prospectus, including "Risk Factors" and the consolidated financial statements and related notes. In this prospectus, "we," "us," "our" and "Oculus" refer to Oculus Innovative Sciences, Inc. and its consolidated subsidiaries unless the context requires otherwise.

Oculus Innovative Sciences, Inc.

We develop, manufacture and market a family of products intended to prevent and eliminate infection in chronic and acute wounds. Infection is a serious potential complication in both chronic and acute wounds, and controlling infection is a critical step in wound healing. Our platform technology, called Microcyn, is a non-toxic, super-oxidized water-based solution that is designed to eliminate a wide range of pathogens including viruses, fungi, spores and antibiotic resistant strains of bacteria such as Methicillin-resistant *Staphylococcus aureus,* or MRSA, and Vancomycin-resistant *Enterococcus*, or VRE. In clinical testing, our products eliminated a wide range of pathogens and were found to be safe, easy to use and complementary with most existing treatment methods in wound care. Our experience and clinical data indicate that the use of Microcyn may shorten hospital stays, lower aggregate patient care costs and, in certain cases, reduce the need for systemic antibiotics. Microcyn also has applications in several other large consumer and professional markets, including hard surface disinfectant, respiratory, dermatology, mold and atmospheric remediation and dental.

We believe Microcyn provides significant advantages over current methods of care in the treatment of a wide range of chronic and acute wounds throughout all stages of treatment. We believe that Microcyn is the first topical product that eliminates a broad range of bacteria and other infectious microbes without causing toxic side effects on, or irritation of, healthy tissue. Unlike most antibiotics, Microcyn does not target specific strains of bacteria, a practice which has been shown to promote the development of resistant bacteria. Because our products are shelf stable and require no special preparation, they can be used in hospitals, clinics, burn centers, extended care facilities and in the home.

Our products have received CE Mark approval for wound cleaning and reduction of infection, three U.S. Food and Drug Administration, or FDA, 510(k) clearances for use of Microcyn as a medical device in wound debridement, lubricating, moistening and dressing and have been granted approval for use as an antiseptic, disinfectant and sterilant in Mexico. Physicians in several countries have conducted studies in which Microcyn eliminated infection in a variety of wounds, including hard-to-treat wounds such as diabetic ulcers and burns, and, in some cases, reduced the need for systemic antibiotics. We expect to complete our pivotal clinical trial for pre-operative skin preparation in the third quarter of 2006 and intend to file a New Drug Application, or NDA, for the use of Microcyn as a pre-operative skin preparation in late 2006. In addition, we intend to seek FDA approval for the use of Microcyn to eliminate infection and accelerate healing in wounds. We have established a protocol, based on comments from the FDA, for a Phase IIb clinical trial to be conducted in patients with diabetic foot ulcers and other open wounds comparing clinical cure rates and the rate of wound healing.

We began selling our Microcyn product in July 2004 in Mexico, where we sell through a dedicated 75-person contract sales force, and in October 2004 in Europe, where we have an eight-person direct sales force and exclusive distribution agreements with four distributors experienced in supplying the wound care market, with an aggregate combined sales force of over 25 full-time equivalent salespeople. We began selling our products in the United States in June 2005 and have established a network of one national and five regional distributors supported by four direct salespeople.

Market Opportunity

According to Medtech Insight, a Division of Windhover Information, there were over 90 million incidents of wounds in the United States during 2004. Of these, over 6 million were chronic wounds, including arterial, diabetic, pressure and venous ulcers. The remaining 84 million incidents were acute wounds, which follow the normal process of healing and commonly include burns, traumatic wounds and approximately 67 million surgical incisions. Key trends in wound care include a large and increasing at-risk population,

primarily of elderly, diabetic and obese people, increased emphasis on controlling the cost of patient care, technological product and treatment innovation, increased focus on improving the patient experience and advancements in combination treatment methods.

When infection is present in a wound, standard treatments include cleansing, debridement and systemic antibiotics. Although there are a number of topical antiseptics and antibiotics currently used to treat acute and chronic wounds, their overall effectiveness is limited. For example:

- many antiseptics, including Betadine, hydrogen peroxide and Dakin's solution, are toxic, can destroy human cells and tissue, may cause allergic reactions and can impede the wound healing process;
- silver-based products are expensive and require precise dosage and close monitoring by trained medical staff to minimize the potential for allergic reactions and bacterial resistance; and
- the increase in antibiotic resistant bacterial strains, such as MRSA and VRE, have compromised the efficacy of some widely used topical antibiotics, including Neosporin or Bacitracin.

Our Solution

Our products have the following key features:

- ***Effective.*** In physician clinical studies, our products eliminated a wide range of pathogens that cause infection in a variety of acute and chronic wounds without promoting the development of resistant bacteria.
- ***Safe.*** Clinical data shows that our products are non-toxic, do not cause skin irritation and do not inhibit wound healing. Throughout our clinical trials and physician clinical studies to date and since commercialization in 2004, we have received no reports of adverse events related to the use of Microcyn.
- ***Easy to Use.*** Our products require no preparation before use or at time of disposal, and caregivers can use our products without significant training. In addition, Microcyn has a shelf life ranging from one to two years depending on the size and type of packaging, can be stored at room temperature and does not require any specific handling procedures.
- ***Cost Effective.*** Treatment of many wounds requires extended hospitalization and care, including the use of systemic antibiotics. Infection of wounds prolongs the healing time and increases the use of systemic antibiotics. Our clinical trials and physician clinical studies to date indicate that Microcyn eliminates infection, accelerates healing time and reduces the use of systemic antibiotics, thereby lowering overall patient cost.

Our Strategy

Our goal is to become a worldwide leader in wound care by establishing Microcyn as the standard of care for controlling infection in chronic and acute wounds throughout all stages of treatment. We also intend to leverage our expertise in wound care into additional market opportunities. The key elements of our strategy include the following:

- drive adoption of Microcyn as the standard of care in the wound care market to prevent and eliminate infection;
- obtain additional regulatory approvals in the United States;
- expand our direct sales force and distribution networks;
- pursue opportunities to combine Microcyn with other treatments;
- develop strategic collaborations in the wound care market; and
- leverage our Microcyn platform to address additional markets.

Principal Risks

There are significant risks and challenges relating to our business and industry that may materially and adversely affect our ability to execute our strategy and achieve our objectives. We have a history of losses, expect to continue to incur losses and may never achieve profitability. All of our products are based on our Microcyn platform technology, and we do not have the necessary regulatory approvals to market Microcyn as a drug in the United States. We will be required to conduct clinical trials that will be lengthy and expensive. These trials may not be successful or lead to additional regulatory approvals.

Corporate Information

We were incorporated in California in 1999 as Micromed Laboratories, Inc. In August 2001, we changed our name to Oculus Innovative Sciences, Inc. In connection with this offering, we intend to reincorporate in Delaware. Our principal executive offices are located at 1129 N. McDowell Blvd., Petaluma, California, 94954, and our telephone number is (707) 782-0792. We have two principal subsidiaries: Oculus Technologies of Mexico, S.A. de C.V., organized in Mexico, and Oculus Innovative Sciences Netherlands, B.V., organized in The Netherlands. Our website is *www.oculusis.com.* Information that is included on our website is not a part of this prospectus.

We currently use *Microcyn, Dermacyn* and *Vetericyn*, which are registered trademarks, and our Oculus Innovative Sciences logo as trademarks in the United States and other countries. We have applied to the U.S. Patent and Trademark Office to register our Oculus Innovative Sciences logo. We are also seeking U.S. trademark registrations for *Cidalcyn* and *Dentricyn.* All other trademarks, trade names or services marks appearing in this prospectus are the property of their respective holders.

Our human wound treatment product is marketed under the name Dermacyn in the United States and the European Union and under the name Microyn60 in Mexico. All references in this prospectus to Microcyn as a product are to the products marketed under their respective names. Other references to Microcyn are to our platform technology used in producing our products for wound care and for other markets.

The Offering

Common stock to be offered by us	shares
Common stock to be outstanding after the offering	shares
Initial public offering price per share	$
Use of proceeds	We intend to use the net proceeds from this offering to expand our sales and marketing capabilities, to fund clinical trials and related research, to expand our manufacturing capabilities and for general corporate purposes, including working capital. See "Use of Proceeds."
Proposed Nasdaq National Market symbol	OCLS

The number of shares of common stock that will be outstanding immediately after this offering is based upon 16,875,928 shares of common stock outstanding as of March 31, 2006 and does not include:

- 8,116,174 shares of our common stock issuable upon the exercise of outstanding stock options and options granted in connection with this offering, at a weighted-average exercise price of $1.05 per share;
- 3,782,396 shares of our common stock issuable upon the exercise of outstanding warrants, at a weighted average exercise price of $2,61 per share; and
- up to 2,201,643 additional shares of our common stock reserved for issuance under our equity plans.

Unless we indicate otherwise, all information in this prospectus:

- gives effect to the conversion of all outstanding shares of our preferred stock into 15,934,718 shares of our common stock upon the completion of this offering;
- does not reflect the exercise of outstanding warrants or options to purchase shares of our common stock;
- assumes that the underwriters do not exercise their over-allotment option to purchase additional shares in this offering;
- reflects a -for-one split of our common stock to be effected before completion of this offering;
- reflects our reincorporation in Delaware from California; and
- reflects the amendment of our certificate of incorporation in connection with this offering to, among other things, change the number of shares authorized for issuance.

Summary Consolidated Financial Data
(In thousands, except per share data)

The following tables present our summary consolidated financial data. Our historical results are not necessarily indicative of the results that may be expected in the future. You should read this information together with our audited consolidated financial statements and related notes and the information under "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The following tables present our summary financial data as of March 31, 2006:

- on an actual basis;
- on a pro forma basis to give effect to the automatic conversion of all outstanding shares of our convertible preferred stock into 15,934,718 shares of our common stock upon the closing of this offering; and
- on a pro forma as adjusted basis to further give effect to the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, after deducting the underwriting discount and our estimated offering expenses.

	Year Ended March 31,		
	2004	2005	2006
Consolidated Statements of Operations Data:			
Revenues			
Product	$ 95	$ 473	$ 1,966
Service	807	883	618
Total revenues	902	1,356	2,584
Cost of revenues			
Product(1)	1,403	2,211	3,899
Service(1)	1,265	1,311	1,003
Total cost of revenues	2,668	3,522	4,902
Gross loss	(1,766)	(2,166)	(2,318)
Operating expenses:			
Research and development(1)	1,413	1,654	2,600
Selling, general and administrative(1)	3,918	12,492	15,933
Total operating expenses	5,331	14,146	18,533
Loss from operations	(7,097)	(16,312)	(20,851)
Interest expense	(178)	(372)	(172)
Interest income	3	8	282
Other income (expense), net	(26)	146	(377)
Net loss from continuing operations	(7,298)	(16,530)	(21,118)
Loss on discontinued operations	—	—	(1,981)
Net loss	(7,298)	(16,530)	(23,099)
Preferred stock dividends	—	—	(121)
Net loss available to common stockholders	$ (7,298)	$ (16,530)	$ (23,220)
Net loss per common share: basic and diluted	$ (0.47)	$ (1.06)	$ (1.40)
Weighted-average shares outstanding: basic and diluted	15,647	15,659	16,602
Pro forma net loss per common share: basic and diluted			$ (0.75)
Pro forma weighted-average shares outstanding: basic and diluted			30,728

(1) Includes the following stock-based compensation charges:

	Year Ended March 31,		
	2004	2005	2006
Cost of revenues			
Product	$ —	$ 2	$ 2
Service	10	3	1
Operating expenses			
Research and development	56	5	52
Selling, general and administrative	358	2,339	542
Total	$ 424	$ 2,349	$ 597

	As of March 31, 2006	
	Actual	Pro Forma As Adjusted (unaudited)
Consolidated Balance Sheet Data:		
Cash and cash equivalents(1)	$ 7,448	
Working capital(1)	5,127	
Total assets(1)	12,689	
Total liabilities	5,351	
Total stockholders' equity(1)	7,338	

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) this amount on a pro forma as adjusted basis by approximately $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discount and our estimated offering expenses.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below with all of the other information included in this prospectus before making an investment decision. If any of the following risks actually occur, our business, results of operations or financial condition would likely suffer. In that case, the market price of our common stock could decline and you could lose all or part of your investment in our common stock. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Risks Related to Our Business

We have a history of losses, we expect to continue to incur losses and we may never achieve profitability.

We have incurred significant net losses in each fiscal year since our inception, including losses of $7.3 million, $16.5 million and $23.1 million for the years ended March 31, 2004, 2005 and 2006, respectively. Our accumulated deficit as of March 31, 2006 was $50.3 million. We have yet to demonstrate that we can generate sufficient sales of our products to become profitable. The extent of our future operating losses and the timing of profitability are highly uncertain, and we may never achieve profitability. Even if we do generate significant revenues from our product sales, we expect that increased operating expenses will result in significant operating losses in the near term as we, among other things:

- expand our sales and marketing capabilities in the United States and internationally;
- conduct preclinical studies and clinical trials on our products and product candidates;
- seek Food and Drug Administration, or FDA, clearance to market Microcyn as a drug in the United States;
- increase our research and development efforts to enhance our existing products, commercialize new products and develop new product candidates and;
- establish additional and expand existing manufacturing facilities.

As a result of these activities, we will need to generate significant revenue in order to achieve profitability and may never become profitable. We must also maintain specified cash reserves in connection with our loan and security agreement which may limit our investment opportunities. Failure to maintain these reserves could result in our lender foreclosing against our assets or imposing significant restrictions on our operations. Even if we do achieve profitability, we may not be able to sustain or increase profitability on an ongoing basis.

Because all of our products are based on our Microcyn platform technology, we will need to generate sufficient revenues from the sale of Microcyn to execute our business plan.

All of our products are based on our Microcyn platform technology, and we do not have any non-Microcyn product candidates that will generate revenues in the foreseeable future. Accordingly, we expect to derive substantially all of our future revenues from sales of our Microcyn products. We have only been selling our products since July 2004, and substantially all of our historical product revenues have been from sales of Microcyn in Mexico. Although we began selling in Europe in October 2004 and in the United States in June 2005, our product revenues outside of Mexico to date have not been significant. For example, product revenues from countries outside of Mexico were 9.1% of our product revenues for the year ended March 31, 2006. Microcyn has not been adopted as a standard of care for wound treatment in any country and may not gain acceptance among physicians, nurses, patients, third-party payors and the medical community. Existing protocols for wound care are well established within the medical community and tend to vary geographically, and healthcare providers may be reluctant to alter their protocols to include the use of Microcyn. If Microcyn does not achieve an adequate level of acceptance, we will not generate sufficient revenues to become profitable.

We do not have the necessary regulatory approvals to market Microcyn as a drug in the United States.

We have obtained three 510(k) clearances in the United States that permit us to sell Microcyn as a medical device to clean, moisten and debride wounds. However, we do not have the necessary regulatory approvals to market Microcyn in the United States as a drug, which we will need to obtain in order to execute our business plan. Before we are permitted to sell Microcyn as a drug in the United States, we must, among other things, successfully complete additional well-controlled clinical trials, submit a New Drug Application, or NDA, to the FDA and obtain FDA approval. We have not completed the clinical trials that will be necessary to support an NDA for Microcyn. We intend to file an NDA for Microcyn as a pre-operative skin preparation in late 2006, and we also intend to seek FDA approval for the use of Microcyn to prevent and eliminate infection and accelerate healing in wounds. The FDA approval process is expensive and uncertain, requires detailed and comprehensive scientific and other data and generally takes several years. Despite the time and expense exerted, approval is never guaranteed. We do not know whether we will obtain the necessary regulatory approvals to market Microcyn as a drug in the United States. We anticipate that the earliest we could obtain approval to sell Microcyn as a pre-operative skin preparation in the United States is 2007, and any approval of Microcyn to prevent and eliminate infection in wounds in the United States will take even longer. Even if we obtain FDA approval to sell Microcyn as a drug, we may not be able to successfully commercialize Microcyn as a drug in the United States and may never recover the substantial costs we have invested in the development of our Microcyn products.

Delays or adverse results in clinical trials could result in increased costs to us and delay our ability to generate revenue.

Clinical trials are long and expensive, and the outcome of clinical trials are uncertain and subject to delays. It may take several years to complete clinical trials, if at all, and a product candidate may fail at any stage of the clinical trial process. The length of time required varies substantially according to the type, complexity, novelty and intended use of the product candidate. Interim results of a preclinical study or clinical trial do not necessarily predict final results, and acceptable results in preclinical studies or early clinical trials may not be repeatable in later subsequent clinical trials. The commencement or completion of any of our clinical trials may be delayed or halted for a variety of reasons, including the following:

- the FDA or other regulatory authorities do not approve a clinical trial protocol;
- patients do not enroll in clinical trials at the rate we expect;
- delays in reaching agreement on acceptable clinical trial agreement terms with prospective sites;
- delays in obtaining institutional review board approval to conduct a study at a prospective site;
- third party clinical investigators do not perform our clinical trials on our anticipated schedule or consistent with the clinical trial protocol and good clinical practices, or the third party organizations do not perform data collection and analysis in a timely or accurate manner;
- governmental regulations or administrative actions are changed; and
- insufficient funds to continue our clinical trials.

We do not know whether our existing or any future clinical trials will demonstrate safety and efficacy sufficiently to result in additional FDA approvals. While a number of physicians have conducted clinical studies assessing the safety and efficacy of Microcyn for various indications, the data from these studies is not sufficient to support approval of Microcyn as a drug in the United States, and we will be required to complete additional, well-controlled clinical studies in compliance with FDA requirements before we submit an NDA for Microcyn. Our failure to adequately demonstrate the safety and efficacy of our product candidates to the satisfaction of the FDA will prevent our receipt of FDA approval for additional indications and, ultimately, impact commercialization of our products in the United States. If we experience significant delays or adverse results in clinical trials, our financial results and the commercial prospects for products based on Microcyn will be harmed, our costs would increase and our ability to generate revenue would be delayed.

If we fail to obtain, or experience significant delays in obtaining, regulatory clearances to market our current or future products, we will be unable to commercialize these products.

Developing, testing, manufacturing, marketing and selling of medical technology products are subject to extensive regulation by numerous governmental authorities in the United States and other countries. The process of obtaining regulatory clearance and approval of medical technology products is costly and time consuming. Even though the underlying product formulation may be the same or similar, our products are subject to different regulations and approval processes depending upon their intended use. In the United States, use of Microcyn to cleanse and debride a wound comes within the medical device regulation framework, while use of Microcyn to prepare the skin pre-operatively and to control infection in wounds will require us to seek FDA approval of Microcyn as a drug in the United States.

To obtain regulatory approval of our products as drugs in the U.S., we must first show that our products are safe and effective for target indications through preclinical studies (animal testing) and clinical trials (human testing). The FDA generally clears marketing of a medical device through the 510(k) pre-market clearance process if it is demonstrated that the new product has the same intended use and is substantially equivalent to another legally marketed device, including a 510(k)-cleared product, and otherwise meets the FDA's requirements. Product modifications, including labeling the product for a new intended use, may require the submission of a new 510(k) clearance before the modified product can be marketed. Some higher-risk medical devices must receive pre-market approval, or PMA, before they may be commercialized. The PMA process is more costly, lengthy and uncertain than the 510(k) clearance process and requires the development and submission of clinical studies supporting the safety and effectiveness of the device. We cannot assure you that any new products or any product enhancements we develop will be subject to the shorter 510(k) clearance process instead of the more lengthy PMA or drug approval processes.

We do not know whether our products based on Microcyn will receive approval from FDA as a drug. The data from clinical studies of Microcyn conducted by physicians to date will not satisfy FDA's regulatory criteria for approval of an NDA. We are therefore conducting, and will need to conduct additional, well-controlled clinical trials in order to generate data that demonstrates to the satisfaction of FDA that Microcyn is safe and effective for the indications we seek in our NDAs. The outcomes of clinical trials are inherently uncertain, and there is no guarantee that the results of our clinical trials will replicate the data obtained from the physician clinical studies and that these clinical trials will support FDA approval of Microcyn as a drug. In addition, we do not know whether the necessary approvals or clearances will be granted for future products or that FDA review or actions will not involve delays caused by the FDA's request for additional information or clinical testing that could adversely affect the time to market and sale of products as drugs. If we do not obtain the requisite regulatory clearances and approvals, we will be unable to commercialize our products as drugs and may never recover any of the substantial costs we have invested in the development of Microcyn.

Distribution of our products outside the United States is subject to extensive government regulation. These regulations, including the requirements for approvals or clearance to market, the time required for regulatory review and the sanctions imposed for violations, vary from country to country. We do not know whether we will obtain regulatory approvals in such countries or that we will not be required to incur significant costs in obtaining or maintaining these regulatory approvals. In addition, the export by us of certain of our products that have not yet been cleared for domestic commercial distribution may be subject to FDA export restrictions. Failure to obtain necessary regulatory approvals, the restriction, suspension or revocation of existing approvals or any other failure to comply with regulatory requirements would have a material adverse effect on our future business, financial condition, and results of operations.

We may incur significant liabilities in connection with our prior relationship with a distributor in Mexico, and our results of operations may be negatively affected by the termination of this relationship.

On June 16, 2005, we entered into a series of agreements with Quimica Pasteur, or QP, a Mexico-based distributor of pharmaceutical products to hospitals and health care entities owned or operated by the Mexican Ministry of Health, or MOH. These agreements provided, among other things, for QP to act as our exclusive distributor of Microcyn to the MOH for a period of three years. We concurrently acquired a small equity interest in QP and an option to acquire the remaining equity of QP directly from its principals. In addition,

two of our employees were appointed as officers of QP, which resulted in the establishment of financial control of QP by our company under applicable accounting literature.

As a result of our agreements, we were required to consolidate QP's operations with our financial results. In connection with our audit of QP's financial statements in late 2005, we were made aware of a number of facts that suggested that QP or its principals may have engaged in some form of tax avoidance practice prior to the execution of the agreements between our company and QP. We did not discover these facts prior to our execution of these agreements or for several months thereafter. Our audit committee engaged an outside law firm to conduct an investigation whose findings implicated QP's principals in a systemic tax avoidance practice prior to June 16, 2005. We estimate that taxes, interest and penalties related to these practices could amount to $7 million or more. Based on the results of this investigation, we terminated our agreements with QP effective March 26, 2006.

Although we believe that we are not responsible for any tax avoidance practices of QP's principals prior to June 16, 2005, the Mexican taxing authority could make a claim against us or our Mexican subsidiary.

QP had a well-established relationship with the MOH. We lost the benefit of this relationship when we terminated our agreements with QP. Although we currently market Microcyn in Mexico through a dedicated contract sales force and we continue to market Microcyn to the MOH, we do not know whether our future sales in Mexico will decline as a result of the termination of our relationship with QP.

If our competitors develop products similar to Microcyn, we may need to modify or alter our business strategy, which may delay the achievement of our goals.

Competitors may develop products with similar characteristics as Microcyn. Such similar products marketed by larger competitors can hinder our efforts to penetrate the market. As a result, we may be forced to modify or alter our business and regulatory strategy and sales and marketing plans, as a response to changes in the market, competition and technology limitations, among others. Such modifications may pose additional delays in achieving our goals.

If we are unable to expand our direct domestic sales force, we may not be able to successfully sell our products in the United States.

We currently sell Microcyn in the United States through a network of one national and five regional distributors and a direct sales force comprised of four persons. We plan to sell directly into the U.S. market and are expanding our domestic sales force. Our intent is to expand our domestic sales force by December 2007 to coincide as closely as possible with our anticipated receipt of FDA approval to market and sell Microcyn as a drug for pre-operative skin preparation. Developing a sales force is expensive and time consuming, and the lack of qualified sales personnel could delay or limit the success of our product launch. Our domestic sales force, if established, will be competing with the sales operations of our competitors, which are better funded and more experienced. We may not be able to develop domestic sales capacity on a timely basis or at all.

Our dependence on distributors for sales could limit or prevent us from selling our products and from realizing long-term revenue growth.

We currently depend on distributors to sell Microcyn in the United States, Europe and other countries and intend to continue to sell our products primarily through distributors in Europe and the United States for the foreseeable future. In addition, if we are unable to expand our direct sales force, we will continue to rely on distributors to sell Microcyn. Our existing distribution agreements are generally short-term in duration, and we may need to pursue alternate distributors if the other parties to these agreements terminate or elect not to

renew their agreements. If we are unable to retain our current distributors for any reason, we must replace them with alternative distributors experienced in supplying the wound care market, which could be time-consuming and divert management's attention from other operational matters. In addition, we will need to attract additional distributors to expand the geographic areas in which we sell Microcyn. Distributors may not commit the necessary resources to market and sell our products to the level of our expectations, which could harm our ability to generate revenues. In addition, some of our distributors may also sell products that compete with ours. If current or future distributors do not perform adequately, or we are unable to locate distributors in particular geographic areas, we may not realize long-term revenue growth.

We depend on a contract sales force to sell our products in Mexico.

We currently depend on a contract sales force to sell Microcyn in Mexico. Our existing agreement is short-term in duration and can be terminated by either party upon 30 days written notice. If we are unable to retain our current agreement for any reason, we may need to build our own internal sales force or find an alternate source for contract sales people. We may be unable to find an alternate source, or the alternate source's sales force may not generate sufficient revenue. If our current or future contract sales force does not perform adequately, we may not realize long-term revenue growth in Mexico.

If we fail to comply with ongoing regulatory requirements, or if we experience unanticipated problems with our products, these products could be subject to restrictions or withdrawal from the market.

Regulatory approvals or clearances that we currently have and that we may receive in the future are subject to limitations on the indicated uses for which the products may be marketed, and any future approvals could contain requirements for potentially costly post-marketing follow-up studies. In addition, the manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion, distribution and record-keeping for approved products are subject to extensive regulation. Our manufacturing facilities, processes and specifications are subject to periodic inspection by FDA, KEMA, and other regulatory authorities and from time to time, we may receive notices of deficiencies from these agencies as a result of such inspections. Our failure to continue to meet regulatory standards or to remedy any deficiencies could result in restrictions being imposed on products or manufacturing processes, fines, suspension or loss of regulatory approvals or clearances, product recalls, termination of distribution or product seizures or the need to invest substantial resources to comply with various existing and new requirements. In the more egregious cases, criminal sanctions, civil penalties, disgorgement of profits or closure of our manufacturing facilities are possible. The subsequent discovery of previously unknown problems with Microcyn, including adverse events of unanticipated severity or frequency, may result in restrictions on the marketing of our products, and could include voluntary or mandatory recall or withdrawal of products from the market.

New government regulations may be enacted and changes in FDA policies and regulations, their interpretation and enforcement, could prevent or delay regulatory approval of our products. We cannot predict the likelihood, nature or extent of adverse government regulation that may arise from future legislation or administrative action, either in the United States or abroad. Therefore, we do not know whether we will be able to continue to comply with any regulations or that the costs of such compliance will not have a material adverse effect on our future business, financial condition, and results of operations. If we are not able to maintain regulatory compliance, we will not be permitted to market our products and our business would suffer.

Our competitive position depends on our ability to protect our intellectual property and our proprietary technologies.

Our ability to compete and to achieve and maintain profitability depends on our ability to protect our intellectual property and proprietary technologies. We currently rely on a combination of patents, patent applications, trademarks, trade secret laws, confidentiality agreements, license agreements and invention assignment agreements to protect our intellectual property rights. We also rely upon unpatented know-how and continuing technological innovation to develop and maintain our competitive position. These measures may not be adequate to safeguard our Microcyn technology. In addition, we granted a security interest in our assets under a loan and security agreement. The security interest extends to our intellectual property in the event we

fail to maintain specified cash reserves under the loan. If we do not protect our rights adequately, third parties could use our technology, and our ability to compete in the market would be reduced.

Although we have filed U.S. and foreign patent applications related to our Microcyn based products, the manufacturing technology for making the products, and their uses, no patents have been issued from these applications.

Our pending patent applications and any patent applications we may file in the future may not result in issued patents, and we do not know whether any of our in-licensed patents or any additional patents that might ultimately be issued by the U.S. Patent and Trademark Office will protect our Microcyn technology. Any claims that issue may not be sufficiently broad to prevent third parties from producing competing substitutes and may be infringed, designed around, or invalidated by third parties. Even issued patents may later be found to be invalid, or may be modified or revoked in proceedings instituted by third parties before various patent offices or in courts.

The degree of future protection for our proprietary rights is more uncertain in part because legal means afford only limited protection and may not adequately protect our rights, and we will not be able to ensure that:

- we were the first to invent the inventions described in patent applications;
- we were the first to file patent applications for inventions;
- others will not independently develop similar or alternative technologies or duplicate our products without infringing our intellectual property rights;
- any patents licensed or issued to us will provide us with any competitive advantages;
- we will develop proprietary technologies that are patentable; or
- the patents of others will not have an adverse effect on our ability to do business.

The policies we use to protect our trade secrets may not be effective in preventing misappropriation of our trade secrets by others. In addition, confidentiality and invention assignment agreements executed by our employees, consultants and advisors may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosures. We cannot be certain that the steps we have taken will prevent the misappropriation and use of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. For example, one of our former contract partners, Nofil Corporation, whom we relied upon to manufacture our proprietary machines had access to our proprietary information and we believe undertook the development and manufacture of the machines to be sold to third parties in violation of our agreement with such company. We have brought a claim against Nofil in the Northern District of California. We believe that a former officer of our Mexico subsidiary collaborated in these acts, misappropriated our trade secrets, and is currently selling products in Mexico that are competitive to our products. In addition, we believe that, through the licensor of the patents that we in-license and who has also assigned patents to us, a company in Japan obtained one of our patent applications, translated it into Hangul and filed it under such company's and the licensor's name in South Korea. These and any other leak of confidential data into the public domain or to third parties could allow our competitors to learn our trade secrets.

We are in a dispute with the licensor of all of our current issued patents, which could result in our losing all rights under such patents and have a material adverse impact on our business opportunities in Japan.

In March 2003, we obtained an exclusive license to six issued Japanese patents and five Japanese published pending patent applications owned by Coherent Technologies. The issued Japanese patents and pending Japanese patent applications relate to an early generation of super-oxidized water product and aspects of the method and apparatus for producing such product and will expire between 2011 and 2014. In June 2006, we received written notice from Coherent advising us that the patent license was terminated, citing various reasons with which we disagree. Although we do not believe Coherent has grounds to terminate the license, we may have to take legal action to preserve our rights under the license and to enjoin Coherent from

breaching its terms. We do not know whether we would prevail in any such action, which would be costly and time consuming, and we could lose our rights under the license, which could have a material adverse impact on our business opportunities in Japan. In addition, we could have to defend ourselves against infringement claims from Coherent in Japan based on their position on termination of the license.

We may face intellectual property infringement claims that could be time-consuming, costly to defend and could result in our loss of significant rights and the assessment of treble damages.

From time to time, we may receive notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. In September 2005, a complaint was filed against us in Mexico claiming confusion in trademarks with respect to our Microcyn60 mark. We have tentatively agreed to change the name Microcyn60 within twelve months from the date of a proposed settlement. The party has referred the matter to the Mexico Trademark Office. We could incur a liability of approximately $100,000 for the use of the name Microcyn60 during the twelve month period following the date of settlement. We cannot be sure that we will not be required to take additional actions, including making additional payments related to this matter, or that changing our product name will not have a negative impact on our product sales in Mexico.

In addition, we may have disputes regarding intellectual property rights with the parties that have licensed those rights to us. Some claims received from third parties may lead to litigation. We cannot assure you that we will prevail in these actions, or that other actions alleging misappropriation or misuse by us of third-party trade secrets, infringement by us of third-party patents and trademarks or the validity of our patents, will not be asserted or prosecuted against us. We may also initiate claims to defend our intellectual property. Intellectual property litigation, regardless of outcome, is expensive and time-consuming, could divert management's attention from our business and have a material negative effect on our business, operating results or financial condition. If there is a successful claim of infringement against us, we may be required to pay substantial damages (including treble damages if we were to be found to have willfully infringed a third party's patent) to the party claiming infringement, develop non-infringing technology, stop selling our products or using technology that contains the allegedly infringing intellectual property or enter into royalty or license agreements that may not be available on acceptable or commercially practical terms, if at all. Our failure to develop non-infringing technologies or license the proprietary rights on a timely basis could harm our business. In addition, modifying our products to include the non-infringing technologies could require us to seek re-approval or clearance from various regulatory bodies for our products, which would be costly and time consuming. Also, we may be unaware of pending patent applications that relate to our technology. Parties making infringement claims on future issued patents may be able to obtain an injunction that would prevent us from selling our products or using technology that contains the allegedly infringing intellectual property, which could harm our business.

Our ability to generate revenue will be diminished if we are unable to obtain acceptable prices or an adequate level of reimbursement from third-party payors of healthcare costs.

The continuing efforts of governmental and other third-party payors, including managed care organizations such as health maintenance organizations, or HMOs, to contain or reduce costs of health care may affect our future revenue and profitability, and the future revenue and profitability of our potential customers, suppliers and collaborative or license partners and the availability of capital. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, governmental and private payors have limited the growth of health care costs through price regulation or controls, competitive pricing programs and drug rebate programs. Our ability to commercialize our products successfully will depend in part on the extent to which appropriate coverage and reimbursement levels for the cost of our Microcyn products and related treatment are obtained from governmental authorities, private health insurers and other organizations, such as HMOs.

There is significant uncertainty concerning third-party coverage and reimbursement of newly approved medical products and drugs. Third-party payors are increasingly challenging the prices charged for medical products and services. Also, the trend toward managed healthcare in the United States and the concurrent growth of organizations such as HMOs, as well as legislative proposals to reform healthcare or reduce government insurance programs, may result in lower prices for or rejection of our products. The cost

containment measures that health care payors and providers are instituting and the effect of any health care reform could materially and adversely affect our ability to generate revenues.

In addition, given ongoing federal and state government initiatives directed at lowering the total cost of health care, the U.S. Congress and state legislatures will likely continue to focus on health care reform, the cost of prescription pharmaceuticals and on the reform of the Medicare and Medicaid payment systems. While we cannot predict whether any proposed cost-containment measures will be adopted, the announcement or adoption of these proposals could reduce the price that we receive for our Microcyn products in the future.

We could be required to indemnify third parties for alleged infringement, which could cause us to incur significant costs.

Some of our distribution agreements contain commitments to indemnify our distributors against liability arising from infringement of third party intellectual property such as patents. We may be required to indemnify our customers for claims made against them or license fees they are required to pay. If we are forced to indemnify for claims or to pay license fees, our business and financial condition could be substantially harmed.

A significant part of our business is conducted outside of the United States, exposing us to additional risks that may not exist in the United States, which in turn could cause our business and operating results to suffer.

We have international operations in Mexico and Europe. For the fiscal years ended March 31, 2004, 2005 and 2006, approximately 10%, 35% and 75%, respectively, of our total revenue was generated from sales outside of the United States. Our business is highly regulated for the use, marketing and manufacturing of our Microcyn products both domestically and internationally. Our international operations are subject to risks, including:

- local political or economic instability;
- changes in governmental regulation;
- changes in import/export duties;
- trade restrictions;
- lack of experience in foreign markets;
- difficulties and costs of staffing and managing operations in certain foreign countries;
- work stoppages or other changes in labor conditions;
- difficulties in collecting accounts receivables on a timely basis or at all; and
- adverse tax consequences or overlapping tax structures.

We plan to continue to expand internationally to respond to customer requirements and market opportunities. We currently have international manufacturing facilities in Mexico and The Netherlands. Establishing operations in any foreign country or region presents risks such as those described above as well as risks specific to the particular country or region. In addition, until a payment history is established over time with customers in a new geography or region, the likelihood of collecting receivables generated by such operations could be less than our expectations. As a result, there is a greater risk that reserves set with respect to the collection of such receivables may be inadequate. If our international expansion efforts in any foreign country are unsuccessful, we could incur significant losses and we may not achieve profitability.

In addition, changes in policies or laws of the United States or foreign governments resulting in, among other things, changes in regulations and the approval process, higher taxation, currency conversion limitations, restrictions on fund transfers or the expropriation of private enterprises, could reduce the anticipated benefits of our international expansion. If we fail to realize the anticipated revenue growth of our future international operations, our business and operating results could suffer.

Our sales in international markets subject us to foreign currency exchange and other risks and costs which could harm our business.

A substantial portion of our revenues are derived from outside the United States, and primarily from Mexico. We anticipate that revenues from international customers will continue to represent a substantial portion of our revenues for the foreseeable future. Because we generate revenues in foreign currencies, we are subject to the effects of exchange rate fluctuations. For the years ended March 31, 2004, 2005 and 2006, approximately 10%, 35% and 75%, respectively, of our revenues were denominated in currencies other than the U.S. dollar. We incurred foreign currency exchange losses of $4,000 and $283,000 for the years ended March 31, 2004 and 2006, respectively, and a gain of $134,000 for the fiscal year ended March 31, 2005. The functional currency of our Mexican subsidiary is the Mexican Peso and the functional currency of our subsidiary in The Netherlands is the Euro. For the preparation of our consolidated financial statements, the financial results of our foreign subsidiaries are translated into U.S. dollars on average exchange rates during the applicable period. If the U.S. dollar appreciates against the Mexican Peso or the Euro, as applicable, the revenues we recognize from sales by our subsidiaries will be adversely impacted. Foreign exchange gains or losses as a result of exchange rate fluctuations in any given period could harm our operating results and negatively impact our revenues. Additionally, if the effective price of our products were to increase as a result of fluctuations in foreign currency exchange rates, demand for our products could decline and adversely affect our results of operations and financial condition.

The loss of key members of our senior management team, one of our directors or our inability to retain highly skilled scientists, technicians and salespeople could adversely affect our business.

Our success depends largely on the skills, experience and performance of key members of our executive management team, including Hojabr Alimi, our Chief Executive Officer, and Akihisa Akao, a member of our Board of Directors and one of our consultants. The efforts of these people will be critical to us as we continue to develop our products and as we attempt to commercialize products in the chronic and acute wound care market. If we were to lose one or more of these individuals, we may experience difficulties in competing effectively, developing our technologies and implementing our business strategies.

Our research and development programs depend on our ability to attract and retain highly skilled scientists and technicians. We may not be able to attract or retain qualified scientists and technicians in the future due to the intense competition for qualified personnel among medical technology businesses, particularly in the San Francisco Bay Area. We also face competition from universities and public and private research institutions in recruiting and retaining highly qualified personnel. In addition, our success depends on our ability to attract and retain salespeople with extensive experience in wound care and close relationships with the medical community, including physicians and other medical staff. We may have difficulties locating, recruiting or retaining qualified salespeople, which could cause a delay or decline in the rate of adoption of our products. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that will adversely affect our ability to support our research, development and sales programs.

We maintain key-person life insurance only on Mr. Alimi. We may discontinue this insurance in the future, it may not continue to be available on commercially reasonable terms or, if continued, it may prove inadequate to compensate us for the loss of Mr. Alimi's services.

We may be unable to manage our future growth effectively, which would make it difficult to execute our business strategy.

We may experience periods of rapid growth as we expand our business, which will likely place a significant strain on our limited personnel and other resources. Any failure by us to manage our growth effectively could have an adverse effect on our ability to achieve our commercialization goals.

Furthermore, we conduct business in a number of geographic regions and are seeking to expand to other regions. We have not established a physical presence in many of the international regions in which we conduct or plan to conduct business, but rather we manage our business from our headquarters in Northern California.

As a result, we conduct business at all times of the day and night with limited personnel. If we fail to appropriately target and increase our presence in these geographic regions, we may not be able to effectively market and sell our Microcyn products in these locations or we may not meet our customers' needs in a timely manner, which could negatively affect our operating results.

Future growth will also impose significant added responsibilities on management, including the need to identify, recruit, train and integrate additional employees. In addition, rapid and significant growth will place strain on our administrative and operational infrastructure, including sales and marketing and clinical and regulatory personnel. Our ability to manage our operations and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy.

The wound care industry is highly competitive and subject to rapid technological change. If our competitors are better able to develop and market products that are less expensive or more effective than any products that we may develop, our commercial opportunity will be reduced or eliminated.

The wound care industry is highly competitive and subject to rapid technological change. Our success depends, in part, upon our ability to stay at the forefront of technological change and maintain a competitive position.

We compete with large healthcare, pharmaceutical and biotechnology companies, along with smaller or early-stage companies that have collaborative arrangements with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, pre-clinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Our competitors may:

- develop and patent processes or products earlier than we will;
- develop and commercialize products that are less expensive or more efficient than any products that we may develop;
- obtain regulatory approvals for competing products more rapidly than we will;
- improve upon existing technological approaches or develop new or different approaches that render our technology or products obsolete or non-competitive.

As a result, we may not be able to successfully commercialize any future products.

Our inability to raise additional capital on acceptable terms in the future may limit our ability to develop and commercialize new products and technologies.

We expect capital outlays and operating expenditures to increase over the next several years as we work to commercialize our products and expand our infrastructure and research and development activities. We may need to raise additional capital to, among other things:

- sustain commercialization of our current products or new products;
- increase our sales and marketing efforts to drive market adoption and address competitive developments;
- fund our clinical trials and preclinical studies;
- expand our research and development activities;
- expand our manufacturing capabilities;
- acquire or license technologies; and
- finance capital expenditures and our general and administrative expenses.

Our present and future funding requirements will depend on many factors, including:

- the level of research and development investment required to maintain and improve our technology position;
- cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- our efforts to acquire or license complementary technologies or acquire complementary businesses;
- changes in product development plans needed to address any difficulties in commercialization;
- competing technological and market developments; and
- changes in regulatory policies or laws that affect our operations.

If we raise additional funds by issuing equity securities, dilution to our stockholders could result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. If we raise additional funds by issuing debt securities, these debt securities would have rights, preferences and privileges senior to those of holders of our common stock, and the terms of the debt securities issued could impose significant restrictions on our operations. If we raise additional funds through collaborations and licensing arrangements, we might be required to relinquish significant rights to our technologies or products, or grant licenses on terms that are not favorable to us. If adequate funds are not available, we may have to scale back our operations or limit our research and development activities.

The success of our research and development efforts may depend on our ability to find suitable collaborators to fully exploit our capabilities. If we are unable to establish collaborations or if these future collaborations are unsuccessful, our research and development efforts may be unsuccessful, which could adversely affect our results of operations and financial condition.

An important element of our business strategy will be to enter into collaborative or license arrangements under which we license our Microcyn technology to other parties for development and commercialization. We expect that while we may initially seek to conduct initial clinical trials on our drug candidates, we may need to seek collaborators for a number of our potential products because of the expense, effort and expertise required to continue additional clinical trials and further develop those potential products candidates. Because collaboration arrangements are complex to negotiate, we may not be successful in our attempts to establish these arrangements. Also, we may not have products that are desirable to other parties, or we may be unwilling to license a potential product because the party interested in it is a competitor. The terms of any arrangements that we establish may not be favorable to us. Alternatively, potential collaborators may decide against entering into an agreement with us because of our financial, regulatory or intellectual property position or for scientific, commercial or other reasons. If we are not able to establish collaborative agreements, we may not be able to develop and commercialize new products, which would adversely affect our business and our revenues.

In order for any of these collaboration or license arrangements to be successful, we must first identify potential collaborators or licensees whose capabilities complement and integrate well with ours. We may rely on these arrangements for, not only financial resources, but also for expertise or economies of scale that we expect to need in the future relating to clinical trials, manufacturing, sales and marketing, and for licenses to technology rights. However, it is likely that we will not be able to control the amount and timing of resources that our collaborators or licensees devote to our programs or potential products. If our collaborators or licensees prove difficult to work with, are less skilled than we originally expected, or do not devote adequate resources to the program, the relationship will not be successful. If a business combination, involving a collaborator or licensees and a third party were to occur, the effect could be to diminish, terminate or cause delays in development of a potential product.

We may acquire other businesses or form joint ventures that could harm our operating results, dilute your ownership of us, increase our debt or cause us to incur significant expense.

As part of our business strategy, we may pursue acquisitions of complementary businesses and assets, as well as technology licensing arrangements. We also intend to pursue strategic alliances that leverage our core

technology and industry experience to expand our product offerings or distribution. We have no experience with respect to acquiring other companies and limited experience with respect to the formation of collaborations, strategic alliances and joint ventures. If we make any acquisitions, we may not be able to integrate these acquisitions successfully into our existing business, and we could assume unknown or contingent liabilities. Any future acquisitions by us also could result in significant write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results. Integration of an acquired company also may require management resources that otherwise would be available for ongoing development of our existing business. We may not identify or complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the anticipated benefits of any acquisition, technology license, strategic alliance or joint venture.

To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which would dilute your ownership interest in us. If the price of our common stock is low or volatile, we may not be able to acquire other companies for stock. Alternatively, it may be necessary for us to raise additional funds for acquisitions through public or private financings. Additional funds may not be available on terms that are favorable to us, or at all.

If we are unable to comply with broad and complex federal and state fraud and abuse laws, we could face substantial penalties and our products could be excluded from government healthcare programs.

We are subject to various broad and complex federal and state laws pertaining to healthcare fraud and abuse, which, among other things, prohibit payments to induce the referral of products and services and the fraudulent billing of federal healthcare programs. Any violations of these laws, or any action against us for violation of these laws, even if we successfully defend against it, could result in a material adverse effect on our business, financial condition and results of operations. If there is a change in law, regulation or administrative or judicial interpretations, we may have to change our business practices or our existing business practices could be challenged as unlawful, which could have a material adverse effect on our business, financial condition and results of operations.

The frequency of suits to enforce these laws have increased significantly in recent years and have increased the risk that a healthcare company will have to defend a false claim action, pay fines or be excluded from the Medicare, Medicaid or other federal and state healthcare programs as a result of an investigation arising out of such action. We cannot assure you that we will not become subject to such litigation or, if we are not successful in defending against such actions, that such actions will not have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that the costs of defending claims or allegations under the False Claims Act will not have a material adverse effect on our business, financial condition and results of operations.

Our efforts to discover and develop potential products may not lead to the discovery, development, commercialization or marketing of actual drug products.

We are currently engaged in a number of different approaches to discover and develop new product applications and product candidates. At the present time, we have one drug candidate in clinical trials. We also have a non-Microcyn based compound in the research and development phase. This compound has potential applications in oncology. Discovery and development of potential drug candidates are expensive and time-consuming, and we do not know if our efforts will lead to discovery of any drug candidates that can be successfully developed and marketed. If our efforts do not lead to the discovery of a suitable drug candidate, we may be unable to grow our clinical pipeline or we may be unable to enter into agreements with collaborators who are willing to develop our drug candidates.

We must implement additional and expensive finance and accounting systems, procedures and controls as we grow our business and organization and to satisfy new reporting requirements, which will increase our costs and require additional management resources.

As a public reporting company, we will be required to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements and more complex accounting rules. Compliance with Section 404 of

the Sarbanes-Oxley Act and other requirements will increase our costs and require additional management resources. We recently have been upgrading our finance and accounting systems, procedures and controls and will need to continue to implement additional finance and accounting systems, procedures and controls as we grow our business and organization, enter into complex business transactions and take actions designed to satisfy new reporting requirements. Specifically, our transaction with QP may indicate that we need to better plan for complex transactions and the application of complex accounting principles relating to those transactions. If we are unable to complete the required Section 404 assessment as to the adequacy of our internal control over financial reporting, if we fail to maintain or implement adequate controls, or if our independent registered public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal control over financial reporting as of the date of our first Annual Report on Form 10-K for which compliance is required and thereafter, our ability to obtain additional financing could be impaired. In addition, investors could lose confidence in the reliability of our internal control over financial reporting and in the accuracy of our periodic reports filed under the Exchange Act. A lack of investor confidence in the reliability and accuracy of our public reporting could cause our stock price to decline.

We may not be able to maintain sufficient product liability insurance to cover claims against us.

Product liability insurance for the healthcare industry is generally expensive to the extent it is available at all. We may not be able to maintain such insurance on acceptable terms or be able to secure increased coverage if the commercialization of our products progresses, nor can we be sure that existing or future claims against us will be covered by our product liability insurance. Moreover, the existing coverage of our insurance policy or any rights of indemnification and contribution that we may have may not be sufficient to offset existing or future claims. A successful claim against us with respect to uninsured liabilities or in excess of insurance coverage and not subject to any indemnification or contribution could have a material adverse effect on our future business, financial condition, and results of operations.

Risks Related to Our Common Stock

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of $ in net tangible book value per share from the price you paid, based on the assumed initial public offering price of $ per share. The exercise of outstanding options will result in further dilution of your investment. For additional information, please see “Dilution.”

Our operating results may fluctuate, which could cause our stock price to decrease.

Fluctuations in our operating results may lead to fluctuations, including declines, in our share price. Our operating results and our share price may fluctuate from period to period due to a variety of factors, including:

- demand by physicians, other medical staff and patients for our Microcyn products;
- reimbursement decisions by third-party payors and announcements of those decisions;
- clinical trial results and publication of results in peer-reviewed journals or the presentation at medical conferences;
- the inclusion or exclusion of our Microcyn products in large clinical trials conducted by others;
- actual and anticipated fluctuations in our quarterly financial and operating results;
- developments or disputes concerning our intellectual property or other proprietary rights;
- issues in manufacturing our product candidates or products;
- new or less expensive products and services or new technology introduced or offered by our competitors or us;

- the development and commercialization of product enhancements;
- changes in the regulatory environment;
- delays in establishing new strategic relationships;
- introduction of technological innovations or new commercial products by us or our competitors;
- litigation or public concern about the safety of our product candidates or products;
- changes in recommendations of securities analysts or lack of analyst coverage;
- failure to meet analyst expectations regarding our operating results;
- additions or departures of key personnel; and
- general market conditions.

Variations in the timing of our future revenues and expenses could also cause significant fluctuations in our operating results from period to period and may result in unanticipated earning shortfalls or losses. In addition, the Nasdaq National Market in general, and the market for life sciences companies in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies.

If an active, liquid trading market for our common stock does not develop, you may not be able to sell your shares quickly or at or above the initial offering price.

Prior to this offering, there has not been a public market for our common stock. An active and liquid trading market for our common stock may not develop or be sustained following this offering. You may not be able to sell your shares quickly or at or above the initial offering price if trading in our stock is not active. The initial public offering price may not be indicative of prices that will prevail in the trading market. See "Underwriting" for more information regarding the factors that will be considered in determining the initial public offering price.

Future sales of shares by our stockholders could cause the market price of our common stock to drop significantly, even if our business is doing well.

After this offering, we will have outstanding shares of common stock based on the number of shares outstanding at , 2006. This includes the shares we are selling in this offering, which (other than shares purchased by our affiliates) may be resold in the public market immediately. Subject to the lock-up arrangements described in "Underwriting" and volume and other restrictions as applicable under Rule 144 and 701 under the Securities Act, the remaining shares will become available for resale in the public market as shown in the chart below.

Number of Restricted Shares and % of Total Outstanding Following Offering	Date Available for Sale Into Public Market
shares, or %	Immediately
shares, or %	90 days after the date of this prospectus
shares, or %	Immediately upon expiration of the 180-day lock up agreement
shares, or %	At some point after the expiration of the 180-day lock up agreement

We do not expect to pay dividends in the foreseeable future. As a result, you must rely on stock appreciation for any return on your investment.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will also depend on our financial condition, results of operations, capital requirements and other factors and will be at the discretion of our board of directors. Accordingly, you will have to rely on appreciation in the price of our common stock, if any, to earn a return on your investment in our common

stock. Furthermore, we may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends.

We may allocate net proceeds from this offering in ways with which you may not agree.

Our management will have broad discretion in using the proceeds from this offering and may use the proceeds in ways with which you may disagree. Because we are not required to allocate the net proceeds from this offering to any specific investment or transaction, you cannot determine at this time the value or propriety of our application of the proceeds. Moreover, you will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use our proceeds. We may use the proceeds for corporate purposes that do not immediately enhance our prospects for the future or increase the value of your investment. As a result, you and other stockholders may not agree with our decisions.

Anti-takeover provisions in our charter, by-laws and Delaware law may make it difficult for you to change our management and may also make a takeover difficult.

Our corporate documents and Delaware law contain provisions that limit the ability of stockholders to change our management and may also enable our management to resist a takeover. These provisions include limitations on persons authorized to call a special meeting of stockholders and advance notice procedures required for stockholders to make nominations of candidates for election as directors or to bring matters before an annual meeting of stockholders. These provisions might discourage, delay or prevent a change of control or in our management. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and cause us to take other corporate actions. In addition, the existence of these provisions, together with Delaware law, might hinder or delay an attempted takeover other than through negotiations with our board of directors.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions, and future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continue,” “ongoing,” “potential,” “expect,” “predict,” “believe,” “intend,” “may,” “will,” “should,” “could,” “would,” and similar expressions. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances, or achievements expressed or implied by the forward-looking statements. Consequently, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the heading “Risk Factors” above.

Forward-looking statements include, but are not limited to, statements about:

- the progress and timing of our development programs and approvals for our products;
- the benefits and effectiveness of our products;
- the progress and timing of clinical trials;
- our expectations and capabilities relating to the sales and marketing of our current products and our product candidates;
- our expectations related to the use of our proceeds from this offering;
- our ability to manufacture sufficient amounts of our product candidates for clinical trials and products for commercialization activities;
- our investment in property and equipment to support our products;
- the content and timing of submissions to and decisions made by FDA and other regulatory agencies, including demonstrating to the satisfaction of FDA the safety and efficacy of our products;
- the rate and causes of infection;
- the accuracy of our estimates of the size and characteristics of the markets to be addressed by our products;
- the timing of commercializing our products;
- our ability to protect our intellectual property and operate our business without infringing on the intellectual property of others;
- our relationship with and consolidation of Quimica Pasteur;
- our ability to compete with other companies that are developing or selling products that are competitive with our products;
- the ability of our products to become the standard of care for controlling infection in chronic and acute wounds;
- our estimates regarding future operating performance, earnings and capital requirements;
- our expectations relating to the concentration of our revenue from international sales; and
- the impact of the Sarbanes-Oxley Act of 2002 and any future changes in accounting regulations or practices in general with respect to public companies.

The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination

of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

This prospectus contains statistical and market data that we obtained from third-party sources. Although we believe that this information is reliable, we have not independently verified this information.

USE OF PROCEEDS

We expect to receive net proceeds of approximately $ million from this offering, based on an assumed initial public offering price of $ per share, after deducting the underwriting discount and estimated offering expenses. If the underwriters exercise their over-allotment option in full, our estimated net proceeds will be approximately $ million. A $1.00 increase or decrease in the assumed initial public offering price of $ per share would increase or decrease, as applicable, the net proceeds to us by approximately $, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discount and our estimated offering expenses.

We currently intend to use the proceeds of this offering as follows:

- approximately $ million to expand our sales and marketing capabilities, including the expansion of our direct sales force;
- approximately $ million to fund clinical trials and related research;
- approximately $ million to expand our manufacturing capabilities; and
- the remaining proceeds for general corporate purposes, including working capital.

While we have estimated the particular uses for the net proceeds to be received upon the completion of this offering, the actual amounts and timing of any expenditure will depend upon the rate of growth, if any, of our business, the amount of cash generated by our operations, status of our research and development efforts, competitive and technological developments and the amount of proceeds actually raised in this offering. A portion of the net proceeds may also be used to acquire or invest in complementary businesses, technologies, services or products, although we have no agreements with respect to any such transactions as of the date of this prospectus. Accordingly, our management will have significant flexibility in applying the net proceeds from this offering.

We believe that the net proceeds from this offering, together with our future revenues, cash and cash equivalent balances and interest we earn on these balances will be sufficient to meet our anticipated cash requirements through at least the next 12 months. Pending these uses described above, we intend to invest the net proceeds in short-term, investment grade securities.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. Upon the completion of this offering, we anticipate that any earnings will be retained for development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future on our common stock. Our board of directors has sole discretion to pay cash dividends based on our financial condition, results of operations, capital requirements, contractual obligations and other relevant factors. In the future, we may also obtain loans or other credit facilities that may restrict our ability to declare or pay dividends.

CAPITALIZATION

The following table describes our cash, cash equivalents and capitalization as of March 31, 2006:

- on an actual basis;
- on a pro forma as adjusted basis to give effect to:
  - the automatic conversion of all outstanding shares of our convertible preferred stock into 15,934,718 shares of our common stock; and
  - the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, which is the midpoint of our expected offering range, after deducting the underwriting discount and estimated offering expenses payable by us.

You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	As of March 31, 2006	
	Actual	Pro Forma As Adjusted
		(unaudited)
	(In thousands, except share and per share data)	
Cash and cash equivalents[1]	$ 7,448	
Short-term debt	$ 519	
Long-term debt, less current portion	$ 251	
Stockholders' equity (deficit):		
Convertible preferred stock, no par value; 30,000,000 shares authorized, 15,934,718 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma as adjusted	50,390	
Preferred stock, $0.0001 par value; no shares authorized, issued and outstanding, actual; 5,000,000 shares authorized, no shares issued and outstanding, pro forma as adjusted	—	
Common stock, no par value; 100,000,000 shares authorized; 16,875,928 shares issued and outstanding, actual; shares issued and outstanding, pro forma as adjusted	3,399	
Additional paid-in capital[1]	4,644	
Deferred compensation	(798)	
Accumulated other comprehensive gain (loss)	3	
Accumulated deficit	(50,300)	
Total stockholders' equity[1]	7,338	
Total capitalization[1]	$ 8,108	

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) this amount on a pro forma as adjusted basis by approximately $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discount and our estimated offering expenses.

The outstanding share information set forth in the table excludes as of March 31, 2006:

- 8,116,174 shares of our common stock issuable upon the exercise of outstanding stock options and options granted in connection with this offering, at a weighted average exercise price of $1.05 per share;
- 3,782,396 shares of our common stock issuable upon the exercise of outstanding warrants, at a weighted average exercise price of $2.61 per share; and
- up to 2,201,643 additional shares of our common stock reserved for issuance under our equity plans.

DILUTION

Our net tangible book value as of March 31, 2006 was approximately $7.3 million, or $0.43 per share of common stock. Our net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding. Dilution of pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma as adjusted net tangible book value per share of common stock immediately after completion of this offering. After giving effect to the sale of shares of common stock at an assumed initial public offering price of $ per share, which is the midpoint of our expected offering range, and after deducting the underwriting discount and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of March 31, 2006 would have been $ million, or $ per share of common stock. This represents an immediate increase in net tangible book value of $ per share of common stock to existing common stockholders and an immediate dilution in pro forma as adjusted net tangible book value of $ per share to new investors purchasing shares of common stock in this offering. The following table illustrates this per share dilution:

Assumed offering price per share of common stock		$
Net tangible book value per share at March 31, 2006	$ 0.43	
Increase in net tangible book value per share attributable to the issue of new shares		
Pro forma as adjusted net tangible book value per share after this offering		
Dilution per share to investors in this offering		$

A $1.00 increase or decrease in the assumed initial public offering price of $ per share would increase or decrease, as applicable, our pro forma as adjusted net tangible book value by $ million, the pro forma as adjusted net tangible book value per share by $ per share and the dilution in the pro forma net tangible book value to new investors in this offering by $ per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us.

The following table summarizes as of March 31, 2006, the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid to us by existing and new investors purchasing shares of common stock in this offering assuming an initial public offering price of $ per share, which is the midpoint of our expected offering range, before deducting the underwriting discount and estimated offering expenses.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	32,810,646	%	$ 59,037,000	%	$ 1.80
New investors					
Total		100.0%		$ 100.0%	

A $1.00 increase or decrease in the assumed initial public offering price of $ per share would increase or decrease, as applicable, total consideration paid by new investors and total consideration paid by all stockholders by $ million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same.

If the underwriters exercise their over-allotment option in full, our existing stockholders would own % and our new investors would own % of the total number of shares of our common stock outstanding after this offering.

The number of shares of our common stock referred to above that will be outstanding immediately after completion of this offering is based on 16,875,928 shares of our common stock outstanding as of March 31,

2006, reflects the automatic conversion of our preferred stock into 15,934,718 shares of common stock and excludes:

- 8,116,174 shares of our common stock issuable upon the exercise of outstanding stock options and options granted in connection with this offering, at a weighted-average exercise price of $1.05 per share;
- 3,782,396 shares of our common stock issuable upon the exercise of outstanding warrants, at a weighted average exercise price of $2.61 per share; and
- up to 2,201,643 additional shares of our common stock reserved for issuance under our equity plans.

If all of our outstanding options and warrants as of March 31, 2006 were exercised, the pro forma as adjusted net tangible book value per share after this offering would be $ per share, representing an increase attributable to new investors of $ per share, and there would be an immediate dilution of $ per share to new investors.

In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus. The selected consolidated statements of operations data for each of the years ended March 31, 2004, 2005 and 2006 and the selected consolidated balance sheet data as of March 31, 2005 and 2006 have been derived from our audited consolidated financial statements that are included elsewhere in this prospectus. The selected consolidated statements of operations data for the years ended March 31, 2002 and 2003 and the selected consolidated balance sheet data at March 31, 2002, 2003 and 2004 have been derived from our consolidated financial statements not included in this prospectus. The selected consolidated statement of operations data for the year ended March 31, 2003 and the selected consolidated balance sheet data as of March 31, 2003 have not been audited. Our historical results are not necessarily indicative of the results that may be expected in the future.

	Year Ended March 31,				
	2002	2003 (unaudited)	2004	2005	2006
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues					
Product	$ —	$ —	$ 95	$ 473	$ 1,966
Service	2,000	2,470	807	883	618
Total revenues	2,000	2,470	902	1,356	2,584
Cost of revenues					
Product[1]	—	—	1,403	2,211	3,899
Service[1]	815	1,768	1,265	1,311	1,003
Total cost of revenues	815	1,768	2,668	3,522	4,902
Gross profit (loss)	1,185	702	(1,766)	(2,166)	(2,318)
Operating expenses:					
Research and development[1]	6	68	1,413	1,654	2,600
Selling, general and administrative[1]	1,326	2,102	3,918	12,492	15,933
Total operating expenses	1,332	2,170	5,331	14,146	18,533
Loss from operations	(147)	(1,468)	(7,097)	(16,312)	(20,851)
Interest expense	(24)	(123)	(178)	(372)	(172)
Interest income	—	—	3	8	282
Other income (expense), net	4	(4)	(26)	146	(377)
Net loss from continuing operations	(167)	1,595	(7,298)	(16,530)	(21,118)
Loss on discontinued operations	—	—	—	—	(1,981)
Net loss	(167)	1,595	(7,298)	(16,530)	(23,099)
Preferred stock dividends	—	—	—	—	(121)
Net loss available to common stockholders	$ (167)	$ (1,595)	$ (7,298)	$ (16,530)	$ (23,220)
Net loss per common share: basic and diluted[2]					
Continuing operations	(0.01)	(0.10)	(0.47)	(1.06)	(1.28)
Discontinued operations	—	—	—	—	(0.12)
	$ (0.01)	$ (0.10)	$ (0.47)	$ (1.06)	$ (1.40)
Weighted average shares outstanding: basic and diluted	15,182	15,309	15,647	15,659	16,602
Pro forma net loss per common share: basic and diluted					$ (0.75)
Pro forma weighted shares outstanding: basic and diluted					30,728

(1) Includes the following stock-based compensation charges:

	Year Ended March 31,				
	2002	2003	2004	2005	2006
		(unaudited)			
			(In thousands)		
Cost of revenues					
Product	$ —	$ —	$ —	$ 2	$ 2
Service	—	55	10	3	1
Operating expenses					
Research and development	—	—	56	5	52
Selling, general and administrative	—	186	358	2,339	542
	$ —	$ 241	$424	$ 2,349	$597

(2) See Note 1 to our consolidated financial statements for a description of the method used to compute basic and diluted net loss per share and number of shares used in computing historical basic and diluted net loss per share.

	As of March 31,				
	2002	2003	2004	2005	2006
		(unaudited)			
			(In thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 764	$ 177	$ 869	$ 3,287	$ 7,448
Working capital	889	(145)	(1,186)	663	5,127
Total assets	1,687	961	2,992	6,940	12,689
Total liabilities	747	1,040	3,374	4,738	5,351
Total stockholders' equity (deficit)	940	(79)	(382)	2,202	7,338

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

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements based upon current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors," "Information Regarding Forward-looking Statements" and elsewhere in this prospectus.

Overview

We develop, manufacture and market a family of products intended to prevent and eliminate infection in chronic and acute wounds. Infection is a serious potential complication in both chronic and acute wounds, and controlling infection is a critical step in wound healing. Our platform technology, called Microcyn, is a non-toxic, super-oxidized water-based solution that is designed to eliminate a wide range of pathogens including viruses, fungi, spores and antibiotic resistant strains of bacteria such as Methicillin-resistant *Staphylococcus aureus,* or MRSA, and Vancomycin-resistant *Enterococcus,* or VRE. In clinical testing, our products eliminated a wide range of pathogens and were found to be safe, easy to use and complementary with most existing treatment methods in wound care. Our experience and clinical data indicate that the use of Microcyn may shorten hospital stays, lower aggregate patient care costs and, in certain cases, reduce the need for systemic antibiotics. Microcyn also has applications in several other large consumer and professional markets, including hard surface disinfectant, respiratory, dermatology, mold and atmospheric remediation and dental.

We believe that Microcyn is the first topical product that eliminates a broad range of bacteria and other infectious microbes without causing toxic side effects on, or irritation of, healthy tissue. Unlike most antibiotics, Microcyn does not target specific strains of bacteria, a practice which has been shown to promote the development of resistant bacteria. Because our products are shelf stable and require no special preparation, they can be used in hospitals, clinics, burn centers, extended care facilities and in the home.

We currently sell Microcyn in the United States through a four-person direct sales force and through one national and five regional distributors. In Europe, we have an eight-person direct sales force and exclusive distribution agreements with four distributors, all of which are experienced suppliers to the wound care market, with an aggregate combined sales force of over 25 full-time equivalent salespeople. In Mexico, we sell through a dedicated 75-person contract sales force, including salespeople, nurses and clinical support staff, and a network of distributors to both the public and private sector. The MOH, which approves product selection and procurement for government hospitals and healthcare institutions, has approved reimbursement for Microcyn. We plan to expand our direct sales force in the United States, Europe and Mexico to support our distribution network.

We have incurred significant net losses since our inception and had an accumulated deficit of $50.3 million as of March 31, 2006. We expect to incur significant expenses in the foreseeable future as we seek to commercialize our products, and we cannot be sure that we will achieve profitability.

Financial Operations Overview

Revenues

We derive our revenues from product sales and service arrangements. Product revenues are generated from the sale of Microcyn to hospitals, medical centers, doctors, pharmacies, distributors and strategic partners, and are generally recorded upon shipment following receipt of a purchase order or upon obtaining proof of sell-through by a distributor. Product sales are made either through direct sales personnel or distributors. Historically, a significant majority of our product sales have been in Mexico.

Service revenues are derived from consulting and testing contracts. Service revenues are generally recorded upon performance under the service contract. Revenues generated from testing contracts are recorded upon completion of the test and when the final report is sent to the customer. We have refocused our business

efforts away from consulting and testing services toward the commercialization of Microcyn. As a result, we expect service revenues to continue to significantly decline in future periods.

Cost of Revenues

Cost of product revenues represents the costs associated with the manufacturing of our products, including operating expenses for our various facilities which are permanently fixed, and related personnel cost and the cost of materials used to produce our products. Cost of service revenues consists primarily of personnel related expenses and supplies.

Research and Development Expense

Research and development expense consists of costs related to the research and development of Microcyn and our manufacturing process. Research and development expense represents costs incurred to enhance our manufacturing process, to develop products and new delivery systems for our products and to carry out preclinical studies and clinical trials to obtain various regulatory approvals. Research and development expense is charged as incurred.

Selling, General and Administrative Expense

Selling, general and administrative expense consists of personnel related costs, including salaries and sales commissions, and education and promotional expenses associated with Microcyn and costs related to administrative personnel and senior management. These expenses also include the costs of educating physicians and other healthcare professionals regarding our products and participating in industry conferences and seminars. Selling, general and administrative expense also includes travel costs, outside consulting services, legal and accounting fees and other professional and administrative costs.

Stock-Based Compensation Expense

We account for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, or APB No. 25, “Accounting for Stock Issued to Employees,” and its interpretations and comply with the disclosure requirements of Statement of Financial Accounting Standard, or SFAS, No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of the Financial Accounting Standards Board Statement No. 123.” We have elected to continue to follow Interpretation of No. 44, or FIN 44, “Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB No. 25”, in accounting for employee stock options. Under APB No. 25, compensation expense is based upon the excess of the estimated fair value of our stock over the exercise price, if any, on the grant date. Employee stock-based compensation is amortized on a straight-line basis over the vesting period of the underlying options. SFAS No. 123 defines a “fair value” based method of accounting for an employee stock option or similar equity instrument.

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123(R) “Share Based Payment.” This statement is a revision of SFAS Statement No. 123, “Accounting for Stock-Based Compensation” and supersedes APB Opinion No. 25, ““Accounting for Stock Issued to Employees”, and its related implementation guidance. SFAS 123(R) addresses all forms of share-based payment, or SBP, awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123(R), SBP awards result in a cost that will be measured at fair value on the awards’ grant date, based on the estimated number of awards that are expected to vest and will result in a charge to operations for stock-based compensation expense. We are subject to requirements of SFAS 123(R) effective April 1, 2006. Management is evaluating the requirements of SFAS 123(R) and expects that the adoption of this pronouncement will have a significant effect on our consolidated results of operations and earnings (loss) per share.

Discontinued Operations

On June 16, 2005, we entered into a series of agreements with Quimica Pasteur, or QP, a Mexico-based distributor of pharmaceutical products to hospitals and health care entities owned and/or operated by the Mexican Ministry of Health, or MOH. These agreements provided, among other things, for QP to act as our exclusive distributor of Microcyn to the MOH for a period of three years. We concurrently acquired, for no additional consideration, a 0.25% equity interest in QP and an option to acquire the remaining 99.75% of QP directly from its principals in exchange for 600,000 shares of common stock, contingent upon QP's attainment of certain financial milestones. The distribution and related agreements were cancelable by us on thirty days notice without cause and featured certain provisions to hold us harmless from debts incurred by QP outside the scope of the distribution and related agreements. We terminated these agreements with QP on March 26, 2006. For additional information, please see "Risk Factors — We may incur significant liabilities in connection with our prior relationship with a distributor in Mexico, and our results of operations may be negatively affected by the termination of this relationship."

Due to its liquidity circumstances, QP was unable to sustain operations without our financial and management support. Accordingly, QP was deemed to be a variable interest entity in accordance with FIN 46R and the results of QP were therefore consolidated with our financial statements for the period from June 16, 2005 through March 26, 2006, the effective termination date of the distribution and related agreements.

In accordance with SFAS 144, we have reported QP's results for the period of June 16, 2005 through March 26, 2006 as discontinued operations because the operations and cash flows of QP have been eliminated from our ongoing operations as a result of the termination of these agreements. We no longer have any continuing involvement with QP as of the date on which the agreements were terminated. Amounts associated with the loss upon the termination of the agreements with QP, which consists of funds we advanced to QP to provide it with working capital, are presented separately from QP's operating results.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to exercise its judgment. We exercise considerable judgment with respect to establishing sound accounting polices and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and disclosure of commitments and contingencies at the date of the financial statements.

On an ongoing basis, we evaluate our estimates and judgments. Areas in which we exercise significant judgment include, but are not necessarily limited to, our valuation of accounts receivable, inventory, depreciation, amortization, recoverability of long-lived assets, income taxes, equity transactions (compensatory and financing) and contingencies. We have also adopted certain polices with respect to our recognition of revenue that we believe are consistent with the guidance provided under Securities and Exchange Commission Staff Accounting Bulletin No. 104.

We base our estimates and judgments on a variety of factors including our historical experience, knowledge of our business and industry, current and expected economic conditions, the attributes of our products, regulatory environment, and in certain cases, the results of outside appraisals. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary.

While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Since the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

A description of significant accounting polices that require us to make estimates and assumptions in the preparation of our consolidated financial statements is as follows:

Revenue Recognition and Accounts Receivable

We generate product revenues from sales of our products to hospitals, medical centers, doctors, pharmacies, distributors and strategic partners. We sell our products directly to third parties and to distributors through various cancelable distribution agreements. We have also entered into an agreement to license our products.

We apply the revenue recognition principles set forth in Securities and Exchange Commission Staff Accounting Bulletin, or SAB, 104 "Revenue Recognition," with respect to all of our revenues. Accordingly, we record revenues when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability of the sale is reasonable assured.

We require all of our product sales to be supported by evidence of a sale transaction that clearly indicates the selling price to the customer, shipping terms and payment terms. Evidence of an arrangement generally consists of a contract or purchase order approved by the customer. We have ongoing relationships with certain customers from which we customarily accept orders by telephone in lieu of a purchase order.

We recognize revenues at the time in which we receive a confirmation that the goods were either tendered at their destination when shipped "FOB destination," or transferred to a shipping agent when shipped "FOB shipping point." Delivery to the customer is deemed to have occurred when the customer takes title to the product. Generally, title passes to the customer upon shipment, but could occur when the customer receives the product based on the terms of the agreement with the customer.

While we have a policy of investigating the creditworthiness of our customers, we have, under certain circumstances, shipped goods in the past and deferred the recognition of revenues when available information indicates that collection is in doubt. We establish allowances for doubtful accounts when available information causes us to believe that a credit loss is probable.

We market a substantial portion of our goods through distributors. In Europe, we defer recognition of distributor-generated revenues until the time we confirm that distributors have sold these goods. Although our terms provide for no right of return, our products have a finite shelf life and we may, at our discretion, accommodate distributors by accepting returns to avoid the distribution of expired goods.

Service revenues are recorded upon performance of the service contracts. Revenues generated from testing contracts are recorded when the test is completed and the final report is sent to the customer.

Inventory and Cost of Revenues

We state our inventory at the lower of cost, determined using the first-in, first-out method, or market, based on standard costs. Establishing standard manufacturing costs requires us to make estimates and assumptions as to the quantities and costs of materials, labor and overhead that are required to produce a finished good. Cost of service revenues is expensed when incurred.

Income Taxes

We are required to determine the aggregate amount of income tax expense or loss based upon tax statutes in jurisdictions in which we conduct business. In making these estimates, we adjust our results determined in accordance with generally accepted accounting principles for items that are treated differently by the applicable taxing authorities. Deferred tax assets and liabilities, as a result of these differences, are reflected on our balance sheet for temporary differences in loss and credit carryforwards that will reverse in subsequent years. We also establish a valuation allowance against deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized. Valuation allowances are based, in part, on predictions that management must make as to our results in future periods. The outcome of events could differ over time which would require that we make changes in our valuation allowance.

Equity Transactions

Under generally accepted accounting principles, we have the ability to choose between two alternative methods of accounting for employee stock based compensation: the intrinsic value method or the fair value method. Although we have adopted the intrinsic value method, the results we could derive under the fair value method could differ significantly. In addition, since our stock is not publicly traded, we must estimate its fair value. We have used outside valuation specialists that have relied upon information provided by management to determine value of our stock and have also made valuation estimates based on concurrent sales of equity securities for cash and other business related information.

Deferred Stock-Based Compensation Expense

Stock-based compensation expense, which is a non-cash charge, results from stock option grants at exercise prices that, for financial reporting purposes, are deemed to be below the fair value of the underlying common stock. We recognize stock-based compensation expense on a straight-line basis over the vesting period of the underlying option, which is generally five years. The amount of stock-based compensation expense expected to be amortized in future periods may decrease if unvested options for which deferred stock-based compensation expense has been recorded are subsequently cancelled or may increase if future option grants are made with exercise prices below the deemed fair value of the common stock on the date of measurement.

During the period from April 1, 2005 to March 31, 2006, we granted options to purchase a total of 3,148,000 shares of common stock with exercise prices ranging from $1.10 to $3.00 per share and at a weighted average exercise price of $2.30 per share. We obtained a contemporaneous valuation from an independent valuation specialist in July 2005. This valuation was used by our board of directors to establish the fair market value of our common stock with respect to the majority of options granted in the year ended March 31, 2006. Our other options were granted at fair market value as determined by our board of directors. Given the absence of an active market for our common stock and resulting lack of liquidity in the year ended March 31, 2006, our board of directors determined the estimated fair value of our common stock on the date of grant based on several factors, including the offering prices and liquidation preferences of our preferred stock, progress and milestones achieved in our business, our financial condition, equity market conditions, trading ranges of comparable public companies and the likelihood of achieving a liquidity event such as an initial public offering or a sale of the company given prevailing market conditions.

After receipt of the independent valuation in July 2005, our board of directors reassessed the value of our common stock. In reassessing the value of our common stock, we used a straight-line approach because we determined no single event supported incremental movement in the underlying stock. Further, we believe this approach is consistent with valuation methodologies applied by similar companies pursuing an initial public offering. Based upon this process, we determined that the reassessed fair value of options granted from August 7, 2003 through April 1, 2005 ranged from $0.82 to $2.28 per share. Accordingly, we recorded deferred stock-based compensation of $233,000, $2.8 million and $401,000 during the years ended March 31, 2004, 2005 and 2006, respectively, in accordance with Accounting Principles Board, or APB, Opinion 25. The deferred stock-based compensation is being amortized on a straight-line basis over the vesting period of the related awards, which is generally five years. For the years ended March 31, 2004, 2005 and 2006, we recorded employee stock-based compensation of $30,000, $2.3 million and $279,000, respectively. Stock-based compensation expense recorded during the year ended March 31, 2005 includes $1.7 million for the intrinsic value of options to purchase 1.2 million shares of common stock granted to our Chief Executive Officer.

The information regarding net loss as required by SFAS No. 123 presented in Note 3 to our consolidated financial statements, has been determined as if we had accounted for our employee stock options under the fair value method. The resulting effect on net loss pursuant to SFAS No. 123 is not likely to be representative of the effect on net loss pursuant to SFAS No. 123 in future years, since future years are likely to include additional grants and the impact of future years' vesting.

Comparison of Years Ended March 31, 2006 and March 31, 2005

Revenues

Revenues increased $1.2 million, or 48%, to $2.6 million for the year ended March 31, 2006, from $1.4 million for the year ended March 31, 2005. Product revenues increased $1.5 million, or 316%, to $2.0 million for the year ended March 31, 2006, from $473,000 for the year ended March 31, 2005. This increase was primarily due to a $1.4 million increase in sales of Microcyn60 in Mexico following the expansion of our sales force in that country and the receipt of product reimbursement by the MOH.

The increase in product revenues was partially offset by a $265,000 decrease in service revenues during the year ended March 31, 2006, as compared to the prior year. The decrease in service revenues was a result of a shift in our focus from services to the development of our Microcyn products in fiscal 2006.

We expect that product revenues will continue to increase as we expand our sales and marketing efforts worldwide. We expect that our service revenues will remain flat or decline in future periods, as we continue our strategy of focusing primarily on our Microcyn business.

Cost of Revenues

Cost of revenues increased $1.4 million, or 39%, to $4.9 million for the year ended March 31, 2006, from $3.5 million for the year ended March 31, 2005. Cost of revenues from product sales principally include fixed costs associated with plant and labor and to a lesser extent variable costs associated with packaging and other raw materials. Cost of revenues from product sales increased $1.7 million, or 76%, to $3.9 million in the year ended March 31, 2006, from $2.2 million in the year ended March 31, 2005. This increase was due primarily to European product manufacturing beginning in the middle of the year ended March 31, 2005 as compared to a full year of costs in the year ended March 31, 2006. As such, total cost of product revenues in Europe increased $637,000 to $1.0 million for the year ended March 31, 2006 from $381,000 for the year ended March 31, 2005. Additionally, we incurred charges we believe to be non-recurring. We wrote off $1.0 million of inventory due to product labeling issues and expiring shelf life of products as a result of a one-time build-up of excess product inventory. We also relocated our manufacturing facility in Mexico and incurred approximately $200,000 of labor and severance charges related to the move. These increases were partially offset by a $308,000, or 23%, decrease in costs related to service revenues to $1.0 million in the year ended March 31, 2006, from $1.3 million in the year ended March 31, 2005. The lower cost of service revenues was related to lower our shifted in focus to product development and the sale of our Microcyn products during fiscal 2006.

We expect that cost of revenues will continue to increase in absolute dollars as product sales increase in the year ended March 31, 2007 and subsequent years. We anticipate cost of revenues will continue to exceed revenues until we achieve a significant increase in the volumes of our product sales.

Research and Development Expense

Research and development expense increased $946,000, or 57%, to $2.6 million in the year ended March 31, 2006, from $1.7 million in the year ended March 31, 2005. This increase was primarily attributable to the expansion of our regulatory team, which focused on EPA, FDA and KEMA approvals for Microcyn products during the period. Additionally, in September 2005, we commenced our pre-operative skin preparation pilot studies to support our application for an FDA drug clearance indicating microbial load reduction. Total spending on regulatory trials, other clinical studies, and related expenses increased $1.2 million, or 164%, to $1.9 million for the year ended March 31, 2006, from $735,000 during the year ended March 31, 2005. This increase was partially offset by a $418,000 decrease in spending on new product development of $497,000 in the year ended March 31, 2006.

We expect that research and development expense will continue to increase substantially in future years as we seek additional regulatory approvals of our Microcyn products. We expect to expand the scope of our new product development, which may also result in substantial increases in research and development expense.

Selling, General and Administrative Expense

Selling, general and administrative expense increased $3.4 million, or 28%, to $15.9 million during the year ended March 31, 2006, from $12.5 million during the year ended March 31, 2005. This increase was partially due to a $1.8 million increase in U.S. selling, general and administrative expense primarily as a result of higher outside consulting and service fees during the year ended March 31, 2006. Specifically, outside accounting fees increased by $653,000 due to the preparation and completion of an audit of our last four fiscal years, legal fees increased by $507,000 due to expanded intellectual property and general legal support, and outside consulting and service fees increased by $294,000 due to consulting expenses related to the marketing of our products in Asia.

In addition, sales and marketing expense in Europe increased $429,000 due to the hiring of additional sales and marketing personnel during the year ended March 31, 2006.

Selling, general and administrative expense in Mexico increased $3.3 million in the year ended March 31, 2006 compared to the prior year primarily due to expanded sales and marketing efforts in Mexico, as well as non-recurring charges associated with the relocation of our Mexican subsidiary's facility. During the year ended March 31, 2006, we began utilizing 75 full-time, direct sales personnel in the major districts of Mexico, dedicated to the sale of Microcyn60 in the hospital and pharmacy markets in Mexico. As a result, sales and marketing expense in Mexico increased $2.7 million during the year ended March 31, 2006, compared to the prior year.

The increase in selling, general and administrative expense was offset by a $1.8 million decrease in non-cash stock compensation expense in the year ended March 31, 2006 compared to the prior year. Approximately $1.7 million incurred in the year ended March 31, 2005 was related to the grant of an option to purchase 1.2 million shares of common stock to our Chief Executive Officer.

We expect that selling, general and administrative expense will increase during the year ended March 31, 2007 and in future years as we increase sales and marketing personnel, expand our legal and accounting staff and infrastructure to support the requirements of being a public company.

Interest Expense and Interest Income

Interest expense decreased $200,000, or 54%, to $172,000 in the year ended March 31, 2006, from $372,000 in the year ended March 31, 2005. This decrease was primarily the result of lower borrowings during the year. Interest income increased $274,000, to $282,000 in the year ended March 31, 2006, from $8,000 in the year ended March 31, 2005. This increase was primarily the result of higher balances of interest-bearing instruments during the year ended March 31, 2006.

Other Income (Expense), Net

Other income (expense), net was $377,000 net expense in the year ended March 31, 2006, compared with $146,000 net income in the year ended March 31, 2005. This change was primarily attributable to a $283,000 loss on foreign exchange transactions in the year ended March 31, 2006, as compared to a gain of $134,000 in the year ended March 31, 2005.

Discontinued Operations

Loss on discontinued operations was $2.0 million in the year ended March 31, 2006. This loss consisted of $818,000 classified as a loss from operations of discontinued business and $1.2 million of loss on the disposal of discontinued business. This charge represents the net operating loss of QP, which was consolidated with our financial results as required by FIN 46(R). The relationship was terminated in the fourth quarter of the year ended March 31, 2006 and the loss was classified as a discontinued operation on our statements of operations. In addition, $1.2 million of net assets associated with this entity were written off and classified as a loss on disposal of discontinued business. As no relationship existed with this entity prior to the year ended March 31, 2006, no charges were recognized in prior years.

Comparison of Years Ended March 31, 2005 and March 31, 2004

Revenues

Revenues increased $454,000, or 50%, to $1.4 million for the year ended March 31, 2005, from $902,000 for the year ended March 31, 2004. Product revenues increased $378,000 to $473,000 for the year ended March 31, 2005, as compared to $95,000 in the prior year. This increase was primarily attributable to the hiring of new sales and marketing personnel in Mexico and an increased demand for Microcyn60 in the Mexican private hospital market.

Service revenues increased $76,000, or 9%, to $883,000 for the year ended March 31, 2005, as compared to $807,000 for the prior year. This increase was primarily the result of increased demand for our laboratory testing services.

Cost of Revenues

Cost of revenues increased $854,000, or 32%, to $3.5 million for the year ended March 31, 2005, from $2.7 million for the year ended March 31, 2004. Cost of product revenues increased $808,000 primarily due to the expansion of our manufacturing capacity in the United States and Europe and related costs, including operating expenses for new facilities and an increase in personnel.

Cost of service revenues was $1.3 million for both the years ended March 31, 2005 and 2004.

Cost of revenues exceeded revenue in both the year ended March 31, 2005 and March 31, 2004, due to expenses incurred to develop our manufacturing sites in the United States, Europe and Mexico prior to significant sales in those countries.

Research and Development Expense

Research and development expense increased $241,000, or 17%, to $1.7 million for the year ended March 31, 2005, from $1.4 million for the year ended March 31, 2004. This increase was primarily related to a $194,000 increase in salary expense related to the expansion of our research and development and regulatory teams and a $102,000 increase in consulting services in the year ended March 31, 2005, as compared to the prior year.

Selling, General and Administrative Expense

Selling, general and administrative expense increased $8.6 million, or 219%, to $12.5 million for the year ended March 31, 2005, from $3.9 million for the year ended March 31, 2004. This increase was due in part to a $4.1 million increase in personnel costs associated with hiring additional senior management, sales and marketing, operations and administrative personnel. Additionally, selling, general and administrative expense was higher due to a $2.0 million increase in non-cash stock compensation expense in the year ended March 31, 2005 compared to the prior year.

Interest Expense

Interest expense increased $194,000, or 109%, to $372,000 in the year ended March 31, 2005, from $178,000 in the year ended March 31, 2004. This increase was primarily due to an increase in non-cash interest expense charged on warrants issued in connection with debt financing transactions in the year ended March 31, 2005.

Other Income (Expense), net

Other income (expense), net was net income of $146,000 in the year ended March 31, 2005, compared to net expense of $26,000 in the year ended March 31, 2004. The change was primarily attributable to a gain of $134,000 on foreign exchange transactions in the year ended March 31, 2005, compared to a loss of $4,000 in the prior year.

Liquidity and Capital Resources

Since our inception, we have incurred significant losses and, as of March 31, 2006, we had an accumulated deficit of approximately $50.3 million. We have not yet achieved profitability. We expect that our research and development and selling, general and administrative expenses will continue to increase and, as a result, we will need to generate significant product revenues to achieve profitability. We may never achieve profitability.

Sources of Liquidity

Since our inception, substantially all of our operations have been financed through the sale of our common and preferred stock. Through March 31, 2006, we had received net proceeds of $3.5 million from the sale of common stock, $6.6 million from the sale of Series A preferred stock, $43.7 million from the sale of Series B preferred stock and $304,000 from the issuance of common stock to employees, consultants and directors in connection with the exercise of stock options. We have received additional funding through loans and capital equipment leases, as described below. We have also used our revenues to date as a source of additional liquidity. As of March 31, 2006, we had cash and cash equivalents of $7.4 million and debt under our notes payable and equipment loans of $770,000.

In June 2006, we entered into a Loan and Security Agreement with a financial institution to borrow a maximum of $5.0 million. The facility allows us to borrow a maximum of $2.8 million in working capital, $1.3 million in accounts receivable financing and $1.0 million in equipment financing, subject to certain conditions. In conjunction with this agreement, we agreed to issue warrants to purchase up to 300,000 shares of our Series B preferred stock at an exercise price of $4.50 per share. Warrants to purchase 215,000 shares were earned and exercisable at execution of the agreement, and warrants to purchase 85,000 shares will be earned on a pro rata basis upon our use of this facility. As of June 30, 2006, we had borrowed $4.2 million against this facility at an interest rate of 8.5%. Future draws under this facility will bear interest at prime plus one-half percent.

Cash Flows

As of March 31, 2006, we had $7.4 million in cash and cash equivalents, compared to $3.3 million at March 31, 2005. The increase was due primarily to the issuance of $27.0 million of preferred stock during the year ended March 31, 2006, partially offset by net losses from continuing operations of $21.1 million during the same period.

Net cash used in operating activities was $5.6 million, $13.5 million and $19.7 million in the years ended March 31, 2004, 2005 and 2006, respectively. Net cash used in each of these periods primarily reflects net loss for these periods, offset in part by non-cash charges in operating assets and liabilities, non-cash stock-based compensation and depreciation.

Net cash used in investing activities was $1.0 million, $1.1 million and $897,000 for the years ended March 31, 2004, 2005 and 2006, respectively. Cash was used primarily to invest in fixed assets and other capital expenditures to support increased personnel and manufacturing facility expansion in Europe and Mexico during the years ended March 31, 2004 and 2005. We expect to continue to make significant investments in the purchase of property and equipment to support our expanding operations.

Net cash provided by financing activities for the years ended March 31, 2004, 2005 and 2006 was $7.3 million, $17.2 million and $26.6 million, respectively. This increase was primarily attributable to the sale of preferred stock, which generated $6.6 million, $16.7 million and $27.0 million for the years ended March 31, 2004, 2005 and 2006, respectively, and common stock, which generated $203,000 for the year ended March 31, 2004. In addition, net proceeds from debt financing added $574,000, $1.2 million and $257,000 for the year ended March 31, 2004, 2005 and 2006, respectively. Debt financing consisted primarily of notes payable to individuals and secured notes issued to finance the purchase of capital equipment and corporate insurance premiums.

Contractual Obligations

As of March 31, 2006, we had contractual obligations as follows (long-term debt and capital lease amounts include principal payments only):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
			(In thousands)		
Long-term debt	$ 714	$ 504	$ 199	$ 117	$ —
Capital leases	56	15	36	6	—
Operating leases	878	341	432	197	8
Total	$ 1,648	$ 860	$ 667	$ 320	$ 8

We have leases covering approximately 31,000 square feet of office and manufacturing space in Petaluma, California, expiring in 2006, approximately 19,000 square feet of office and manufacturing space in Sittard, The Netherlands expiring in 2009, and approximately 12,000 square feet of office and manufacturing space and 5,000 square feet of warehouse space in Zapopan, Mexico, expiring in 2011 and 2007, respectively.

We do not have any off-balance sheet arrangements as such term is defined in rules promulgated by the SEC.

Operating Capital and Capital Expenditure Requirements

We expect to continue to incur substantial operating losses in the future and to make capital expenditures to support the expansion of our research and development programs and to expand our commercial operations. We anticipate using a portion of the proceeds from this offering to finance these activities. It may take several years to obtain the necessary regulatory approvals to commercialize Microcyn as a drug in the United States.

We expect to use the net proceeds from this offering to fund approximately $ million in expenses related to the expansion of our sales and marketing capabilities, including the expansion of our direct sales forces in the United States, Europe and Mexico, approximately $ million to fund clinical trials and related research, approximately $ million to expand our manufacturing facilities and the remaining proceeds for general corporate purposes, including working capital. A portion of the net proceeds may also be used to acquire or invest in complementary businesses, technologies, services or products. The amount and timing of actual expenditures may vary significantly depending upon the rate of growth, if any, of our business, the amount of cash generated by our operations, status of our research and development efforts, competitive and technological developments and the amount of proceeds actually raised in this offering.

We currently anticipate that our cash and cash equivalents, together with proceeds from this offering and revenue generated by the sale of our products, will be sufficient to fund our operations for at least the next 12 months.

Our future funding requirements will depend on many factors, including:

- the scope, rate of progress and cost of our clinical trials and other research and development activities;
- future clinical trial results;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the cost and timing of regulatory approvals;
- the cost and delays in product development as a result of any changes in regulatory oversight applicable to our products;
- the cost and timing of establishing sales, marketing and distribution capabilities;
- the effect of competing technological and market developments;

- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; and
- the extent to which we acquire or invest in businesses, products and technologies.

If we are unable to generate a sufficient amount of revenue to finance our operations, research and development and regulatory plans, we may seek to raise additional funds through public or private equity offerings, debt financings, capital lease transactions, corporate collaborations or other means. We may seek to raise additional capital due to favorable market conditions or strategic considerations even if we have sufficient funds for planned operations. The sale of additional equity or convertible debt securities could result in dilution to our stockholders. To the extent that we raise additional funds through collaborative arrangements, it may be necessary to relinquish some rights to our technologies or grant licenses on terms that are not favorable to us. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or sales and marketing initiatives.

Recent Accounting Pronouncements

In Emerging Issues Task Force, or EITF, Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," the EITF reached a consensus that contingently convertible instruments, such as contingently convertible debt, contingently convertible preferred stock and other such securities should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. The consensus became effective for reporting periods ending after December 15, 2004. The adoption of this pronouncement did not have material effect on our financial statements.

In May 2005, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3", or SFAS 154. This Statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not believe that the adoption of SFAS 154 will have a significant effect on our financial statements.

On June 29, 2005, the EITF ratified Issue No. 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.'" EITF Issue 05-2 provides guidance on determining whether a convertible debt instrument is "conventional" for the purpose of determining when an issuer is required to bifurcate a conversion option that is embedded in convertible debt in accordance with SFAS 133. Issue No. 05-2 is effective for new instruments entered into and instruments modified in reporting periods beginning

after June 29, 2005. We do not believe that the adoption of this pronouncement will have a significant effect on our financial statements.

In September 2005, the EITF ratified Issue No. 05-4, "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock'. EITF 05-4 provides guidance to issuers as to how to account for registration rights agreements that require an issuer to use its "best efforts" to file a registration statement for the resale of equity instruments and have it declared effective by the end of a specified grace period and, if applicable, maintain the effectiveness of the registration statement for a period of time or pay a liquidated damage penalty to the investor. We are currently in the process of evaluating the effect that the adoption of this pronouncement may have on our financial statements.

In September 2005, the FASB ratified the EITF Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," which addresses whether a modification to a conversion option that changes its fair value affects the recognition of interest expense for the associated debt instrument after the modification and whether a borrower should recognize a beneficial conversion feature, not a debt extinguishment if a debt modification increases the intrinsic value of the debt (for example, the modification reduces the conversion price of the debt). This issue is effective for future modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005. We do not believe that the adoption of this pronouncement will have a significant effect on our financial statements.

In September 2005, the FASB also ratified the EITF's Issue No. 05-8, "Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature," which discusses whether the issuance of convertible debt with a beneficial conversion feature results in a basis difference arising from the intrinsic value of the beneficial conversion feature on the commitment date, which is treated and recorded in the shareholder's equity for book purposes, but as a liability for income tax purposes, and, if so, whether that basis difference is a temporary difference under FASB Statement No. 109, "Accounting for Income Taxes." This Issue should be applied by retrospective application pursuant to Statement 154 to all instruments with a beneficial conversion feature accounted for under Issue 00-27 included in financial statements for reporting periods beginning after December 15, 2005. We do not believe that the adoption of this pronouncement will have a significant effect on our financial statements.

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140", or FAS 155. FAS 155 addresses the following: a) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133; c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and e) amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. FAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We are currently evaluating the requirements of FAS 155, but do not expect that the adoption of this pronouncement will have a material effect on our financial statements.

In March 2006, the FASB issued SFAS 156 — "Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140," or SFAS 156. SFAS 156 is effective for the first fiscal year beginning after September 15, 2006. SFAS 156 changes the way entities account for servicing assets and obligations associated with financial assets acquired or disposed of. We have not yet completed our evaluation of the impact of adopting SFAS 156 on our results of operations or financial position, but do not expect that the adoption of SFAS 156 will have a material impact.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

Income Taxes

Since inception, we have incurred operating losses and, accordingly, have not recorded a provision for income taxes for any of the periods presented. As of March 31, 2006, we had net operating loss carryforwards for federal, state and foreign income tax purposes of approximately $28.8 million, $25.9 million and $17.4 million, respectively. The carryforwards expire beginning 2020, 2010 and 2014, respectively. We also had, as of March 31, 2006, federal and state research credit carryforwards of approximately $104,000 and $108,000, respectively. The federal credits expire beginning 2026, and the state credits have no expiration.

We have experienced substantial ownership changes in connection with financing transactions completed through the year ended March 31, 2006. Accordingly, our utilization of net operating loss and tax credit carryforwards against taxable income in future periods, if any, is subject to substantial limitations under the Change in Ownership rules of Section 382 of the Internal Revenue Code. After considering all available evidence, we have fully reserved for these and other deferred tax assets since it is more likely than not such benefits will not be realized in future periods. We will continue to evaluate our deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of our deferred income tax assets satisfy the realization standard of SFAS No. 109, the valuation allowance will be reduced accordingly.

Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates, foreign exchange rates and commodity prices. Changes in these factors could cause fluctuations in our results of operations and cash flows.

Our exposure to interest rate risk is confined to our excess cash in highly liquid money market funds. The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. We do not use derivative financial instruments in our investment portfolio. Our cash and investments policy emphasizes liquidity and preservation of principal over other portfolio considerations.

We have operated primarily in the United States; however we do have two significant subsidiaries, one each in Europe, and Mexico. In order to mitigate our exposure to foreign currency rate fluctuations, we maintain minimal cash balances in the foreign subsidiaries. However, if we are successful in our efforts to grow internationally, our exposure to foreign currency rate fluctuations, primarily the Euro and Mexican Peso, may increase. We are exposed to foreign currency risk related to the Euro denominated and Mexican Peso denominated intercompany receivables. Because our intercompany receivables are accounted for in Euros and Mexican Pesos, any appreciation or devaluation of the Euro or Mexican Peso will result in a gain or loss to the consolidated statements of operations.

BUSINESS

Overview

We develop, manufacture and market a family of products intended to prevent and eliminate infection in chronic and acute wounds. Infection is a serious potential complication in both chronic and acute wounds, and controlling infection is a critical step in wound healing. Our platform technology, called Microcyn, is a non-toxic, super-oxidized water-based solution that is designed to eliminate a wide range of pathogens, including viruses, fungi, spores and antibiotic resistant strains of pathogens such as Methicillin-resistant *Staphylococcus aureus,* or MRSA, and Vancomycin-resistant *Enterococcus*, or VRE. In clinical testing, our products eliminated a wide range of pathogens and were found to be safe, easy to use and complementary with most existing treatment methods in wound care. Our experience and clinical data indicate that the use of Microcyn may shorten hospital stays, lower aggregate patient care costs and, in certain cases, reduce the need for systemic antibiotics. Microcyn also has applications in several other large consumer and professional markets, including hard surface disinfectant, respiratory, dermatology, mold and atmospheric remediation and dental.

In 2004, chronic and acute wound care represented an aggregate of $9 billion in global product sales, of which $3.3 billion was spent for the treatment of skin ulcers, $1.5 billion to treat burns and $4.2 billion for the treatment of surgical and trauma wounds, according to Kalorama Information, a life sciences market research firm. Common methods of controlling infection, including topical antiseptics and antibiotics, have proven to be moderately effective in combating infection in the wound bed. However, topical antiseptics tend to inhibit the healing process due to their toxicity and may require specialized preparation or handling. Antibiotics can lead to the emergence of resistant bacteria, such as MRSA and VRE. Systemic antibiotics may not be effective in controlling infection in patients with disorders affecting circulation, such as diabetes, which are commonly associated with chronic wounds. As a result, no single treatment is used across all types of wounds and stages of healing.

We believe Microcyn provides significant advantages over current methods of care in the treatment of a wide range of chronic and acute wounds throughout all stages of treatment. These stages include debridement, cleaning, prevention and elimination of infection and wound moistening. We believe that Microcyn is the first topical product that eliminates a broad range of bacteria and other infectious microbes without causing toxic side effects on, or irritation of, healthy tissue. Unlike most antibiotics, Microcyn does not target specific strains of bacteria, a practice which has been shown to promote the development of resistant bacteria. Because our products are shelf stable and require no special preparation, they can be used in hospitals, clinics, burn centers, extended care facilities and in the home.

Our goal is to become a worldwide leader in wound care by establishing Microcyn as the standard of care for preventing and eliminating infection in chronic and acute wounds. We intend to seek regulatory clearances and approvals for, and to market, Microcyn worldwide. We initiated our commercial activities in Mexico, where, after receiving approval for the use of Microcyn as an antiseptic, disinfectant and sterilant, we began selling in July 2004. Since then, physicians in the United States, Europe and Mexico have conducted eleven physician clinical studies in which Microcyn eliminated infection in a variety of wounds, including hard-to-treat wounds such as diabetic ulcers and burns and, in some cases, reduced the need for systemic antibiotics. We used the data generated from some of these studies to support our application for the CE Mark for wound cleaning and reduction of infection, which we received in November 2004. To date, Microcyn has received three FDA 510(k) clearances for use as a medical device in wound debridement, lubricating, moistening and dressing. We expect to complete our pivotal clinical trial for pre-operative skin preparation in the third quarter of 2006 and intend to file a New Drug Application, or NDA, for the use of Microcyn as a pre-operative skin preparation in late 2006.

In addition, we intend to seek FDA approval for the use of Microcyn to eliminate infections and accelerate healing in wounds. We have established a protocol, based on comments from the FDA, for a Phase IIb clinical trial to be conducted in patients with diabetic foot ulcers and other open wounds comparing the clinical cure rates and healing time of wounds treated with Microcyn with those not treated with Microcyn. This clinical trial is scheduled to begin in late 2006 and is anticipated to last up to nine months.

We currently sell Microcyn in the United States through a four-person direct sales force and through one national and five regional distributors. In Europe, we have an eight-person direct sales force and exclusive distribution agreements with four distributors, all of which are experienced suppliers to the wound care market, with an aggregate combined sales force of over 25 full-time equivalent salespeople. In Mexico, we sell through a dedicated 75-person contract sales force, including salespeople, nurses and clinical support staff, and a network of distributors to both the public and private sector. The MOH, which approves product selection and procurement for government hospitals and healthcare institutions, has approved reimbursement for Microcyn. We plan to expand our direct sales force in the United States, Europe and Mexico to support our distribution network.

Industry Background

Wound Care Industry Overview

According to Medtech Insight, a Division of Windhover Information, there were over 90 million incidents of wounds in the United States during 2004. Of these, over six million were chronic wounds, including arterial, diabetic, pressure and venous ulcers. The remaining 84 million were acute wounds, which follow the normal process of healing and commonly include burns, traumatic wounds, and approximately 67 million surgical incisions.

Key trends in wound care include:

- Large and increasing elderly, diabetic and obese populations, each of which is vulnerable to developing a variety of difficult-to-heal ulcers.
- Increased emphasis on controlling the cost of patient care in hospitals, wound care centers and in private practice.
- Technological innovation, which has expanded treatment options from traditional ointments and gauze to include advanced treatments, such as vacuum devices, silver dressings, ultrasound and skin grafts.
- Increased focus on improving the patient experience, including reduction of pain and accelerated healing time.
- Adjunctive nature of the market where multiple treatment methods are employed, either simultaneously or sequentially, depending on the type and stage of the wound.

Wound care is complex, and controlling infection is a critical step in wound healing. Difficult-to-heal wounds can result from traumatic injury, diabetes, peripheral vascular disease, complications following surgery, rheumatoid arthritis, congestive heart failure, arterial or venous ulcers and many other conditions which compromise circulation. Without proper medical intervention and control of infection, these types of wounds typically remain open and chronically infected.

Chronic Wounds

Chronic wounds are wounds that do not heal within a normally expected time frame under standard care. The most frequently occurring chronic wounds are venous, arterial, pressure and diabetic foot ulcers. According to Medtech Insight, in 2004, the incidence of chronic wounds in the United States was approximately 6.1 million, comprised of 2.0 million pressure ulcers, 1.7 million arterial ulcers, 1.6 million venous ulcers and 800,000 diabetic foot ulcers. In addition to being expensive to treat, chronic wounds are debilitating, painful and can result in amputations and other serious consequences. Clinical studies suggest that, depending on the severity of the wound, up to 43% of patients with diabetic foot ulcers undergo an amputation. Furthermore, the five year survival rate for patients undergoing amputations is 20%.

The increasing incidence of chronic wounds is driven by the large and growing elderly, diabetic and obese populations.

Aging. People aged 65 and over are more susceptible to wounds that become chronic than the overall population. In 2006, there were more than 37 million people in the United States over 65, representing more

than 12% of the population. By 2030, this group is expected to comprise more than 19% of the total population of the United States, according to U.S. Census Bureau projections. Furthermore, according to the Centers for Disease Control and Prevention, or CDC, the incidence of diabetes is significantly higher in people over 65: in 2004, 16% of people over 65 were diabetic compared to 7.5% of the total population. Additionally, according to Medtech Insight, 70% of the pressure ulcers occur in people age 70 years or older and 25% of patients in nursing homes suffer from pressure ulcers.

Diabetes. Diabetics are particularly vulnerable to chronic wounds as a result of the debilitating effect of diabetes on the circulatory system. According to CDC, one of three children born in 2000 in the United States will develop diabetes. There are currently approximately 14.7 million diabetic Americans, representing 5% of the total population, up from 2.7% in 1990.

Obesity. Obesity is a leading cause of Type II, or "adult onset," diabetes, making the obese population more likely to eventually sustain chronic wounds. Obesity in the United States is a growing problem. According to the National Institute of Diabetes and Digestive and Kidney Diseases in 2000, more than 30% of the United States population was obese, up from 13% in 1960.

Acute Wounds

Acute wounds are typically caused by traumatic injury or surgical incision and are broadly categorized as those that can be expected to heal within a definable timeframe. However, the healing process may be affected by complicating factors such as infection, leading to chronic wounds.

All acute wounds have the potential for infection and may require prophylactic treatment to prevent infection. According to Medtech Insight, in 2004, about 16.2 million traumatic wounds were treated, including 8.7 million open wounds. Also according to Medtech Insight, in 2004, approximately 67 million surgical wounds were reported in the United States, including 36 million completed under anesthesia. Despite modern infection control procedures, and technologies at hospitals and surgery centers, every time the skin is opened there is a risk of infection. We believe that there is a higher likelihood of infection in surgeries involving anesthesia because of the length of time the wound is open. In a clinical study on surgical infections, it was shown that infection rates vary with the time required to complete the surgery. For example, infection rates varied from about 3.6% for surgeries taking less than 30 minutes to about 16.4% for those longer than 5 hours.

Critical Steps for Wound Treatment

Infection Control

One out of every 20 patients contracts an infection while in the hospital. Certain infections are increasingly dangerous because they cannot be effectively controlled by commonly used antibiotics. According to industry estimates, infections add more than $30 billion annually to health care costs in the United States. In addition, each year in the United States, approximately two million patients contract infections while in hospitals and, of those, an estimated 100,000 die as a result. According to a recent study, patients with surgical site infections incur almost triple the average hospital costs of other patients. Surgical site infections account for approximately 500,000 hospital acquired infections in the United States each year, according to CDC. Surgical site infections are estimated to cost hospitals more than $1.0 billion each year in additional medical treatment.

Staphylococcus aureus, or *Staph*, is one of the most common hospital acquired infections. One of the deadliest forms of *Staph* infection is MRSA. According to data from CDC, in 2003, 57% of the *Staph* infections reported were MRSA, up from 22% in 1995 and 2% in 1974. Patients who do survive MRSA often spend months in the hospital and endure repeated surgeries to remove infected tissue.

When infection is present in a wound, standard treatments can include cleansing, debridement and systemic antibiotics. Many cleansing agents can harm tissue, causing irritation and sensitization and impeding the wound healing process. Some forms of debridement may increase scar tissue and complicate skin grafting. Systemic antibiotics may be ineffective if the patient's metabolic state is compromised. Additionally,the

efficacy of oral or systemic antibiotics in diabetic foot ulcer patients may be diminished due to the patient's poor circulation, limiting delivery of the antibiotics to the wound site.

Because there is a risk of infection with many surgical procedures, clinicians perform several procedures before and after surgery designed to prevent infection. Pre-operative procedures generally involve preparing the surgical site with an anti-bacterial agent, such as Betadine. Post-operative procedures can include an anti-infective irrigation, a body cavity lavage and the use of systemic antibiotics.

Wound Healing and Closure

Wound healing is a cascade process comprised of inflammation, proliferation and maturation. The first stage of the wound healing is the inflammatory phase, which is associated with swelling, redness and heat, and involves the migration of healthy cells to the wound bed. Removing dead tissue or debris from the wound prepares the wound bed for regeneration of new tissue. The second phase is the proliferative phase, which involves collagen synthesis, formation of blood vessels and tissue growth. The final phase, maturation, occurs as the wound begins to take on its permanent form as collagen undergoes remodeling, forming new skin. None of these phases, however, will progress normally in the presence of infection.

Advanced Technologies

Techniques and devices have been developed to treat complex and hard-to-treat wounds, ranging from specialized devices to antimicrobial dressings. Negative pressure wound therapy, hyperbaric oxygen chambers and localized devices, sophisticated water-based debriders, oxygenated mist devices and tissue engineered skin substitutes are some of the most advanced devices available to the wound care specialist. Although relatively effective, many of these treatments have limitations or drawbacks in that they cannot be used on certain types of wounds or are expensive and complex to use. Despite these advanced technologies, treatment of challenging wounds continues to be multi-modal, with a number of adjunctive therapies employed in an attempt to achieve wound closure.

Market Opportunity — Key Limitations of Existing Treatments

Commonly used topical antiseptics and antibiotics have limitations and side effects that may constrain their usage. For example:

- many antiseptics, including Betadine, hydrogen peroxide and Dakin's solution, are toxic, can destroy human cells and tissue, may cause allergic reactions and can impede the wound healing process;
- silver-based products are expensive and require precise dosage and close monitoring by trained medical staff to minimize the potential for allergic reactions and bacterial resistance; and
- the increase in antibiotic resistant bacterial strains, such as MRSA and VRE, have compromised the efficacy of some widely used topical antibiotics including Neosporin and Bacitracin.

Our Solution

We believe Microcyn provides significant advantages over current methods of care in the treatment of chronic and acute wounds, including the following:

- ***Effective.*** In physician clinical studies, our products eliminated a wide range of pathogens that cause infection in a variety of acute and chronic wounds. In addition, because of its mechanism of action, Microcyn does not target specific strains of bacteria, the practice of which has been shown to promote the development of resistant bacteria. Where Microcyn was used both independent of and in conjunction with other wound care therapeutic products, patients generally experienced less pain, improved mobility and physical activity levels and better quality of life.
- ***Safe.*** Clinical data shows that our products are non-toxic, do not cause skin irritation and do not inhibit wound healing. Throughout all our clinical trials and physician clinical studies to date and since

commercialization in 2004, we have received no reports of adverse events related to the use of Microcyn.

- ***Easy to Use.*** Our products require no preparation before use or at time of disposal, and caregivers can use our products without significant training. In addition, Microcyn can be stored at room temperature and does not require any specific handling procedures. Unlike other super-oxidized water solutions, which are typically stable for not more than 48 hours, laboratory tests shows that Microcyn has a shelf life ranging from one to two years depending on the size and type of packaging. Our products are also complementary with advanced technologies, such as negative pressure wound therapy, jet lavage and tissue-engineered skin substitutes.
- ***Cost Effective.*** Treatment of many wounds requires extended hospitalization and care, including the use of expensive systemic antibiotics. Infection prolongs the healing time and increases the use of systemic antibiotics. Our clinical trials, physician clinical studies and clinical results demonstrate that Microcyn eliminates infection, accelerates healing time and reduces the use of systemic antibiotics, thereby lowering overall patient cost.

Our Strategy

Our goal is to become a worldwide leader in wound care by establishing Microcyn as the standard of care for preventing and eliminating infection in chronic and acute wounds throughout all stages of treatment. We also intend to leverage our expertise in wound care into additional market opportunities. The key elements of our strategy include the following:

- ***Drive adoption of Microcyn as the standard of care in the wound care market to prevent and eliminate infection***

  We believe our products are well positioned to become the standard of care in preventing and eliminating infection. We seek to drive adoption of Microcyn as the standard of care in the wound care market through data from physician clinical studies, clinical trials and key opinion leader programs. We intend to continue to maintain a marketing presence in key medical communities throughout the world through targeted direct marketing and sponsorships of physician presentations at medical conferences and seminars.

- ***Obtain additional regulatory approvals in the United States***

  We intend to seek additional regulatory approvals, which we believe will allow us to accelerate adoption of our products by wound care specialists worldwide. We expect to complete our pivotal clinical trial for pre-operative skin preparation in the third quarter of 2006 and, if the results are positive, intend to file an NDA for use of Microcyn as a pre-operative skin preparation in late 2006. In addition, we have developed a protocol, based on comments from the FDA, for a Phase IIb trial to be conducted in subjects with diabetic foot ulcers and other open wounds comparing the healing time of wounds treated with Microcyn with those not treated with Microcyn. This clinical trial is intended to support the safety as well as the efficacy of Microcyn for infection control and wound healing.

- ***Expand our direct sales force and distribution networks***

  We intend to expand our direct sales force and distribution networks in the United States, Europe and the rest of the world. In the United States, Europe and Mexico, we sell our products through distribution networks supported by our direct sales force. We have distribution agreements for our products in India, Southeast Asia and the Middle East. We select distributors based on their demonstrated expertise in selling to wound care professionals and facilities.

- ***Pursue opportunities to combine Microcyn with other treatments***

  We believe our products are compatible with and enhance the efficacy of a variety of existing wound care treatment methods including negative pressure wound therapy, pulse and jet lavage and tissue engineered skin substitutes. Combining Microcyn with these therapies has improved their efficacy in

eliminating infection, as demonstrated in physician clinical studies. We believe combination treatment methods to eliminate infection are gaining acceptance by wound care professionals and may prove to be clinically and commercially attractive.

- ***Develop strategic collaborations in the wound care market***

We intend to pursue strategic relationships with respect to both product development and distribution. To accelerate adoption of our products, we may enter into strategic relationships with healthcare companies that have product lines or distribution channels that are complementary to ours. These relationships may take the form of co-promotion agreements, distribution agreements or joint ventures. In addition, we may expand our offerings of new products or technologies through acquisitions or licensing agreements.

- ***Leverage our Microcyn platform to address additional markets***

We believe our products have applications in several other large consumer and professional markets, including the hard surface disinfectant, respiratory, dermatology, veterinary, mold and atmospheric remediation and dental markets. We intend to access these markets through strategic partnerships or joint ventures. To date, we have entered into distribution agreements in the hard surface disinfectant, veterinarian and mold and atmospheric remediation markets.

Our Products — Microcyn Platform

The following are products we currently offer:

Geographic Region	Brand Name	Indication
United States	Dermacyn Wound Care	A medical device product intended for moistening absorbent wound dressings and cleaning minor cuts, minor burns, superficial abrasions and minor irritations of the skin, for moistening and lubricating absorbent wound dressings for traumatic wounds, cuts, abrasions and minor burns, and for moistening and debriding acute and chronic dermal lesions, such as stage I-IV pressure ulcers, stasis ulcers, diabetic ulcers, post-surgical wounds, first and second degree burns, abrasions and minor irritations of the skin.
	Cidalcyn	A multi-purpose disinfectant cleaner for use on hard, non-porous, inanimate surfaces. Broad spectrum disinfectant kills odor-causing bacteria while chemically neutralizing odors. It is non-flammable and non-corrosive.
	Vetericyn Wound Care	A product used for the management of traumatic wounds, cuts, abrasions, skin irritations, post-surgical incisions and minor burns in animals. Safe for use around head and eyes.
European Union	Dermacyn Wound Care	A super-oxidized solution intended for use in the debridement, irrigation and moistening of acute and chronic wounds, ulcers, cuts, abrasions and burns. Through reducing microbial load and assisting in a moist environment, it enables the body to perform its own healing process. It can be broadly applied within a comprehensive wound treatment.
	Oculus Microcyn Disinfectant	A high-level disinfectant solution for the reprocessing of heat sensitive and other medical devices.

Geographic Region	Brand Name	Indication
Mexico	Microcyn60	A product used for the antiseptic treatment of wounds and infected areas and for the disinfection of medical instruments and equipment and clean-rooms.
India	Oxum	A super-oxidized solution intended for use in the debridement, irrigation and moistening of acute and chronic wounds, ulcers, cuts, abrasions and burns. Through reducing microbial load and assisting in a moist environment, it enables the body to perform its own healing process. It can be broadly applied within a comprehensive wound treatment regimen.
Canada	Dermacyn Wound Care	A product used in moistening, irrigating, cleansing and debriding acute and chronic dermal lesions, such as stage I-IV pressure ulcers, stasis ulcers, diabetic ulcers, post-surgical wounds, first and second degree burns, abrasions, lacerations and minor irritations of the skin.

Mechanism of Action

We believe Microcyn's ability to prevent and eliminate infection is based on its uniquely engineered chemistry. Laboratory studies conducted on Microcyn show that it reduces various bacteria, spores, fungi and viruses. Unlike current treatments, physician clinical studies indicate that Microcyn does not cause adverse effects on human tissue. We believe this is due to the specialized combination of oxidizing chemical species produced through our proprietary process of electrolyzation. Our laboratory studies suggest that Microcyn reacts with and damages the cell wall of the organism, causing rupture of the cell. Laboratory and physician clinical studies suggest that this process destroys only single cell organisms such as bacteria, spores, fungi and viruses.

This rupture of the cell wall appears to occur through a fundamentally different process than that which occurs as a result of contact with chlorine-based solution because experiments have confirmed that Microcyn kills chlorine-resistant bacteria.

In laboratory tests, Microcyn has been shown to eliminate certain biofilms. A biofilm is a complex aggregation of microorganisms or bacteria marked by the formation of a protective and adhesive matrix, allowing the bacteria to collect and proliferate. It is estimated that over 65% of microbial infections in the body involve bacteria growing as a biofilm. Bacteria living in a biofilm typically have significantly different properties from free-floating bacteria of the same species. One result of this film environment is increased resistance to antibiotics and to the body's immune system. In chronic wounds, biofilms interfere with the normal healing process and halt or slow wound closure. In laboratory studies, Microcyn was shown to destroy two common biofilms after five minutes of exposure.

It is widely accepted that reducing inflammation surrounding an injury or wound is beneficial to wound healing. Our laboratory research indicates that Microcyn inhibits histamine production and cytokine release. These factors are critical components of the body's natural inflammatory response to injury or wounds, as well as other conditions, such as rhinosinusitis. Inhibition of cytokine release blocks the initial stages of the inflammation process, in which cells (including mast cells) involved in triggering the inflammatory response are prevented from releasing the inflammation signal to the rest of the body. Our laboratory research suggests that Microcyn's interference with these cells is selective to only the inflammation signaling pathway and does not interfere with other functions of these cells. Additionally, physician clinical studies suggest that Microcyn only inhibits this function in tissue that is directly exposed to the solution.

Clinical Trials and Physician Studies

Current and Planned Trials

Pre-Operative Skin Preparation Trial. In September 2005, we initiated our pivotal pre-operative skin preparation trial, using 64 healthy volunteers. Patients were selected for enrollment based on the presence of a baseline microbial load in specific areas of the body and received a Microcyn scrub in the same manner as preparation for surgery. The patients were evaluated for microbial load reduction at intervals throughout the day. The results of this trial are expected to be received in the third quarter of 2006. If the trial is successful, we anticipate filing our NDA with the FDA in late 2006. There can be no assurance that the outcome of the trial will be successful, and even if successful, the FDA may not agree with our interpretation of the data and may require additional pivotal trials.

Open Wound Trial. We have established, based on comments from the FDA, the protocol for our Phase IIb clinical trial of Microcyn in patients with diabetic foot ulcers and other open wounds. This study will evaluate a total of approximately 160 patients in two groups of 80 patients each and is intended to assess clinical cure and wound healing time in open and infected wounds. We expect to begin enrollment in late 2006 and to complete this trial within nine month. The result will be used to determine the sample size of a subsequent Phase III pivotal trial, which we estimate may require up to 500 patients enrolled in 30 to 40 centers in the United States and Europe. The current FDA guidelines for this indication require only a single pivotal trial for marketing clearance although there is no guarantee that the FDA will not require us to conduct additional clinical studies in support of our NDA for this indication. The pivotal trial is intended to demonstrate safety and efficacy of Microcyn in eliminating infections in diabetic foot and venous stasis ulcers and deep wounds.

Physician Clinical Studies. A number of other physician clinical studies are planned comparing the results of using Microcyn with the current standard of care. These studies are intended to provide supporting data as to microbial load reduction, healing time, eliminating infections, compatibility with dressings and devices, effects on blood flow, bone healing rates, the prevention of post-surgical complications, the prevention of intubation-related pneumonia and a reduction in the cost of care.

These physician clinical studies may provide supporting data for our applications for regulatory approval when they are conducted in strict compliance with the guidance on good clinical practices and meet other requirements of the regulatory authority. Based on the number of patients and variety of wound types treated, the safety data from these studies may allow us to truncate the FDA clinical trial process, which usually involves three phases of development. See "Business—Government Regulation—Pharmaceutical Product Regulation." We believe these studies will be supportive of our future regulatory applications.

Completed Trials and Studies

Physicians in the United States, Europe and Mexico have conducted eleven clinical studies of Microcyn, some sponsored by us and some physician initiated, generating data indicating that Microcyn is safe and effective for the indications under study and that it results in reduced costs to healthcare providers and patients.

Since there is not one universal standard of care in wound treatment, healthcare providers use many different devices, antiseptics, bandages and antibiotics to treat various types of wounds. For example, in the United States, a typical protocol for treatment of diabetic foot ulcers includes treatment with saline solution or topical antibiotics as an infection control agent, whereas the typical protocol for diabetic foot ulcers in Europe often includes treatment with Betadine. Efforts to change formal or favored protocols meet with resistance unless clear evidence of greater safety, superior efficacy, reduction in cost, or other benefits is demonstrated.

Dr. David E. Allie, a cardiovascular surgeon and head of the Cardiovascular Institute of the South in Lafayette, Louisiana and a member of our Business and Medical Advisory Board, completed a retrospective study in January 2006 comparing the use of Microcyn on 60 patients to a comparable matched control group. The study was designed to examine the effect on wound healing, limb salvage and skin irritation. The results of this study showed improvements in wound healing time and in rates of limb salvage. Furthermore, the

Microcyn group experienced no skin irritation while 13% of the patients in the control group did experience skin irritation. The following is a summary of those results:

	Microcyn	Traditional
Number of patients	60	60
Percentage of limb salvage	98%	90%
Adverse effects / complications	0	8 (13)%
Average wound healing time	34 days	67 days

Dr. Luca Dalla Paola, an Endocrinologist and surgeon and Chief of the Diabetic Foot Unit of Presidio Ospedaliero Abano Terme in Padova, Italy, conducted a controlled physician clinical study in Italy in November 2004 designed to assess the rate of elimination of infection when Microcyn was used on diabetic foot ulcers localized below the ankle. In the study, patients were treated daily using gauze soaked with Microcyn or Betadine. Microbiological specimens were taken at the time of the enrollment and weekly thereafter until wound closure occurred. The results showed that patients treated with Microcyn had less than one-third the strains of bacteria than those treated with Betadine. The following table summarizes the results of the study:

	Microcyn	Betadine	P-Value
Number of patients	110	108	
Bacteria strains at beginning of study	230	232	
Strains after treatment	14	43	p<0.001
Percentage eliminated	94%	81%	
Adverse effects / complications	0	18	
Average wound healing time	43 days	55 days	p<0.0001

Dr. Alfredo Barrera, a gastrointestinal surgeon and head of the Department of Surgery at the Hospital Ruben Leñoro, Mexico, conducted a six-month controlled physician clinical study in Mexico in 2004. The study was designed to test microbial load reduction in patients with extensive abdominal peritonitis. In this study, patients were given a comprehensive therapy using saline solution lavage plus Microcyn or given the same comprehensive therapy with saline solution only, a widely used standard of care. Patients treated with Microcyn experienced greater microbial load reduction and shorter hospital stays. The following table summarizes the results of the study:

	Microcyn	Saline
Number of patients	20	20
Bacteria strains at beginning of study	30	29
Bacteria strains after treatment	2	24
Percentage of bacteria strains eliminated	93%	17%
Adverse effect / complications	0	n/a
Average hospital stay	22 days	33 days

Dr. Ariel Miranda, a board certified plastic surgeon and Chief of the Burn Unit of the Civil Hospital of Guadalajara, Mexico, conducted a retrospective clinical study in Mexico in 2004, using Microcyn on pediatric burn patients. The study was designed to evaluate the rate of infection, the need for skin grafts and antibiotics, and the duration of hospital stays in pediatric burn patients. In this study, Dr. Miranda used Microcyn for initial debridement and to moisten the burn site for 5-15 minutes, three times a day until elimination of the infection. No gels or dressings were applied to the wound. An independent statistician reviewed and analyzed the results of this study and compared it to the results from burn patients treated by Dr. Miranda with silver sulfadiazine. The patients treated with Microcyn suffered no adverse effects or related complications. In addition, the use of Microcyn enabled Dr. Miranda to reduce the use of systemic antibiotics without the

development of infections. Dr. Miranda also noted that, due to the flexible and smooth quality of the healed skin, the patients treated with Microcyn needed less skin grafting. The following table summarizes the results of the independent statistician's analysis of the study:

	Microcyn	Silver Sulfadiazine
Number of patients	64	64
Patients with bacteria strains after 7 to 15 days	6	22
Patients on antibiotics	6	46
Adverse effects / complications	0	n/a
Average hospital stay	15 days	29 days

Seven additional physician clinical studies in the United States, Europe and Mexico have been completed using Microcyn to eliminate infection in a variety of different wounds, including diabetic foot and venous stasis ulcers and oral surgery.

In addition, there are several ongoing and planned physician clinical studies being conducted in the United States and Europe to assess Microcyn's effectiveness in preventing and eliminating infection in wounds. For example, we are supporting with a research grant a study by Dr. David Armstrong of the Scholl College of Podiatric Medicine in Chicago, Illinois and Dr. Andrew Boulton, Head of the Manchester Diabetes Centre at the Manchester Royal Infirmary in the United Kingdom. This is a study of diabetic foot ulcers using the VersaJet lavage system in two groups of 20 patients each, one utilizing Microcyn and the other utilizing saline. The endpoints are microbial load reduction and time to complete wound healing. Dr. Dalla Paola is conducting a study involving 100 patients comparing Microcyn to Polyhexanid in the treatment of diabetic foot necrobiosis, with time to wound healing the primary endpoint. Dr. Tom Wolvos, a board certified surgeon who is the Medical Director at the Scottsdale Healthcare Wound Management Center in Arizona, is conducting a forty patient study comparing Microcyn to saline solution with the VAC Negative Pressure Wound Therapy system from Kinetic Concepts, Inc., in the treatment of a variety of wounds. Lastly, Cheryl Bongiovanni, Ph.D., Director of the Lake Wound Clinics in Lakeview, Oregon, is conducting two patient studies focusing on both the potential savings from the use of Microcyn in treating a variety of wounds as well as a 20 patient study comparing Microcyn with saline solution in the treatment of leg ulcers.

We provide financial support for some of these studies in the form of research funding, expense reimbursement and supply of product. In addition, Drs. Allie and Dalla Paola are members of our Physician Advisory Board. Dr. Dalla Paola is compensated $1,000 per month for his participation on this committee. Dr. Allie is a paid consultant, investor and stockholder. For additional information, please see "Management - Advisory Board Compensation."

Regulatory Strategy

Our regulatory strategy is to seek the necessary clearances and approvals for Microcyn to accelerate its adoption by wound care specialists worldwide as the standard of care in preventing and eliminating infection throughout all stages of treatment. We intend to seek and obtain FDA approval of Microcyn as a topical antimicrobial to treat infected wounds. We expect to complete a pivotal pre-operative skin trial using 64 healthy volunteers in the third quarter of 2006 and expect to file an NDA for this indication in late 2006. Concurrently, we intend to apply for similar or expanded clearances in Europe and other parts of the world. In addition, we have developed a protocol, based on comments from the FDA, for a Phase IIb trial to be conducted in subjects with diabetic foot ulcers and other open wounds comparing the healing time of wounds treated with Microcyn with those not treated with Microcyn. This clinical trial is intended to support the safety as well as the efficacy of Microcyn in terms of rate of clinical cure and wound healing.

In November 2004, we received CE Mark approval to market and sell Microcyn in Europe as a wound care product as part of a comprehensive wound care treatment for microbial load reduction. We have obtained three 510(k) clearances for Microcyn as a medical device for moistening, cleansing, lubricating and debriding acute and chronic dermal lesions, such as stage IV pressure ulcers, stasis ulcers, diabetic ulcers, post-surgical

wounds, first and second degree burns, abrasions and minor irritations of the skin. Based on the CE Mark and FDA approvals, we filed for and received clearance to market Microcyn in India, Singapore and Pakistan.

Sales and Marketing

We are developing distribution and sales networks to market our products in the United States and Europe. We expect to expand our existing sales force in the United States, Europe and Mexico as we obtain additional regulatory claims. Our products are purchased by hospitals, physicians, nurses and other healthcare practitioners who are the primary caregivers to patients being treated for acute or chronic wounds as well as those patients undergoing surgical procedures.

Our strategy is to enter into agreements with established regional distributors, provide ongoing sales support and utilize clinical studies and key opinion leader programs to accelerate product adoption. Implementation of our strategy includes the development of relationships with wound care specialists through targeted direct marketing and communications programs and through sponsorship of physician presentations at medical conferences and seminars.

In the United States, we currently distribute our products through one national and five regional distributors and are actively recruiting additional distributors. We employ four full-time direct salespeople, in addition to our distributors, with marketing contacts in leading wound care clinics, hospitals and health care agencies that provide wound care services. We intend to hire additional salespeople in the United States beginning in the fourth quarter of 2006.

In Europe, we have distribution arrangements in Germany, Italy, Sweden and the Czech Republic with an aggregate of over 25 full-time equivalent salespeople focused on the sale of Microcyn and are actively pursuing additional distribution arrangements in other European countries. We currently have an eight-person direct sales force in our European regional sales office in The Netherlands, and intend to hire additional direct sales people to support our distributors.

In Mexico, we market our products through our established distribution network and direct sales organization. We have a dedicated 75-person sales force, including salespeople, nurses and clinical support staff responsible for selling Microcyn to over 250 private and public hospitals and to retail independent pharmacies.

We have established distributors for our disinfectant and wound care products in India, Bangladesh, Pakistan, Singapore, United Arab Emirates and Saudi Arabia. In December 2005, we entered into a distribution agreement with Alkem Laboratories, a large, privately-held pharmaceutical firm headquartered in Mumbai, India, employing more than 800 salespeople servicing the Indian healthcare market. In January 2006, the Indian Ministry of Health approved Microcyn for use in chronic and acute wounds, and we commenced sales to Alkem in April 2006.

In Canada, we are currently recruiting wound care specialty distributors and expect to commence product sales following receipt of our drug identification number from Canadian regulatory authorities. Sales in Canada are currently supported by one employee resident in our headquarters in Petaluma, California. We intend to hire two additional direct sales persons for Canada by the first quarter of 2007.

Other Market Opportunities

We believe our products have applications in several other large consumer and professional markets and intend to access these markets through strategic partnerships or joint ventures. These markets include:

Hard Surface Disinfectant

In the United States, we obtained Environmental Protection Agency, or EPA, clearance for use of the Microcyn technology as a disinfectant in May 2004. Our product, Cidalcyn, is a hospital-grade multi-purpose disinfectant cleaner and food contact sanitizer used in patient care areas, households, child care facilities,

health clubs, laboratories and on food contact surfaces where cross-contamination of treated surfaces can occur.

According to Global Industry Analysts, Inc., the worldwide disinfectant market is estimated to be $1.7 billion, of which approximately $270 million is attributable to the United States. Disinfectants currently in the marketplace, such as bleach and ammonia, may have adverse effects after long-term use for the person applying the disinfectant, and there are other environmental, biodegradability and general concerns regarding toxicity. Most leading brands of disinfectant products are classified by the EPA as having a high level of toxicity and require appropriate warning statements. Based on the EPA toxicity categorization of antimicrobial products, Cidalcyn received the lowest toxicity rating and, as a result, precautionary labeling statements are not required.

In December 2005, we entered into an exclusive distribution agreement with a leading manufacturer of wet wipes and moist towelette products for the consumer, food service and healthcare industries. The distribution agreement allows our distributor to market, sell and distribute our hard-surface disinfectant products under the distributor's private label in the United States, Canada, Caribbean and Latin America, excluding Mexico. We expect our distributor to launch this product in the fourth quarter of 2006.

Respiratory

Our nasal product candidate is an anti-microbial solution designed to be self-administered into a patient's nasal cavity for the treatment of chronic rhinosinusitis. In animal studies, it has been shown to kill the bacteria that causes rhinosinusitis. We are currently conducting pre-clinical animal studies seeking to support efficacy and safety and intend to seek FDA approval once clinical trials are successfully completed for this product and indication.

Rhinosinusitis, or inflammation of the nasal sinuses, affects an estimated 35 million Americans. There is no FDA-approved therapy for chronic rhinosinusitis. Most treatment methods have focused on the symptoms of the disease and include the use of antibiotics, antihistamines, corticosteroids and sinus surgery.

Dermatology

We are developing dermatology-focused product candidates using our Microcyn technology for the treatment of various fungal and bacterial skin infections, including:

- Acne vulgaris, a common skin disease affecting 85% of adolescents and young adults;
- Psoriasis, a chronic inflammatory skin condition affecting more than 4.0 million Americans;
- Vaginal candidiasis, an infection usually caused by a species of the yeast Candida albicans, affecting approximately 75% of women at least once in their lifetime; and
- Onychomycosis, a fungal infection of the toenail affecting 35 million North Americans.

Our dermatology product candidates will be administered in a liquid suspension and a gel formulation. In laboratory and clinical tests, our anti-fungal product candidates were effective in treating these fungal infections without the need for long-term exposure to systemic antibiotics. We intend to seek FDA approval to sell our dermatology products by prescription and over-the-counter.

Despite the significant sales of prescription products for treatment of diseases of the skin, we believe that many serious limitations remain in the treatment of these diseases. Existing treatments are often inadequate for reasons of efficacy, toxicity or patient noncompliance.

Veterinary Medicine

Our animal wound care product, Vetericyn, was launched in late 2004 and is currently available for purchase by veterinarians through MWI Veterinary Supply, Inc., a distributor of animal health products. Veterinarians in the United States use Vetericyn in a variety of applications, including, for example, to treat hard-to-heal equine wounds. We believe a non-toxic wound spray or gel that is safe for use in animals has

wide application. According to the American Veterinary Medical Association, as of December 31, 2005, there were more than 54,000 veterinarians in private practice in more than 27,000 veterinary practices nationwide.

Mold and Atmospheric Remediation

We plan to commercialize our Microcyn technology in liquid and mist form for the industrial and residential remediation markets. Tests have shown that our Microcyn products are non-irritating and non-sensitizing to humans and yet contain ingredients with potent kill times. Our products are safe, non-corrosive, non-flammable and easy to use, requiring no significant training or experience. In addition, unlike other competitive products, Microcyn does not need to be removed after application, thereby saving time and labor costs. Our Microcyn products have been granted the lowest class EPA toxicity rating and are therefore safe to use to remediate blackwater, mold and other household and industrial damage due to flooding.

Recent scientific data suggests an association between exposure to mold or damp indoor environments and the development of cough and upper respiratory tract symptoms, wheezing, and asthma symptoms in sensitized persons.

In July 2005, we entered into a license agreement with a provider of restoration and remediation services in Canada, for the restoration of residential, commercial, industrial and business property damaged by fire, flood and wind. We expect to begin commercializing this product following receipt of appropriate regulatory approvals.

Dental and Oral Care

We are developing an oral rinse and antimicrobial toothpaste for the oral care market. Based on data from the Freedonia Group, the U.S. market for mouthwash and dental rinse products was $600 million in 2003. Our oral rinse product candidate is expected to compete with consumer oral rinses, such as Listerine, Scope and Cepacol, and prescription rinses, such as Peridex and Perigard. Our Microcyn oral rinse product candidate has been tested in clinical studies and shown to be safe for use in oral surgery. We intend to seek FDA approval to market our dental and oral care product either by prescription or over-the-counter as FDA designates.

Research and Development

The goals of our research and development program are to design, develop and produce products to treat acute and chronic wounds, and to identify new applications for our technology. Our research and development efforts are divided into three areas: science, new product development and engineering.

Our scientists work to continually improve our product performance by evaluating variations of the formulations and chemical structures of our products. For example, we are evaluating alterations to Microcyn to increase the speed at which it kills certain bacteria and viruses.

The focus of our current development efforts is new formulations, applications and delivery systems for Microcyn, including the following:

- an intravenous bag and spikeable bottle for use with compatible wound care systems, such as negative wound pressure therapy, jet lavage and oxygenated mist devices;
- an antimicrobial gel formulation that hydrates, moistens and protects the wound;
- various formulations and delivery systems that extend the stability of the product;

- an oral rinse to treat ulcerations of oral tissues (stomatitis) and inflammation of oral tissues (mucositis);
- an antimicrobial toothpaste that reduces plaque and gingivitis and will not be irritating to the mouth;
- a surgical irrigant to control infections during and after surgery; and
- a fine mist to treat chronic rhinosinusitis;

Our engineers seek to optimize our manufacturing process by reducing costs and increasing yield. For example, we have significantly decreased the waste product resulting from our manufacturing process, and we continue to experiment to find ways of decreasing it further.

We also intend to develop other products for use in non-medical markets based on our core technology and intellectual property portfolio. These potential products include the following:

- a solution used with various materials in the manufacture of disinfectant wipe products;
- a mist form of Microcyn used for decontaminating environmental areas containing potential biological hazards, such as in aircraft decontamination; and
- a mist used to decontaminate people exposed to biological hazardous agents.

We also intend to focus efforts on our L3 anti-viral compound for the treatment of early stage cancers, initially targeting cervical dysplasia. Based on our research, L3 has inhibited the growth of certain cancer cells in preclinical studies.

As of May 31, 2006, we had nine full-time employees engaged in research and development activities. Our director of research and development coordinates all such activities. We plan to increase our research and development staff in the future to address market demands identified in our direct market research and to expand our product line by using our Microcyn technology in different medical and non-medical applications.

Manufacturing

We manufacture Microcyn through a proprietary electrolysis process within a multi-chamber system. We are able to control the passage of ions through proprietary membranes, yielding electrolyzed water with only trace amounts of chlorine. This process is fundamentally different from the processes for manufacturing hydrogen peroxide and bleach and is the basis for our technology's efficacy and safety.

We manufacture our products in Petaluma, California, Sittard, The Netherlands and Zapopan, Mexico. We have developed an automated manufacturing process and conduct quality assurance testing on each production batch in accordance with current U.S. Good Manufacturing Practices, or cGMP. Our manufacturing process produces very little waste, which is disposed of as water after a simple non-toxic chemical treatment. Our facilities are required to meet and maintain regulatory standards applicable to the manufacture of products. Our United States and Netherlands facilities are ISO 13485 certified and comply with cGMP guidelines. Our Mexico facility has been approved by the MOH.

Our machines are subjected to a series of tests, which is part of a validation protocol mandated by cGMP and ISO requirements. This validation is designed to ensure that the final product is manufactured with the same level of consistency and quality in all manufacturing sites, and includes the testing of all internal and external components, mechanical and electrical parts and the software in each machine. Certain materials used in manufacturing our machines are proprietary.

We believe we have a sufficient number of machines to produce Microcyn as required to meet anticipated future requirements for at least the next two years. As we expand into other geographic markets, we may establish additional manufacturing facilities in or near new markets.

Intellectual Property

Our success depends in part on our ability to obtain and maintain proprietary protection for our product technology and know-how, to operate without infringing proprietary rights of others, and to prevent others

from infringing our proprietary rights. We seek to protect our proprietary position by, among other methods, filing, when possible, U.S. and foreign patent applications relating to our technology, inventions and improvements that are important to our business. We also rely on trade secrets, know-how, continuing technological innovation, and in-licensing opportunities to develop and maintain our proprietary position.

In March 2003, we obtained an exclusive license to six issued Japanese patents and five Japanese published pending patent applications owned by Coherent Technologies, or Coherent. The issued Japanese patents and pending Japanese patent applications relate to an early generation of super-oxidized water product and aspects of the method and apparatus for producing Microcyn and will expire between 2011 and 2014. In June 2006, we received written notice from Coherent advising us that the patent license was terminated, citing various reasons with which we disagree. Although we do not believe Coherent has grounds to terminate the license, we may have to take legal action to preserve our rights under the license and to enjoin Coherent from breaching its terms. We do not know whether we would prevail in any such action, which would be costly and time consuming, and we could lose our rights under the license, which could have a material adverse impact on our business opportunities in Japan. In addition, we may have to defend ourselves against infringement claims from Coherent in Japan based on their position on termination of the license. We do not believe the Japanese patents disclose or cover certain innovations in our products, which we developed independently and are the subject of our own patent applications.

As of May 31, 2006, we had twelve U.S. pending patent applications and fifteen foreign pending patent applications. These applications include U.S. provisional applications for which the one-year period to file a non-provisional application has not yet expired as well as international PCT applications that have not yet reached the deadline to file corresponding national phase applications. Our portfolio of pending applications can be divided into two groups. The first group includes three U.S. and seven foreign patent applications that relate to early generation super-oxidized water product, methods of using super-oxidized water, and aspects of the method and apparatus for manufacturing super-oxidized water. We have received a Notice of Allowance from the U.S. Patent and Trademark Office for one of our pending U.S. applications in this group. Before a patent may issue, a second review of our application must be completed. The second group includes nine U.S. and eight foreign applications that relate to Microcyn, the method and apparatus for manufacturing Microcyn, and its uses.

Although we work to protect our technology, we cannot assure you that any patent will issue from currently pending patent applications or from future patent applications. We also cannot assure you that the scope of any patent protection will exclude competitors or provide competitive advantages to us, that any of our patents will be held valid if subsequently challenged, or that others will not claim rights in or ownership of our patents and proprietary rights. Furthermore, we cannot assure you that others have not developed or will develop similar products, duplicate any of our products or design around our patents.

We have also filed for trademark protection for marks used with our Microcyn products in each of the United States, Europe, certain countries in Central and South America, including Mexico and Brazil, Latin America, certain countries in Asia, including Japan, China and the Republic of Korea, and Australia.

In addition to patents and trademarks, we rely on trade secret and other intellectual property laws, nondisclosure agreements and other measures to protect our intellectual property rights. We believe that in order to have a competitive advantage, we must develop and maintain the proprietary aspects of our technologies. We require our employees, consultants and advisors to execute confidentiality agreements in connection with their employment, consulting or advisory relationship with us. We also require our employees, consultants and advisors who we expect to work on our products to agree to disclose and assign to us all inventions made in the course of our working relationship with them, while using our property or which relate to our business. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to wrongfully obtain or use information that we regard as proprietary.

Competition

We believe the principal competitive factors in our target market include improved patient outcomes, such as time in the hospital, healing time, adverse events, safety of products, ease of use, stability, spore killing and cost effectiveness. The medical device industry, and in particular the wound care market, is highly competitive. We compete with a number of large well-established and well-funded companies that sell a broad range of wound care products, including topical anti-infectives and antibiotics, as well as some advanced wound technologies, such as skin substitutes, growth factors and sophisticated delayed release silver-based dressings. Kinetic Concepts, Inc., Smith & Nephew plc, Johnson & Johnson, Healthpoint, Ltd., a subsidiary of DFB Pharmaceuticals Inc., Kendall, a division of Tyco International Ltd., ConvaTec, a division of Bristol-Myers Squibb Company and Coloplast Ltd. have a wide range of product offerings for the wound market. Collectively, these companies have a substantial share of the wound care market. Several large well-funded drug companies also develop and sell topical antibiotics.

Our competitors enjoy several competitive advantages, including:

- significantly greater name recognition;
- established relationships with healthcare professionals, patients and third party payors;
- established distribution networks;
- additional product lines and the ability to offer rebates or bundle products to offer discounts or incentives;
- greater experience in conducting research and development, manufacturing, obtaining regulatory approval for products and marketing; and
- greater financial and human resources for product development, sales and marketing and patient support.

While many companies are able to produce oxidized water, their products, unlike ours, are typically stable for not more than 48 hours, have an acidic pH, which irritates the skin and has a much higher chlorine content. One such company, PuriCore, sells electrolysis machines used to manufacture brine-based oxidized water primarily as a sterilant.

Our products compete with a large number of products that include over-the-counter treatments and prescription drugs, including topical anti-infectives, such as Betadine, silver sulfadiazine, hydrogen peroxide, Dakin's solution, hypochlorous acid, and topical antibiotics, such as Neosporine and Bacitracin. Currently, no single anti-infective product dominates the chronic or acute wound markets because many of the products have serious limitations or tend to inhibit the wound healing process.

Our products can also replace the use of sterile saline for debriding and moistening a dressing as well as for use as a complementary product with many advanced wound care technologies, such as the VAC from Kinetic Concepts Inc., skin substitute products from Smith & Nephew, Integra Life Sciences, Life Cell, Organogenesis and Ortec International, and ultrasound from Celleration. We believe that Microcyn can enhance the effectiveness of many of these advanced wound care technologies. Because Microcyn is competitive with some of the large wound care companies' products and complementary with others, we may compete with such companies in some product lines and complement other product lines.

Government Regulation

Government authorities in the United States at the federal, state and local levels and foreign countries extensively regulate, among other things, the research, development, testing, manufacture, labeling, promotion, advertising, distribution, sampling, marketing, and import and export of pharmaceutical products, biologics and medical devices. All of our products in development will require regulatory approval by government agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous pre-clinical and clinical trials and other approval procedures of the FDA and similar regulatory authorities in foreign countries. Various federal, state, local and foreign statutes and regulations also govern testing,

manufacturing, safety, labeling, storage and record-keeping related to such products and their marketing. The process of obtaining these approvals and the subsequent process of maintaining substantial compliance with appropriate federal, state, local, and foreign statutes and regulations require the expenditure of substantial time and financial resources. In addition, statutes, rules, regulations and policies may change and new legislation or regulations may be issued that could delay such approvals.

Medical Device Regulation

New medical devices, such as Microcyn, are subject to FDA approval and extensive regulation under the FDCA. Under the FDCA, medical devices are classified into one of three classes: Class I, Class II or Class III. The classification of a device into one of these three classes generally depends on the degree of risk associated with the medical device and the extent of control needed to ensure safety and effectiveness.

Class I devices are those for which safety and effectiveness can be assured by adherence to a set of general controls. These general controls include compliance with the applicable portions of the FDA's Quality System Regulation, which sets forth good manufacturing practice requirements; facility registration and product reporting of adverse medical events listing; truthful and non-misleading labeling; and promotion of the device only for its cleared or approved intended uses. Class II devices are also subject to these general controls, and any other special controls as deemed necessary by the FDA to ensure the safety and effectiveness of the device. Review and clearance by the FDA for these devices is typically accomplished through the so-called 510(k) pre-market notification procedure. When 510(k) clearance is sought, a sponsor must submit a pre-market notification demonstrating that the proposed device is substantially equivalent to a previously approved device. If the FDA agrees that the proposed device is substantially equivalent to the predicate device, then 510(k) clearance to market will be granted. After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could require pre-market approval, or PMA.

Clinical trials are almost always required to support a PMA application and are sometimes required for a 510(k) pre-market notification. These trials generally require submission of an application for an investigational device exemption, or IDE. An IDE must be supported by pre-clinical data, such as animal and laboratory testing results, which show that the device is safe to test in humans and that the study protocols are scientifically sound. The IDE must be approved in advance by the FDA for a specified number of patients, unless the product is deemed a non-significant risk device and is eligible for more abbreviated investigational device exemption requirements.

Both before and after a medical device is commercially distributed, manufacturers and marketers of the device have ongoing responsibilities under FDA regulations. The FDA reviews design and manufacturing practices, labeling and record keeping, and manufacturers' required reports of adverse experiences and other information to identify potential problems with marketed medical devices. Device manufacturers are subject to periodic and unannounced inspection by the FDA for compliance with the Quality System Regulation, current good manufacturing practice requirements that govern the methods used in, and the facilities and controls used for, the design, manufacture, packaging, servicing, labeling, storage, installation and distribution of all finished medical devices intended for human use.

If the FDA finds that a manufacturer has failed to comply or that a medical device is ineffective or poses an unreasonable health risk, it can institute or seek a wide variety of enforcement actions and remedies, ranging from a public warning letter to more severe actions such as:

- fines, injunctions and civil penalties;
- recall or seizure of products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing requests for 510(k) clearance or PMA approval of new products;
- withdrawing 510(k) clearance or PMA approvals already granted; and

- criminal prosecution.

The FDA also has the authority to require repair, replacement or refund of the cost of any medical device.

The FDA also administers certain controls over the export of medical devices from the U.S., as international sales of medical devices that have not received FDA approval are subject to FDA export requirements. Additionally, each foreign country subjects such medical devices to its own regulatory requirements. In the European Union, a single regulatory approval process has been created, and approval is represented by the CE Mark.

The Company is currently pursuing anti-microbial claims through the Center for Drug Evaluation and Research.

Pharmaceutical Product Regulation

In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or FDCA, and implementing regulations that are adopted under the FDCA. In the case of biologics, the FDA regulates such products under the Public Health Service Act. If we fail to comply with the applicable requirements under these laws and regulations at any time during the product development process, approval process, or after approval, we may become subject to administrative or judicial sanctions. These sanctions could include the FDA's refusal to approve pending applications, withdrawals of approvals, clinical holds, warning letters, product recalls, product seizures, total or partial suspension of our operations, injunctions, fines, civil penalties or criminal prosecution. Any agency enforcement action could have a material adverse effect on us. The FDA also administers certain controls over the export of drugs and biologics from the U.S.

Under the U.S. regulatory scheme, the development process for new pharmaceutical products can be divided into three distinct phases:

- *Pre-Clinical Phase.* The pre-clinical phase involves the discovery, characterization, product formulation and animal testing necessary to prepare an Investigational New Drug application, or IND, for submission to the FDA. The IND must be accepted by the FDA before the drug can be tested in humans.
- *Clinical Phase.* The clinical phase of development follows a successful IND submission and involves the activities necessary to demonstrate the safety, tolerability, efficacy, and dosage of the substance in humans, as well as the ability to produce the substance in accordance with cGMP requirements. Data from these activities are compiled in a New Drug Application, or NDA, or for biologic products a Biologics License Application, or BLA, for submission to the FDA requesting approval to market the drug.
- *Post-Approval Phase.* The post-approval phase follows FDA approval of the NDA or BLA, and involves the production and continued analytical and clinical monitoring of the product. The post- approval phase may also involve the development and regulatory approval of product modifications and line extensions, including improved dosage forms, of the approved product, as well as for generic versions of the approved drug, as the product approaches expiration of patent or other exclusivity protection.

Each of these three phases is discussed further below.

Pre-Clinical Phase. The development of a new pharmaceutical agent begins with the discovery or synthesis of a new molecule. These agents are screened for pharmacological activity using various animal and tissue models, with the goal of selecting a lead agent for further development. Additional studies are conducted to confirm pharmacological activity, to generate safety data, and to evaluate prototype dosage forms for appropriate release and activity characteristics. Once the pharmaceutically active molecule is fully characterized, an initial purity profile of the agent is established. During this and subsequent stages of development, the agent is analyzed to confirm the integrity and quality of material produced. In addition, development and optimization of the initial dosage forms to be used in clinical trials are completed, together with analytical

models to determine product stability and degradation. A bulk supply of the active ingredient to support the necessary dosing in initial clinical trials must be secured. Upon successful completion of pre-clinical safety and efficacy studies in animals, an IND submission is prepared and provided to the FDA for review prior to commencement of human clinical trials. The IND consists of the initial chemistry, analytical, formulation, and animal testing data generated during the pre-clinical phase. The review period for an IND submission is 30 days, after which, if no comments are made by the FDA, the product candidate can be studied in Phase I clinical trials.

Clinical Phase. Following successful submission of an IND, the sponsor is permitted to conduct clinical trials involving the administration of the investigational product candidate to human subjects under the supervision of qualified investigators in accordance with good clinical practice. Clinical trials are conducted under protocols detailing, among other things, the objectives of the study and the parameters to be used in assessing the safety and the efficacy of the drug. Each protocol must be submitted to the FDA as part of the IND prior to beginning the trial. Each trial must be reviewed, approved and conducted under the auspices of an independent Institutional Review Board, and each trial, with limited exceptions, must include the patient's informed consent. Typically, clinical evaluation involves the following time-consuming and costly three-phase sequential process:

- *Phase I.* Phase I human clinical trials are conducted in a limited number of healthy individuals to determine the drug's safety and tolerability and include biological analyses to determine the availability and metabolization of the active ingredient following administration. The total number of subjects and patients included in Phase I clinical trials varies, but is generally in the range of 20 to 80 people.
- *Phase II.* Phase II clinical trials involve administering the drug to individuals who suffer from the target disease or condition to determine the drug's potential efficacy and ideal dose. These clinical trials are typically well controlled, closely monitored, and conducted in a relatively small number of patients, usually involving no more than several hundred subjects. These trials require scale up for manufacture of increasingly larger batches of bulk chemical. These batches require validation analysis to confirm the consistent composition of the product.
- *Phase III.* Phase III clinical trials are performed after preliminary evidence suggesting effectiveness of a drug has been obtained and safety (toxicity), tolerability, and an ideal dosing regimen have been established. Phase III clinical trials are intended to gather additional information about the effectiveness and safety that is needed to evaluate the overall benefit-risk relationship of the drug and to complete the information needed to provide adequate instructions for the use of the drug, also referred to as the Official Product Information. Phase III trials usually include from several hundred to several thousand subjects.

Throughout the clinical phase, samples of the product made in different batches are tested for stability to establish shelf life constraints. In addition, large-scale production protocols and written standard operating procedures for each aspect of commercial manufacture and testing must be developed.

Phase I, II, and III testing may not be completed successfully within any specified time period, if at all. The FDA closely monitors the progress of each of the three phases of clinical trials that are conducted under an IND and may, at its discretion, reevaluate, alter, suspend, or terminate the testing based upon the data accumulated to that point and the FDA's assessment of the risk/benefit ratio to the patient. Clinical investigators, IRBs, and companies may be subject to pre-approval, routine, or "for cause" inspections by the FDA for compliance with Good Clinical Practices, or GCPs, and FDA regulations governing clinical investigations. The FDA may suspend or terminate clinical trials, or a clinical investigator's participation in a clinical trial, at any time for various reasons, including a finding that the subjects or patients are being exposed to an unacceptable health risk. The FDA can also request additional clinical trials be conducted as a condition to product approval. Additionally, new government requirements may be established that could delay or prevent regulatory approval of our products under development. Furthermore, institutional review boards, which are independent entities constituted to protect human subjects in the institutions in which clinical trials are being conducted, have the authority to suspend clinical trials in their respective institutions at any time for a variety of reasons, including safety issues.

Post-Approval Phase. After approval, we are still subject to continuing regulation by FDA, including, but not limited to, record keeping requirements, submitting periodic reports to the FDA, reporting of any adverse experiences with the product, and complying with drug sampling and distribution requirements. In addition, we are required to maintain and provide updated safety and efficacy information to the FDA. We are also required to comply with requirements concerning advertising and promotional labeling. In that regard, our advertising and promotional materials must be truthful and not misleading. We are also prohibited from promoting any non-FDA approved or "off-label" indications of products. Failure to comply with those requirements could result in significant enforcement action by the FDA, including warning letters, orders to pull the promotional materials, and substantial fines. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval.

Drug and biologics manufacturers and their subcontractors are required to register their facilities and products manufactured annually with FDA and certain state agencies and are subject to periodic routine and unannounced inspections by the FDA to assess compliance with cGMP regulations. Facilities may also be subject to inspections by other federal, foreign, state, or local agencies. In addition, approved biological drug products may be subject to lot-by-lot release testing by the FDA before these products can be commercially distributed. Accordingly, manufacturers must continue to expend time, money, and effort in the area of production and quality control to maintain compliance with cGMP and other aspects of regulatory compliance. Future FDA inspections may identify compliance issues at our facilities or at the facilities that may disrupt production or distribution, or require substantial resources to correct.

In addition, following FDA approval of a product, discovery of problems with a product or the failure to comply with requirements may result in restrictions on a product, manufacturer, or holder of an approved marketing application, including withdrawal or recall of the product from the market or other voluntary or FDA-initiated action that could delay further marketing. Newly discovered or developed safety or effectiveness data may require changes to a product's approved labeling, including the addition of new warnings and contraindications. Also, the FDA may require post-market testing and surveillance to monitor the product's safety or efficacy, including additional clinical studies, known as Phase IV trials, to evaluate long-term effects.

Regulation of Disinfectants

In the United States, the EPA, regulates disinfectants as antimicrobial pesticides under the Federal Insecticide, Fungicide, and Rodenticide Act, or FIFRA, and the implementing regulations that EPA has adopted under FIFRA. Before marketing a disinfectant in the United States, we must satisfy EPA's pesticide registration requirements. That registration process requires us to demonstrate the disinfectant's efficacy and to determine the potential human and ecological risks associated with use of the disinfectant. The testing and registration process could be lengthy and could be expensive. There is no assurance, however, that we will be able to satisfy all of the pesticide registration requirements for a particular proposed new disinfectant product. Once we satisfy the FIFRA registration requirements for an individual disinfectant, additional FIFRA regulations will apply to our various business activities, including marketing, related to that EPA-registered product.

Failure to comply with FIFRA's requirements could expose us to various enforcement actions. FIFRA empowers EPA to seek administrative or judicial sanctions against those who violate FIFRA. Among the potential FIFRA penalties are civil administrative penalties, stop sale orders, seizures, injunctions and criminal sanctions. If EPA were to initiate a FIFRA enforcement action against us, it could have a material adverse effect on us.

Other Regulation in the United States

Health Care Coverage and Reimbursement by Third-Party Payors

Commercial success in marketing and selling our products depends, in part, on the availability of adequate coverage and reimbursement from third-party health care payors, such as government and private health insurers and managed care organizations. Third-party payers are increasingly challenging the pricing of medical products and services. Government and private sector initiatives to limit the growth of health care

costs, including price regulation, competitive pricing, and managed-care arrangements, are continuing in many countries where we do business, including the U.S. These changes are causing the marketplace to be more cost-conscious and focused on the delivery of more cost-effective medical products. Government programs, including Medicare and Medicaid, private health care insurance companies, and managed-care plans have attempted to control costs by limiting coverage and the amount of reimbursement for particular procedures or treatments. This has created an increasing level of price sensitivity among customers for our products. Examples of how limits on drug coverage and reimbursement in the United States may cause drug price sensitivity include the growth of managed care, changing Medicare reimbursement methodologies, decisions on which drugs to include in formularies and drug rebate calculations. Some third-party payors also require pre-approval of coverage for new or innovative devices or therapies before they will reimburse health care providers who use the medical devices or therapies. Even though a new medical product may have been cleared or approved for commercial distribution, we may find limited demand for the product until coverage and reimbursement have been obtained from governmental and other third-party payors.

Fraud and Abuse Laws

In the United States, we are subject to various federal and state anti-kickback laws, which, among other things, prohibit the payment of remuneration intended to induce the purchase of products or services and the fraudulent billing of federal healthcare programs. These laws constrain the sales, marketing and other promotional activities of pharmaceutical companies, such as us, by limiting the kinds of financial arrangements (including for example, our sales programs and physician advisory board relationships) we may have with prescribers, purchasers, dispensers and users of drugs. In addition, the HHS Office of Inspector General has issued Compliance Guidance for pharmaceutical manufacturers which, among other things, identifies manufacturer practices implicating the federal anti-kickback law and describes elements of an effective compliance program. The laws of many states impose similar requirements and in some cases may not be limited to government reimbursed items.

Due to the breadth of the provisions of some of these laws, it is possible that some of our practices might be challenged under one or more of these laws in the future. Violations of these laws can lead to civil and criminal penalties, including imprisonment, fines and exclusion from participation in Medicare, Medicaid and other federal health care programs. Any such violations could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Health Information Privacy and Security

Individually identifiable health information is subject to an array of federal and state regulation. Federal rules promulgated pursuant to the Health Information Portability and Accountability Act of 1996, or HIPAA, regulate the use and disclosure of health information by “covered entities” (which includes individual and institutional providers from which we may receive individually identifiable health information). These regulations govern, among other things, the use and disclosure of health information for research purposes, and require the covered entity to obtain the written authorization of the individual before using or disclosing health information for research. Failure of the covered entity to obtain such authorization (absent obtaining a waiver of the authorization requirement from an Institutional Review Board) could subject the covered entity to civil and criminal penalties. We may experience delays and complex negotiations as we deal with each entity’s differing interpretation of the regulations and what is required for compliance. Also, where our customers or contractors are covered entities, including hospitals, universities, physicians or clinics, we may be required by the HIPAA regulations to enter into “business associate” agreements that subject us to certain privacy and security requirements. In addition, many states have laws that apply to the use and disclosure of health information, and these laws could also affect the manner in which we conduct our research and other aspects of our business. Such state laws are not preempted by the federal privacy law where they afford greater privacy protection to the individual. While activities to assure compliance with health information privacy laws are a routine business practice, we are unable to predict the extent to which our resources may be diverted in the event of an investigation or enforcement action with respect to such laws.

Foreign Regulation

Whether or not we obtain FDA approval for a product, we must obtain approval of a product by the applicable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country, and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing, and reimbursement also vary greatly from country to country. Although governed by the applicable country, clinical trials conducted outside of the United States typically are administered under a three-phase sequential process similar to that discussed above for pharmaceutical products.

Under the European Union regulatory systems we may submit marketing authorization applications either under a centralized or decentralized procedure. The centralized procedure, which is available for medicines produced by biotechnology or which are innovative, provides for the grant of a single marketing authorization that is valid for all the European Union member states. This authorization is a marketing authorization approval, or MAA. The decentralized procedure provides for mutual recognition of national approval decisions. Under this procedure, the holder of a national marketing authorization may submit an application to the remaining member states. Within 90 days of receiving the applications and assessment report, each member state must decide whether to recognize approval. This procedure is referred to as the mutual recognition procedure, or MRP.

In addition, regulatory approval of prices is required in most countries other than the United States. We face the risk that the prices which result from the regulatory approval process would be insufficient to generate an acceptable return to us or our collaborators.

Employees

As of May 31, 2006, we had 81 full-time employees, including 25 in manufacturing, nine in research and development, four in regulatory and clinical, 16 in sales and marketing and 27 in administrative functions. In late 2006, we plan to add additional sales and marketing personnel to support our various markets and opportunities. We also plan to hire additional marketing and clinical support personnel to work with key opinion leaders, and to provide educational services and technical support our distribution channels. None of our employees is covered by collective bargaining arrangements, and we consider our relationship with our employees to be good.

Properties

We currently lease approximately 12,000 square feet of office, research and manufacturing space in Petaluma, California, which serves as our principal executive offices. We also lease approximately 20,000 square feet of office space in an adjacent building for manufacturing and research and development. Both leases expire in September 2007.

We lease approximately 4,000 square feet of office space and approximately 14,000 square feet of manufacturing and warehouse space in Zapopan, Mexico, under a lease that expires in April 2011. We lease approximately 5,000 square feet of office space and approximately 14,000 square feet of manufacturing and warehouse space in Sittard, The Netherlands, under leases that expire in January 2009. As we expand, we may need to establish manufacturing facilities in other countries.

We believe our properties are adequate to meet our needs through June 2007.

Legal Proceedings

In April 2005, a former director and Chief Operating Officer of our company filed an action in the Superior Court of the State of California, Sonoma County, alleging breach of employment contract. In the complaint, the plaintiff claims $300,000 and the right to purchase approximately 600,000 shares of our common stock at $0.75 per share. A trial date has been set in July 2006, and we intend to vigorously defend

this action. If the claims are litigated, we may incur considerable litigation costs. We have tendered the claims to our insurance carrier, but we expect the insurance carrier to deny coverage to all or a portion of the claim.

In March 2006, we filed suit in the Northern District of California Federal Court against Nofil Corporation and Naoshi Kono, its Chief Executive Officer, for breach of contract, misappropriation of trade secrets and trademark infringement. We believe that Nofil Corporation violated key terms of both an exclusive purchase agreement and non-disclosure agreement by contacting and working with a potential competitor in Mexico. In the complaint, we seek damages of $3.5 million and immediate injunctive relief. No trial date has been set.

In September 2005, a complaint was filed against us in Mexico claiming confusion in trademarks with respect to our Microcyn60 mark, and we may be required to cease using the mark in Mexico and compensate the other party.

Except for the foregoing, we are not a party to any material legal proceedings, and, except as set forth above, management is not aware of any threatened legal proceedings that it believes could cause a material adverse impact on our business, financial condition or results of operations. From time to time, we may be party to lawsuits in the ordinary course of business.

GLOSSARY OF TECHNICAL, MEDICAL AND INDUSTRY TERMS

The following technical, medical, and industry-specific terms used in this prospectus have the following meanings:

Anti-infective	Capable of killing infectious agents or of preventing them from spreading and causing infection.
Antimicrobial	Capable of destroying or inhibiting the growth of micro-organisms.
Antiseptic	A germicide used on skin or living tissue for the purpose of inhibiting or destroying microorganisms (for example, alcohol, chlorhexidine, chlorine, hexachlorophene, iodine, chloroxylenol PCMX, quaternary ammonium compounds, and triclosan).
Disinfection	Destruction of pathogenic and other kinds of microorganisms by physical or chemical means. Disinfection is less lethal than sterilization, because it destroys the majority of recognized pathogenic microorganisms, but not necessarily all microbial forms (for example, bacterial spores). Disinfection does not ensure the degree of safety associated with sterilization processes.
Germicide	An agent that destroys microorganisms, especially pathogenic organisms. Terms with the same suffix (e.g., virucide, fungicide, bactericide, tuberculocide, and sporicide) indicate agents that destroy the specific microorganism identified by the prefix. Germicides can be used to inactivate microorganisms in or on living tissue (i.e., antiseptics) or on environmental surfaces (i.e., disinfectants).
Microbial load	Number of viable organisms in or on an object or surface or organic material on a surface or object before decontamination or sterilization.
P-value	Indicates the probability that the result obtained in a statistical test is due to chance rather than a true relationship between measures. A small p-value, generally less than 0.05, or $p<0.05$, indicates that it is very unlikely that the results are due to chance.

Spore	A small, usually single-celled reproductive body that is highly resistant to desiccation and heat and is capable of growing into a new organism, produced especially by certain bacteria, fungi, algae, and nonflowering plants. A dormant nonreproductive body formed by certain bacteria in response to adverse environmental conditions.
Wound debridement	Surgical removal of dead, devitalized or contaminated tissue and removal of foreign matter from a wound.

MANAGEMENT

Executive Officers, Key Employees and Directors

The following table shows information about our executive officers, key employees and directors as of June 30, 2006:

Name	Age	Position(s)
Hojabr Alimi	44	Chief Executive Officer, President and Chairman of the Board
Michael Wokasch	55	Chief Operating Officer
Robert Miller	63	Chief Financial Officer
James Schutz	43	Vice President of Corporate Development, General Counsel, Corporate Secretary and Director
Theresa Mitchell	56	Vice President of Regulatory, Clinical Affairs, Quality Assurance and Research and Development
Bruce Thornton	42	Vice President of International Operations and Sales
Robert Northey, Ph.D.	49	Director of Research and Development
Andres Gutiérrez, M.D., Ph.D.	45	Director of Medical Affairs
Gerard de Nies	42	Marketing and Sales Director-Europe, Middle East and Africa of Oculus Innovative Sciences Netherlands
Sergio Caleti	41	Commercial Director of Oculus Technologies of Mexico
Akihisa Akao	52	Director
Edward Brown(3)	42	Director
Richard Conley(1)(2)(3)	55	Director
Gregory French(1)(2)(3)	45	Director

(1) Member of the audit committee

(2) Member of the compensation committee

(3) Member of the nominating and corporate governance committee

Hojabr Alimi, one of our founders, has served as our Chief Executive Officer, President and director since 2002 and was appointed as Chairman of the board of directors in June 2006. In 1999, Mr. Alimi co-founded MicroMed Laboratories, a contract research organization providing assistance to pharmaceutical and medical device companies worldwide in the FDA and CE Mark approval processes, as well as with laboratory testing support. Prior to co-founding MicroMed with his spouse, Mr. Alimi was a Corporate Microbiologist for Arterial Vascular Engineering. Mr. Alimi received a B.A. in biology from Sonoma State University.

Michael Wokasch has served as our Chief Operating Officer since June 2006. From July 2004 to May 2006, Mr. Wokasch served as Senior Vice President of Commercial Operations for the Biopharmaceuticals Division of Chiron Corporation, a biotechnology company. He served as Chief Operating Officer of Impax Laboratories, a pharmaceutical company, from January 2003 to June 2004. Prior to Impax, Mr. Wokasch

served as President of Aurora Biosciences Corporation, a drug discovery company, from July 2001 to December 2002, and as Chief Executive Officer of Gala Design, a biotechnology company, from June 2000 to July 2001. Prior to this, he held sales and marketing positions at Abbott Laboratories, Merck & Co., and Miles. Mr. Wokasch received a B.S. from the University of Minnesota, College of Pharmacy.

Robert Miller has served as our Chief Financial Officer since June 2004 and was a consultant to us from March 2003 to May 2004. Mr. Miller served as a director of Scanis, Inc. since 1998 and as acting Chief Financial Officer from 1998 to June 2006. He was a Chief Financial Officer consultant to Evit Labs from June 2003 to December 2004, Wildlife International Network from October 2002 to December 2005, Endoscopic Technologies from November 2002 to March 2004, Biolog from January 2000 to December 2002 and Webware from August 2000 to August 2002. Prior to this, Mr. Miller was the Chief Financial Officer for GAF Corporation, Penwest Ltd. and Bugle Boy and Treasurer of Mead Corporation. He received a B.A. in economics from Stanford University and an M.B.A. in finance from Columbia University.

James Schutz has served as our Vice President of Corporate Development and General Counsel since August 2003, as a director since May 2004 and Corporate Secretary since June 2006. From August 2001 to August 2003, Mr. Schutz served as General Counsel at Jomed, (formerly EndoSonic Corp.) an international medical device company. From 1999 to July 2001, Mr. Schutz served as in-house counsel at Urban Media Communications Corporation, an Internet/telecom company based in Palo Alto, California. Mr. Schutz received a B.A. in economics from the University of California, San Diego and a J.D. from the University of San Francisco School of Law.

Theresa Mitchell has served as our Vice President of Regulatory, Clinical Affairs, Quality Assurance and Research and Development since March 2005. Prior to joining us, Ms. Mitchell took a sabbatical following her service as Vice President, Regulatory and Clinical Affairs and Quality Assurance at Oratec Interventions, Inc., a medical device company, from December 1998 to December 2003. She has held senior regulatory and clinical positions at Target Therapeutics, Fidus Medical, General Surgical Innovations and Advanced Cardiovascular systems. Ms. Mitchell received a B.A. in experimental psychology/biostatistics and an M.A. in liberal arts from California State University, San Francisco.

Bruce Thornton has served as our Vice President of International Operations and Sales since June 2005. Mr. Thornton served as our General Manager for U.S. Operations from March 2004 to July 2005. He served as Vice President of Operations for Jomed (formerly EndoSonic Corp.) from January 1999 to September 2003, and as Vice President of Manufacturing for Volcano Therapeutics, an international medical device company, following its acquisition of Jomed, until March 2004. Mr. Thornton received a B.S. in aeronautical science from Embry-Riddle Aeronautical University and an M.B.A. from National University.

Robert Northey, Ph.D. has served as our Director of Research and Development since July 2005. Dr. Northey served as a consultant to us from May 2001 to June 2005. From August 1998 until June 2005, he was an Assistant Professor in the Paper Science and Engineering Department at the University of Washington. Dr. Northey received a B.S. in wood and fiber science and a Ph.D. in wood chemistry, each from the University of Washington.

Andres Gutiérrez, M.D., Ph.D. has served as our Director of Medical Affairs since August 2005. Dr. Gutiérrez served as a consultant to us from April 2003 to July 2005. He served as the Head of the Cell Therapy Unit at the National Institute of Rehabilitation in Mexico City from September 2000 to July 2005 and as a consulting physician with the Department of Medicine at Hospital Angeles del Pederegal in Mexico City from 1996 to July 2005. He received an M.D. with a specialty in internal medicine, and a Ph.D. in biomedical sciences, each from the National University of Mexico in Mexico City.

Gerard de Nies has served as our Director of Marketing & Sales - Europe, Middle East and Africa at our Netherlands subsidiary, since August 2005. Mr. de Nies held a similar position in Kimberly-Clark for the Scientific & Industrial division, where he was responsible for sales and marketing in Europe from July 1999 through August 2005. He was the Sales Manager in the Ethicon Endo-Surgery division of Johnson & Johnson from June 1993 to July 1999. Mr. de Nies received a Bachelor of nursing and of healthcare management, each from the University of Amsterdam, The Netherlands.

Sergio Caleti has served as our Commercial Director for our Mexican subsidiary since February 2005. Mr. Caleti served as the Mexico National Sales Manager of Darier Laboratories, a dermatological laboratory, from July 2003 to January 2005. He served as the Regional Sales Manager, Hospital Products Division for the central region for Abbott Laboratories from 1999 until June 2003. Mr. Caleti received an engineering degree from the Engineering School of Universidad Iberoamericana, Mexico.

Akihisa Akao has served as a director since 1999 and as a consultant since October 2005. Mr. Akao has served as President for White Moon Medical, Inc., a consulting company that provides advice to early-stage companies seeking to enter the Japanese medical products market. He served as the general manager in Japan at PowerMedical Interventions Inc., a medical device company, from January 2001 to September 2005. He also served as President of E-Med Japan, an application service provider for medical professionals and consumers, from 1999 to July 2000. Mr. Akao received a B.A. in electronic engineering from Doshisha University, Kyoto, Japan.

Edward Brown has served as a director since September 2005. Mr. Brown is co-founder of Healthcare Investment Partners, or HIP, a private equity buyout fund focused exclusively on healthcare, and has served as a Managing Director of HIP since June 2004. Before joining HIP, Mr. Brown was a Managing Director in the Healthcare Group of Credit Suisse First Boston, where he led the firm's West Coast healthcare effort and was one of the senior partners responsible for the firm's global life sciences practice, from August 2000 to June 2004. Mr. Brown serves on the board of directors of Angiotech Pharmaceuticals, Inc. Mr. Brown received an A.B. in English from Middlebury College.

Richard Conley has served as a director since 1999, and served as our Secretary from July 2002 to June 2006. Since April 2001, Mr. Conley has served as Executive Vice President and Chief Operating Officer at Don Sebastiani & Sons International Wine Negociants, a branded wine marketing company. From 1994 to March 2001, he served as Senior Vice President and Chief Operating Officer at Sebastiani Vineyards, a California wine producer, where he was originally hired as Chief Financial Officer in 1994. Mr. Conley received a B.S. in finance and accounting from Western Caroline University and an M.B.A. from St. Mary's University.

Gregory French has served as a director since 2000. Mr. French is owner and Chairman of the Board of G&C Enterprises LLC, a real estate and investment company, which he founded in 1999. He held various engineering and senior management positions at several medical device companies, including Advanced Cardiovascular Systems, Peripheral Systems Group and Arterial Vascular Engineering. Mr. French received a B.S.I.E. from the California State Polytechnic University, San Luis Obispo.

Board of Directors

Our board of directors currently consists of six members. We currently anticipate that we will add one new independent member to our board prior to completion of this offering. All directors are elected to hold office until their successors have been elected and qualified or until the earlier of death, resignation or removal. The authorized number of directors may be changed by resolution duly adopted by the board of directors. Vacancies on the board can be filled by resolution of the board of directors. Each of Messrs. Brown, Conley and French are independent directors as defined by Rule 4200(a)(15) of the National Association of Securities Dealers listing standards.

Board Committees

Our board of directors currently has an audit committee, compensation committee and nominating and corporate governance committee, which have the composition and responsibilities described below. As of the completion of this offering, we expect that all of the members of our committees will be independent directors under the rules of the SEC and The Nasdaq National Market.

Audit Committee. The audit committee provides assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by:

- appointing, retaining, determining compensation and overseeing our independent accountants;
- ensuring that our accountants are independent from management;
- approving the services performed by our independent accountants;
- reviewing our independent accountants' reports regarding our accounting policies and systems of internal controls;
- reviewing compliance with legal and regulatory requirements; and
- ensuring the integrity of our financial statements.

Our audit committee presently consists of Messrs. Conley and French. Following this offering, we expect that our audit committee will consist of Messrs. Conley and French and one additional independent director, with Mr. Conley serving as Chairman of the Committee. Each member of the audit committee is able to read and understand fundamental financial statements, including our balance sheet, income statement and cash flow statements. Our board of directors has determined that each of Messrs. Conley and French is an audit committee financial expert as currently defined under the rules of the SEC. We believe that the composition of our audit committee meets the criteria for independence under, and the functioning of our audit committee complies with the requirements of, the Sarbanes Oxley Act of 2002, the rules of the Nasdaq Stock Market and SEC rules and regulations. Our board of directors has approved and adopted a written charter for the audit committee.

Compensation Committee. The compensation committee performs the following functions, among others, as set forth in its committee charter:

- determining our general compensation policies and the compensation of our directors and officers;
- reviewing and approving bonuses for our officers and other employees;
- reviewing and determining equity based compensation for our directors, officers, employees and consultants;
- administering our stock option plans and employee stock purchase plans;
- reviewing corporate goals and objectives relative to executive compensation; and
- evaluating our chief executive officer's performance and setting our chief executive officer's compensation.

The compensation committee historically has established our chief executive officer compensation. Our compensation committee presently consists of Messrs. Conley and French. Following this offering, we expect that our compensation committee will be comprised of Messrs. Conley and French and one additional independent director, with Mr. French serving as Chairman of the Committee. Each member is and will be an outside director as currently defined in Section 162(m) of the Internal Revenue Code of 1986 and a non-employee director within the current meaning of Rule 16b-3 as promulgated under the Securities Exchange Act of 1934. We believe that the composition of our compensation committee meets the criteria for independence under, and the functioning of our compensation committee complies with the applicable requirements of, the Nasdaq Stock Market.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee performs the following functions, among others, as set forth in its committee charter:

- evaluating and recommending to the full board of directors candidates for directorship and the size and composition of the board;

- recommending members of the board of directors to serve on the various committees of the board of directors;
- overseeing our corporate governance guidelines;
- developing plans for chief executive officer succession; and
- reporting and making recommendations to the board concerning corporate governance matters and recommending a code of conduct for our directors, officers and employees.

Our nominating and corporate governance committee consists of Messrs. Brown, Conley and French, with Mr. Brown serving as Chairman of the Committee. We believe that the composition of our nominating and corporate governance committee meets the criteria for independence under the rules of the Nasdaq Stock Market and SEC rules and regulations.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is presently nor at any time has been one of our executive officers or employees. Mr. Conley served as our Secretary from July 2002 until June 2006 but he was not compensated for such service, other than as a member of our board of directors. No interlocking relationship exists, or has existed in the past, between our board or compensation committee and the board or compensation committee of any other company.

Director Compensation

We have agreements with each of our directors, including our employee directors, which provide for the grant of stock options as compensation for service on our board of directors. Pursuant to our agreements with each of Messrs. Alimi, Akao, Conley and French, we granted to each of these directors an option to purchase 78,283 shares of our common stock, which represented 0.5% of the then fully diluted shares of our common stock, and granted Mr. Schutz an option to purchase 25,000 shares of our common stock, with an exercise price of $0.75 per share. We granted an option to purchase 200,000 shares of our common stock to Mr. Brown pursuant to his agreement with an exercise price of $2.54 per share. All unvested shares underlying these options will vest in full upon completion of this offering. We also granted Messrs. Alimi and Schutz options to purchase 50,000 shares and 25,000 shares of our common stock, respectively, with an exercise price of $2.54 per share. Mr. Brown's option vests as to 20% of the shares on the first anniversary of the grant date and as to 1/60 each month thereafter until fully vested. The remainder of the director options vest as to 20% of the shares on each of the first five anniversaries of the grant date. In addition, we reimburse our non-employee directors for reasonable out-of-pocket expenses incurred on our behalf.

Executive Compensation

The following table summarizes all compensation paid to our chief executive officer and to our four other most highly compensated executive officers whose total annual salary and bonus exceeded $100,000 for all services rendered in all capacities to us during the fiscal year ended March 31, 2006. We refer to these individuals as our named executive officers. The compensation described in this table does not include medical, group life insurance or other benefits which are generally available to all of our salaried employees.

Summary Compensation Table

	Annual Compensation		Long-Term Compensation	
Name and Position(s)	**Salary ($)**	**Bonus ($)**	**Shares Underlying Options (#)**	**All Other Compensation ($)**
Hojabr Alimi President and Chief Executive Officer	$293,302	$ 26,250	50,000	$ 4,517(1)
Robert Miller Chief Financial Officer	184,288	1,250	25,000	—
James Schutz Vice President of Corporate Development, General Counsel and Corporate Secretary	187,972	1,250	25,000	6,246(2)
Theresa Mitchell Vice President of Regulatory, Clinical Affairs, Quality Assurance and Research and Development	176,327	6,250	402,500	—
Bruce Thornton Vice President of International Operations and Sales	173,101	1,250	362,500	5,042(3)

(1) Consists of $350 for IRA contributions and $4,167 for life insurance premiums.

(2) Consists of $5,486 for IRA contributions and $760 for life insurance premiums.

(3) Consists of IRA contributions.

Options/SAR Grants Table

The following table set forth certain information for the year ended March 31, 2006 with respect to stock options granted to our named executive officers. The percentage of total options granted is based on an aggregate of 2,518,000 options granted to employees in the year ended March 31, 2006.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(4)	
Name	Number of Shares Underlying Options Granted(1)	% of Total Options Granted to Employees in 2005	Exercise Price Per Share(2)	Expiration Date(3)	5% ($)	10% ($)
Hojabr Alimi	50,000	2.0%	$ 2.54	10/1/2015	$	$
Robert Miller	25,000	1.0	2.54	10/1/2015		
James Schutz	25,000	1.0	2.54	10/1/2015		
Theresa Mitchell	200,000	7.9	1.10	4/1/2015		
	202,500	8.0	2.54	10/1/2015		
Bruce Thornton	80,000	3.2	1.10	5/6/2015		
	282,500	11.2	2.54	10/1/2015		

(1) Unless otherwise noted, the options become exercisable as to 20% of the shares on each of the first five anniversaries of the grant date.

(2) The exercise price is the fair market value of our common stock on the date of grant, as determined by our board of directors.

(3) Unless otherwise noted, the options have a term of ten years, subject to earlier termination in certain events related to termination of service or employment. Vesting of the options is subject to acceleration under certain circumstances described under “Director Compensation” and “Employment, Severance and Change of Control Arrangements.”

(4) The 5% and 10% assumed rates of appreciation are required by the rules of the SEC and do not represent our estimate or projection of the future common stock price. There can be no assurance that any of the values reflected in the table will be achieved.

Aggregated Option/SAR Exercises in 2005 and Fiscal Year-End Option/SAR Values

The following table shows information concerning the number and value of unexercised options held by each of the named executive officers at March 31, 2006. The table assumes a per share fair market value equal to $, which is the midpoint of the range set forth on the cover of the prospectus.

			Number of Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End ($)	
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Hojabr Alimi	—	—	1,659,314	108,969	$	$
Robert Miller	240,000	—	295,256	25,000		
James Schutz	—	—	230,000	370,000		
Theresa Mitchell	—	—	40,000	362,500		
Bruce Thornton	—	—	16,000	386,500		

Employment, Severance and Change of Control Arrangements

We have entered into employment agreements with each of Hojabr Alimi, Michael Wokasch, Robert Miller, James Schutz, Theresa Mitchell and Bruce Thornton. In the event Mr. Alimi, Mr. Wokasch, Mr. Miller or Mr. Schutz is terminated without cause or resigns for good reason, upon satisfaction of certain requirements, including executing a general release of claims against us, the officer is entitled to accrued but unpaid salary (including vacation pay), reimbursement of any outstanding business expenses, a lump severance payment equal to 12 times in the case of Mr. Wokasch, 18 times in the case of Mr. Miller and Mr. Schutz, or 24 times in the case of Mr. Alimi, the average monthly base salary paid to the officer over the preceding 12 months (or for the term of the officer's employment if less than 12 months), automatic vesting of all unvested options and other equity awards, the extension of exercisability of all options and other equity awards to at least 12 months following the date the officer terminates employment or, if earlier, until the option expires, up to one year reimbursement for health care premiums and a full gross up of any excise taxes payable by the officer under Section 4999 of the Internal Revenue Code because of the foregoing payments and acceleration (including the reimbursement of any additional federal, state and local taxes payable as a result of the gross up). If any officer terminates his or her employment for any reason, he or she must give us 30 days, or in the case of Mr. Alimi, 60 days prior written notice.

Hojabr Alimi. Our agreement with Mr. Alimi, dated January 1, 2004, provides for an annual salary of $225,000, which amount may be increased by our board of directors. Separately, we granted Mr. Alimi an option to purchase 78,283 shares for service as a director at an exercise price of $0.75 per share which vests at a rate of 20% per year from the date of grant provided that such options will vest in full upon completion of this offering.

Michael Wokasch. Our agreement with Mr. Wokasch, dated June 10, 2006, provides for an annual salary of $200,000 as our Chief Operating Officer. In connection with Mr. Wokasch's agreement, we will also grant him an option to purchase 500,000 shares of our common stock at an exercise price to be determined by our board of directors which will vest over five years from the date of grant. We will also grant Mr. Wokasch an annual bonus of $100,000 upon meeting certain milestones.

Robert Miller. Our agreement with Mr. Miller, dated June 1, 2004, provides for an annual salary of $165,000. In connection with this agreement, we granted Mr. Miller an option to purchase 378,532 shares of common stock, which vested immediately based on Mr. Miller's prior consultant work for us, and an option to purchase 156,724 shares of common stock, which vests based on Mr. Miller's hours of service. Upon completion of this offering, we will grant Mr. Miller an additional fully-vested option to purchase 240,000 shares of common stock. All of these options have or will have an exercise price of $0.75 per share.

James Schutz. Our agreement with Mr. Schutz, dated January 1, 2004, provides for an annual salary of $165,000, which amount may be increased by our board of directors, and an option to purchase 150,000 shares of our common stock at an exercise price of $0.75 per share which vests in five equal annual installments from the date of grant. Separately, we granted Mr. Schutz an option to purchase 25,000 shares for service as a director at an exercise price of $0.75 per share which vests at a rate of 20% per year from the date of grant provided that such options will vest in full upon completion of this offering.

Theresa Mitchell. Our agreement with Ms. Mitchell, dated March 23, 2005, provides for a salary of $165,000, which amount may be increased by our board of directors. In connection with Ms. Mitchell's agreement, we also granted her an option to purchase 200,000 shares of our common stock at an exercise price of $1.10 per share which vests in five equal annual installments from the date of grant. We must provide her with 12 months notice if she is terminated without cause. During this 12-month period, we may provide Ms. Mitchell with continued salary payments as severance. In the event of a change of control of Oculus, if Ms. Mitchell is terminated, she is entitled to a lump sum severance payment equal to 12 months of her then base salary and all unvested options and other equity awards will immediately vest in full and remain exercisable for at least 12 months following her termination or, if earlier, the date the option or other equity award expires. Ms. Mitchell's agreement also provides her a full gross up of any excise taxes payable by Ms. Mitchell under Section 4999 of the Internal Revenue Code because of the foregoing payments and

acceleration (including the reimbursement of any additional federal, state and local taxes payable as a result of the gross up).

Bruce Thornton. Our agreement with Mr. Thornton, entered on June 2005, provides an annual salary of $160,000, which amount may be increased by our board of directors. In connection with his agreement, we also granted him an option to purchase 80,000 shares of our common stock at an exercise price of $1.10 per share which vests ratably over five years from the date of grant. We must provide him with 6 months notice if he is terminated without cause. During this 6 month period, we may provide Mr. Thornton with continued salary payments as severance. In the event of a change of control of Oculus, if Mr. Thornton is terminated, he is entitled to a lump sum severance payment equal to 12 months of his then base salary, and all unvested options and other equity awards will immediately vest in full and remain exercisable for at least 12 months following his termination or, if earlier, the date the option or other equity award expires. Mr. Thornton's agreement also provides him a full gross up of any excise taxes payable by Mr. Thornton under Section 4999 of the Internal Revenue Code because of the foregoing payments and acceleration (including the reimbursement of any additional federal, state and local taxes payable as a result of the gross up).

Equity Compensation Plans

1999 Stock Plan

General. Our 1999 stock plan was adopted by our board of directors and approved by our shareholders in May 1999.

Administration. The compensation committee of our board of directors administers the 1999 stock plan. The 1999 stock plan provides for the granting of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, or Section 422, to employees, officers and employee directors and the granting of nonstatutory stock options and stock purchase rights to employees, officers, directors (including non-employee directors) and consultants. The administrator determines to whom to grant options or stock purchase rights, the number of shares under the options or stock purchase rights, the exercise or purchase price, the fair market value of our common stock, the term of options, which is prohibited from exceeding 10 years (five years in the case of an incentive stock option granted to a shareholder holding more than 10% of the voting shares of our company, or 10% holders) and other terms and conditions. Under our 1999 stock plan, incentive stock options must be granted with an exercise price of at least 100% of the fair market value of our common stock on the date of grant, and nonstatutory options must be granted with an exercise price of at least 85% of the fair market value of our common stock on the date of grant. Incentive stock options and nonstatutory stock options granted to 10% holders must have an exercise price of at least 110% of the fair market value of our common stock on the date of grant. To the extent an optionee would have the right in any calendar year to exercise for the first time one or more incentive stock options for shares having an aggregate fair market value in excess of $100,000, any such excess options would be treated as nonstatutory stock options.

Authorized Shares. Under our 1999 Plan, we have reserved 4,605,000 shares of our common stock for issuance. As of March 31, 2006, 1,894,599 shares of common stock remained available for future issuance under our 1999 stock plan. As of March 31, 2006, options to purchase a total of 1,674,000 shares of common stock were outstanding under the 1999 stock plan at a weighted average exercise price of $0.11 per share. As of June 2006, no shares of our common stock remain available for future issuance under the 1999 stock plan.

Plan Features. Options granted under the 1999 stock plan generally vest at the rate of 20% of the total number of shares subject to the options on each anniversary of the vesting commencement date. No option may be transferred by the optionee other than by will or the laws of descent or distribution. Each option may be exercised during the lifetime of the optionee only by such optionee. Generally, options granted under the 1999 stock plan remain exercisable for 12 months following the termination of service of an optionee by reason of death or disability and remain exercisable for 3 months upon a termination of service for any other reason. The 1999 stock plan provides that in the event of a recapitalization, stock split or similar capital transaction, we will make appropriate adjustments in order to preserve the benefits of options outstanding under the plan. If we are involved in a merger or consolidation, options granted under the 1999 stock plan will

fully vest immediately prior to the effective date of such transaction, unless the surviving or acquiring company assumes or substitutes an equivalent option or right for them.

2000 Stock Plan

General. Our 2000 stock plan was adopted by our board of directors in March 2000 and was subsequently approved by our shareholders in June 2000.

Administration. The compensation committee of our board of directors administers the 2000 stock plan. The 2000 stock plan provides for the granting of incentive stock options within the meaning of Section 422 to employees, officers and employee directors and the granting of nonstatutory stock options and stock purchase rights to employees, officers, directors (including non-employee directors) and consultants. The administrator determines to whom to grant options or stock purchase rights, the number of shares under the options or stock purchase rights, the exercise or purchase price, the fair market value of our common stock, the term of options, which is prohibited from exceeding 10 years (five years in the case of an incentive stock option granted to 10% holders) and other terms and conditions. Under our 2000 stock plan, incentive stock options must be granted with an exercise price of at least 100% of the fair market value of our common stock on the date of grant, and nonstatutory options must be granted with an exercise price of at least 85% of the fair market value of our common stock on the date of grant. Incentive stock options and nonstatutory stock options granted to 10% holders must have an exercise price of at least 110% of the fair market value of our common stock on the date of grant. To the extent an optionee would have the right in any calendar year to exercise for the first time one or more incentive stock options for shares having an aggregate fair market value in excess of $100,000, any such excess options would be treated as nonstatutory stock options.

Authorized Shares. Under our 2000 stock plan, we have reserved 1,395,000 shares of our common stock for issuance. As of March 31, 2006, 1,223,800 shares of common stock remained available for future issuance under our 2000 stock plan. As of March 31, 2006, options to purchase a total of 158,000 shares of common stock were outstanding under the 2000 stock plan at a weighted average exercise price of $0.62 per share. As of June 2006, no shares of our common stock remain available for future issuance under the 2000 stock plan.

Plan Features. Options granted under the 2000 stock plan generally vest at the rate of 20% of the total number of shares subject to the options on each anniversary of the vesting commencement date. No option may be transferred by the optionee other than by will or the laws of descent or distribution. Each option may be exercised during the lifetime of the optionee only by such optionee. Generally, options granted under the 2000 stock plan remain exercisable for 12 months following the termination of service of an optionee by reason of death or disability and remain exercisable for 3 months upon a termination of service for any other reason. The 2000 stock plan provides that in the event of a recapitalization, stock split or similar capital transaction, we will make appropriate adjustments in order to preserve the benefits of options outstanding under the plan. If we are involved in a merger or consolidation, options granted under the 2000 stock plan will fully vest immediately prior to the effective date of such transaction, unless the surviving or acquiring company assumes or substitutes an equivalent option or right for them.

2003 Stock Plan

General. Our 2003 stock plan was adopted by our board of directors and approved by our shareholders in July 2003.

Administration. The compensation committee of our board of directors administers the 2003 stock plan. The 2003 stock plan provides for the granting of incentive stock options within the meaning of Section 422 to employees, officers and employee directors and the granting of nonstatutory stock options and stock purchase rights to employees, officers, directors (including non-employee directors) and consultants. The administrator determines to whom to grant options or stock purchase rights, the number of shares under the options or stock purchase rights, the exercise or purchase price, the fair market value of our common stock, the term of options, which is prohibited from exceeding 10 years (five years in the case of an incentive stock option granted to 10% holders) and other terms and conditions. Under our 2003 stock plan, incentive stock options must be granted with an exercise price of at least 100% of the fair market value of our common stock on the

date of grant, and nonstatutory options must be granted with an exercise price of at least 85% of the fair market value of our common stock on the date of grant. Incentive stock options and nonstatutory stock options granted to 10% holders must have an exercise price of at least 110% of the fair market value of our common stock on the date of grant. To the extent an optionee would have the right in any calendar year to exercise for the first time one or more incentive stock options for shares having an aggregate fair market value in excess of $100,000, any such excess options would be treated as nonstatutory stock options.

Authorized Shares. Under our 2003 stock plan, we have reserved 4,000,000 shares of our common stock for issuance. As of March 31, 2006, 2,626,868 shares of common stock remained available for future issuance under our 2003 stock plan. As of March 31, 2006, options to purchase a total of 1,285,818 shares of common stock were outstanding under the 2003 stock plan at a weighted average exercise price of $0.75 per share. As of June 2006, no shares of our common stock remain available for future issuance under the 2003 stock plan.

Plan Features. Options granted under the 2003 stock plan generally vest at the rate of 20% of the total number of shares subject to the options on each anniversary of the vesting commencement date. No option may be transferred by the optionee other than by will or the laws of descent or distribution. Each option may be exercised during the lifetime of the optionee only by such optionee. Generally, options granted under the 2003 stock plan remain exercisable for 12 months following the termination of service of an optionee by reason of death or disability and remain exercisable for 3 months upon a termination of service for any other reason. The 2003 stock plan provides that in the event of a recapitalization, stock split or similar capital transaction, we will make appropriate adjustments in order to preserve the benefits of options outstanding under the plan. If we are involved in a merger or consolidation, options granted under the 2003 stock plan will fully vest immediately prior to the effective date of such transaction, unless the surviving or acquiring company assumes or substitutes an equivalent option or right for them.

2004 Stock Plan

General. Our 2004 stock plan was adopted by our board of directors and approved by our shareholders in July 2004.

Administration. The compensation committee of our board of directors administers the 2004 stock plan. The 2004 stock plan provides for the granting of incentive stock options within the meaning of Section 422 to employees, officers and employee directors and the granting of nonstatutory stock options to employees, officers, directors (including non-employee directors) and consultants. The administrator determines to whom to grant options, the number of shares under the options, the fair market value of our common stock, the term of options, which is prohibited from exceeding 10 years (five years in the case of an incentive stock option granted to 10% holders) and other terms and conditions. Under our 2004 stock plan, incentive stock options must be granted with an exercise price of at least 100% of the fair market value of our common stock on the date of grant, and nonstatutory options must be granted with an exercise price of at least 85% of the fair market value of our common stock on the date of grant. Incentive stock options and nonstatutory stock options granted to 10% holders must have an exercise price of at least 110% of the fair market value of our common stock on the date of grant. No incentive stock option can be granted to an employee if as a result of the grant, the employee would have the right in any calendar year to exercise for the first time one or more incentive stock options for shares having an aggregate fair market value in excess of $100,000.

Authorized Shares. Under our 2004 stock plan, we have reserved 6,000,000 shares of our common stock for issuance. As of March 31, 2006, 2,201,643 shares of common stock remained available for future issuance under our 2004 stock plan. As of March 31, 2006, options to purchase a total of 3,558,356 shares of common stock were outstanding under the 2004 stock plan at a weighted average exercise price of $1.97 per share. Following the completion of this offering, no shares of our common stock will remain available for future issuance under the 2004 stock plan.

Plan Features. Options granted under the 2004 stock plan generally vest at the rate of 20% of the total number of shares subject to the options on each anniversary of the vesting commencement date. No option may be transferred by the optionee other than by will or the laws of descent or distribution. Each option may be exercised during the lifetime of the optionee only by such optionee. Generally, options granted under the

2004 stock plan remain exercisable for 6 months following the termination of service of an optionee by reason of death or disability and remain exercisable for between 30 days and 3 months upon a termination of service for any other reason. The exercise period for nonstatutory stock options may be extended for 6 months. An optionee must execute a shareholders agreement with us prior to the receipt of shares pursuant to the exercise of options granted under our 2004 stock plan. The 2004 stock plan provides that in the event of a recapitalization, stock split or similar capital transaction, we will make appropriate adjustments in order to preserve the benefits of options outstanding under the plan. If we are involved in a merger or consolidation, options granted under the 2004 stock plan will fully vest immediately prior to the effective date of such transaction, unless the surviving or acquiring company assumes or substitutes an equivalent option for them.

SIMPLE IRA Plan

We sponsor a SIMPLE IRA plan under which employees may choose to make salary reduction contributions, and we make matching contributions up to 3% of the employee's compensation for the year. All contributions are made directly to an individual retirement account established for each employee.

Indemnification Agreements

We intend to enter into new agreements to indemnify our directors and executive officers following our reincorporation in Delaware. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers. Our certificate of incorporation and our bylaws contain provisions that limit the liability of our directors and executive officers to the fullest extent permitted by Delaware law. A description of these provisions is contained under the heading "Description of Common Stock — Limitation of Liability and Indemnification Matters."

We have an insurance policy covering our directors and officers with respect to specified liabilities, including liabilities arising under the Securities Act, or otherwise. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Physician Advisors

We have two physician advisory boards: Business and Medical Advisory Board and Clinical Investigational Board. We rely extensively on our physician advisors to advise on marketing and research and development efforts and provide information and data on the clinical use of our products.

Our Business and Medical Advisory Board assists us in the following:

- prioritizing medical markets in terms of where our product can be the most effective, the speed with which they can be introduced and the scope of the problem in the market;
- prioritizing physician clinical studies;
- identifying clinical studies to be pursued;
- providing introductions to wound care specialists in the United States and Europe;
- advising regarding the success of our products in various market segments;
- reviewing and commenting on the specific protocols being considered;
- providing guidance on how best to educate and encourage the medical community to adopt our product as the standard of care in wound management;
- providing input to potential collaborators on the application and effectiveness of our products; and
- participating in the completion of the physician clinical studies and presenting the results to other physicians.

Our Business and Medical Advisory Board is currently comprised of the following individuals:

Name	Specialty	Position
Don C. Wukasch, M.D.	Cardiovascular Surgery	Fellow, American College of Surgeons and American College of Cardiology
Barnett L. Cline, M.D. M.P.H., Ph.D.	Tropical Medicine	Tulane University Professor of Tropical Medicine, Emeritus; member, Armed Forces Epidemiological Board
Paul L. Schnur, M.D.	Plastic and Reconstructive Surgery	Consultant, Plastic Surgery Division, Mayo Clinic Scottsdale; Associate Professor, University of Arizona, College of Medicine
Bruce C. Wilson, M.D., F.A.C.C.	Cardiology	Fellow, American College of Cardiology; Chairman, Heart Hospital of Milwaukee; Assistant Professor of Medicine, Medical College of Wisconsin
Gerald L. Woolam, M.D.	General Surgery	Professor of Surgery, Texas Tech University
William A. Rutala, Ph.D., M.P.H.	Infectious Disease	Professor, Division of Infectious Diseases, University of North Carolina School of Medicine; Director of Hospital Epidemiology, Occupational Health and Safety Program, University of North Carolina Health Care System
Philip J. Kearney		Assistant United States Attorney

Name	Specialty	Position
David E. Allie, M.D.	Cardiothoracic and Endovascular Surgery	Chief of Cardiothoracic and Endovascular Surgery, Cardiovascular Institute of the South Lafayette; Director, Vascular Surgery and Noninvasive Vascular Labs Houma
Luca Dalla Paola, M.D.	Endrocrinologist and Surgery	Chief of the Diabetic Foot Unit of Presidio Ospedaliero Abano Terme Hospital; Professor, Bologna University School of Medicine

Our Clinical Investigational Board assists us by introducing us to practicing physicians and key opinion leaders in our target markets and conducting physician clinical studies. The Clinical Investigational Board is currently comprised of the following individuals:

Name	Specialty	Position
Gerald Keusch, M.D.	Infectious Disease	Associate Dean of Global Health, Professor of Medicine, Boston University
Richard Marks, M.D.	Foot and Ankle Surgery	Associate Professor of Orthopedic Surgery, Medical College of Wisconsin
Akito Ohmura, M.D., Ph.D.	Anesthesiology	Head of Medical ISO Committee Japan; Dean, Teikyo University School of Medicine

All of our physician advisors serve one or five-year terms. All of our physician advisors are employed by employers other than us and may have commitments or consulting arrangements with other companies, including our competitors, that may limit their availability to consult for us. Although these advisors may contribute significantly to our affairs, we generally do not expect them to devote more than a small portion of their time to us.

Advisory Board Compensation

We pay each of the physicians serving on the Business and Medical Advisory Board a quarterly stipend, except for Dr. Allie. Drs. Cline, Schnur, Woolam, Rutala, Dalla Paola and Wilson each receive $3,000 each quarter. Drs. Wukasch and Wilson receive $6,000 and $12,000, respectively, each quarter. Although Dr. Allie does not receive a quarterly stipend, we paid Dr. Allie $10,000 and issued him 50,000 shares of our common stock as payment for our participation in the 2005 New Cardiovascular Horizons Conference, of which Dr. Allie served as conference co-chairman. In addition, we granted each of our physician advisors, except for Drs. Ohmura and Dalla Paola, warrants to purchase shares of our common stock with a conversion price of $4.50 per share. Drs. Allie, Keusch and Marks each have a warrant to purchase 10,000 shares, Drs. Cline, Schnur, Wilson, Woolam and Rutala each have a warrant to purchase 15,000 shares, and Dr. Wukasch has a warrant to purchase 25,000 shares. We also granted Dr. Ohmura an option to purchase 10,000 shares of our common stock with an exercise price of $0.75 per share. This option will not vest fully until October 2008. We also compensate our medical advisory board members for clinical studies they conduct for us.

RELATED PARTY TRANSACTIONS

We issued promissory notes to Akihisa Akao, one of our directors, in May 1999, December 1999 and February 2003 in the amount of $15,000 bearing interest at a rate of 8% per annum, $200,000 bearing interest at a rate of 8% per annum, and $40,000 bearing interest at a rate of 10% per annum, respectively. These obligations were repaid in October 2004.

We entered into a one year consulting agreement with White Moon Medical, a company formed under the laws of Japan, in October 2005. Mr. Akihisa Akao is the sole stockholder of White Moon Medical. Under the terms of the agreement, White Moon Medical provides us with merger and acquisition strategy and technology support in Asia, particularly in Japan. We have agreed to pay White Moon Medical an annual consulting fee of $146,000, and White Moon Medical is also eligible for additional bonuses. This agreement may be terminated by either party upon 30 days written notice.

We also issued a promissory note to Richard Conley, one of our directors, in February 2003 in the amount of $40,000 bearing interest at a rate of 10% per annum. This note was convertible at any time by Mr. Conley into 40,000 shares of either common stock or series A preferred stock. On June 30, 2005, Mr. Conley converted this note into an aggregate of 40,000 shares of our series A preferred stock at a conversion price of $1.00 per share.

The vesting of options to purchase 580,248 shares of our common stock granted to our directors will be accelerated upon completion of this offering.

In connection with the termination of Robert Miller's prior consulting agreement, we have agreed to grant him a fully-vested option to purchase 240,000 shares of our common stock at $0.75 per share upon completion of this offering.

We intend to enter into indemnification agreements with our directors and executive officers in connection with our reincorporation in Delaware.

PRINCIPAL STOCKHOLDERS

The following table sets forth information as of May 31, 2006 regarding the number of shares and the percentage of common stock beneficially owned before and after the completion of this offering by:

- each of our directors and named executive officers listed above in the summary compensation table; and
- all of our directors and executive officers as a group.

We are not aware of any owners of more than 5% of our common stock other than Messrs. Alimi and Akao. We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

For purposes of the table below, we have assumed that 16,875,928 shares of common stock are issued and outstanding prior to the completion of this offering and shares of common stock issued and outstanding upon completion of this offering. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of common stock subject to all derivative securities held by that person that are currently exercisable or exercisable within 60 days of May 31, 2006 and shares of common stock subject to options that vest upon completion of this offering. We did not deem these shares outstanding; however, for the purpose of computing the percentage ownership of any other person.

Name of Beneficial Owner(1)	Number of Shares Beneficially Owned	Percentage of Shares Outstanding	
		Before the Offering	After the Offering
Hojabr Alimi(2)	5,741,283	34.0%	
Robert Miller(3)	775,256	4.6%	
James Schutz(4)	245,000	1.5%	
Theresa Mitchell(5)	40,000	0.2%	
Bruce Thornton(6)	34,666	0.2%	
Akihisa Akao(7)	2,156,283	12.8%	
Edward Brown(8)	200,000	1.2%	
Richard Conley(9)	746,283	4.4%	
Gregory French(10)	241,283	1.4%	
All directors and executive officers as a group (10 persons) (11)	10,180,054	60.3%	

* Represents beneficial ownership of less than 1%.

(1) Unless otherwise noted, the address of each beneficial owner listed in the table is: c/o Oculus Innovative Sciences, Inc., 1129 N. McDowell Boulevard, Petaluma, California 94954.

(2) Includes 1,674,971 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006.

(3) Includes 295,256 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006, 240,000 shares issuable upon exercise of options to be granted upon completion of this offering and 200,000 shares held by The Miller 2005 Grandchildren's Trust, for which Mr. Miller is a trustee.

(4) Includes 230,000 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006 and 15,000 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

(5) Consists of 40,000 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006.

(6) Consists of 34,666 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006.

(7) Includes 35,314 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006.

(8) Upon completion of this offering, options to purchase 200,000 shares will become exercisable.

(9) Includes 554,971 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006 and 31,312 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

(10) Includes 67,314 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006 and 31,312 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

(11) Includes 2,932,492 shares issuable upon exercise of options that are exercisable within 60 days of May 31, 2006 and 580,248 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

DESCRIPTION OF CAPITAL STOCK

General

Upon completion of this offering, our authorized capital stock will consist of 100,000,000 shares of common stock, $0.0001 par value per share, and 5,000,000 shares of preferred stock, $0.0001 par value per share. The following describes our common stock and preferred stock and certain provisions of our certificate of incorporation and our bylaws as will be in effect upon the completion of this offering and assumes our reincorporation in Delaware.

Common Stock

As of May 31, 2006, there were 16,875,928 shares of common stock outstanding held by approximately stockholders of record assuming the automatic conversion of each outstanding share of preferred stock upon the closing of this offering.

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. We have not provided for cumulative voting for the election of directors in our certificate of incorporation. This means that the holders of a majority of the shares voted can elect all of the directors then standing for election. Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available at the times and in the amounts that our board of directors may determine from time to time.

Holders of common stock have no preemptive or conversion rights or other subscription rights. Upon our liquidation, dissolution or winding-up, the holders of common stock are entitled to share in all assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock. Each outstanding share of common stock is and all shares of common stock to be issued in this offering, when they are paid for will be, fully paid and nonassessable.

Preferred Stock

Upon completion of this offering, our board of directors will be authorized, subject to limitations imposed by Delaware law, to issue up to a total of 5,000,000 shares of preferred stock in one or more series, without stockholder approval. Our board is authorized to establish from time to time the number of shares to be included in each series, and to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions. Our board can also increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

The board may authorize the issuance of preferred stock with voting or conversion rights that could harm the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of us and might harm the market price of our common stock and the voting and other rights of the holders of common stock. We have no current plans to issue any shares of preferred stock.

Registration Rights

Upon completion of this offering, the holders of 17,287,522 shares of common stock issued upon conversion of the preferred stock and preferred stock warrants will be entitled to contractual rights to require us to register those shares under the Securities Act. If we propose to register any of our securities under the Securities Act for our own account or the account of a security holder, other than on a Form S-8, holders of those shares are entitled to include their shares in our registration, provided, among other conditions, that the underwriters of any such offering have the right to limit the number of shares included in the registration. Six months after the effective date of the registration statement of which this prospectus is a part, and subject to

limitations and conditions specified in the investor rights agreement with the holders, holders of a majority of the shares of common stock issued upon conversion of the preferred stock may require us to prepare and file a registration statement under the Securities Act at our expense covering those shares. We are not obligated to effect more than one of these stockholder-initiated registrations.

Upon completion of this offering, the holders of 352,804 shares of common stock issued upon conversion of the preferred stock issued pursuant to the exercise of warrants will be entitled to contractual rights to require us to register those shares under the Securities Act. If we propose to register any of our securities under the Securities Act for our own account or the account of a security holder, other than on a Form S-8, on a form in which the common stock issued upon conversion of the preferred stock may be included, holders of those shares are entitled to include their shares in our registration, provided, among other conditions, that the underwriters of any such offering have the right to limit the number of shares included in the registration. Six months after the effective date of the registration statement of which this prospectus is a part, and subject to limitations and conditions specified in the investor rights agreement or managing dealer warrant agreement with the holders, holders of a majority of the shares of common stock issued upon conversion of the preferred stock issued pursuant to the exercise of warrants may require us to prepare and file a registration statement under the Securities Act at our expense covering those shares. We are not obligated to effect more than one of these stockholder-initiated registrations.

Upon completion of this offering, the holders of 3,429,592 shares of common stock issued upon the exercise of warrants will be entitled to contractual rights to require us to register those shares under the Securities Act. If we propose to register any of our securities under the Securities Act for our own account, holders of those shares are entitled to include their shares in our registration, provided, among other conditions, that the underwriters of any such offering have the right to limit the number of shares included in the registration.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

The provisions of Delaware law, our certificate of incorporation and our bylaws described below may have the effect of delaying, deferring or discouraging another party from acquiring control of us.

Delaware Law

We will be subject to the provisions of Section 203 of the Delaware General Corporation Law, or Delaware law, regulating corporate takeovers. In general, these provisions prohibit a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder is approved by our board of directors before the date the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or after that date, the business combination is approved by our board of directors and authorized at a meeting of stockholders, and not by written consent, by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines “business combination” to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;

- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder:
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

A Delaware corporation may opt out of this provision either with an express provision in its original certificate of incorporation or in an amendment to its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out of this provision. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Charter and Bylaws

Following the completion of this offering, our certificate of incorporation and bylaws will provide that:

- no action can be taken by stockholders except at an annual or special meeting of the stockholders called in accordance with our bylaws, and stockholders may not act by written consent;
- our board of directors will be expressly authorized to make, alter or repeal our bylaws;
- stockholders may not call special meetings of the stockholders or fill vacancies on the board;
- our board of directors will be divided into three classes serving staggered three-year terms, with one class of directors being elected at each annual meeting of stockholders and the other classes continuing for the remainder of their respective terms;
- our board of directors will be authorized to issue preferred stock without stockholder approval; and
- we will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

In addition, so long as a single or related group of stockholders continue to own at least one-third of our outstanding common stock, a transaction between us and any person or entity in which such stockholder or stockholders have a material interest, if required under applicable federal and state law or Nasdaq rules to be approved by our stockholders, will require approval of a majority of the outstanding shares not held by such interested stockholders present in person or by proxy at the meeting of stockholders held with respect to such transaction.

Limitation of Liability and Indemnification Matters

We intend to adopt provisions in our certificate of incorporation and bylaws that limit the liability of our directors for monetary damages for breach of their fiduciary duty as directors, except for liability that cannot be eliminated under Delaware law. Under Delaware law, our directors have a fiduciary duty to us which will not be eliminated by this provision in our certificate of incorporation. In addition, each of our directors will continue to be subject to liability under Delaware law for breach of the director's duty of loyalty to us for acts or omissions which are found by a court of competent jurisdiction to be not in good faith or which involve intentional misconduct or knowing violations of law for actions leading to improper personal benefit to the director and for payment of dividends or approval of stock repurchases or redemptions that are prohibited by

Delaware law. This provision does not affect the directors' responsibilities under any other laws, such as the Federal securities laws.

Delaware law permits a corporation to not hold its directors personally liable for monetary damages for breach of their fiduciary duty as directors, except for liability for the following:

- any breach of the director's duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

This limitation of liability does not apply to liabilities arising under the federal or state securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission. Any amendment or repeal of these provisions requires the approval of the holders of shares representing at least two-thirds of our shares entitled to vote in the election of directors, voting as one class.

Delaware law provides that the indemnification permitted thereunder shall not be deemed exclusive of any other rights to which the directors and officers may be entitled under our bylaws, any agreement, and a vote of stockholders or otherwise. Our restated certificate of incorporation and bylaws will eliminate the personal liability of directors to the maximum extent permitted by Delaware law. In addition, our certificate of incorporation and bylaws will provide that we may fully indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (whether civil, criminal, administrative or investigative) by reason of the fact that such person is or was one of our directors, officers, employees or other agents, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding.

We have entered into separate indemnification agreements with our directors and executive officers that could require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. We believe that the limitation of liability provision in our certificate of incorporation and the indemnification agreements will facilitate our ability to continue to attract and retain qualified individuals to serve as directors and officers. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions, regardless of whether Delaware law would permit indemnification. We have purchased liability insurance for our officers and directors.

At present, there is no pending litigation or proceeding involving any director, officer, employee or agent as to which indemnification will be required or permitted under our certificate of incorporation. We are not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

Nasdaq Symbol

We have applied for quotation of our common stock on the Nasdaq National Market under the symbol "OCLS."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is .

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock. We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. As described below, only a limited number of shares will be available for sale shortly after this offering due to contractual and legal restrictions on resale. Nevertheless, sales of our common stock in the public market after the restrictions lapse, or the perception that those sales may occur, could cause the prevailing market price to decrease or to be lower than it might be in the absence of those sales of perceptions and could impair our ability to obtain future capital.

Sale of Restricted Shares

Upon completion of this offering, we will have outstanding shares of common stock, assuming outstanding options or warrants are not exercised prior to the completion of this offering. Of these outstanding shares, all of the shares of common stock being sold in this offering will be freely tradable, other than by any of our "affiliates" as defined in Rule 144(a) under the Securities Act, without restriction or registration under the Securities Act. All remaining shares were issued and sold by us in private transactions and are eligible for public sale only if registered under the Securities Act or sold in accordance with Rule 144 or Rule 701 under the Securities Act. These remaining shares are "restricted shares" within the meaning of Rule 144 under the Securities Act.

Lock-Up Agreements

Our directors and executive officers and certain of our other stockholders who collectively hold an aggregate of shares, or % of our outstanding common stock, have agreed that they will not sell any common stock owned by them without the prior written consent of A.G. Edwards & Sons, Inc. and Jefferies & Company, Inc. for a period of at least 180 days after the date of this prospectus. To the extent shares are released before the expiration of the lock-up period and these shares are sold into the market, the market price of our common stock could decline. As a result of the lock-up agreements described above and the provisions of Rules 144, 144(k) and 701, the restricted shares will be available for sale in the public market as follows:

- shares will be eligible for sale immediately following the date of this prospectus;
- shares will be eligible for sale upon the expiration of the lock-up agreements, described above, beginning 180 days after the date of this prospectus; and
- shares will be eligible for sale upon the exercise of vested options, beginning 180 days after the date of this prospectus.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person deemed to be our affiliate, or a person holding restricted shares who beneficially owns shares that were not acquired from us or any of our affiliates within the previous one year, unless Rule 144(k) is available as described below, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock, or approximately shares immediately after this offering, assuming no exercise of the underwriters' over-allotment option; and
- the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales under Rule 144, however, are subject to specific manner of sale provisions, notice requirements and the availability of current public information about our company. We cannot estimate the number of shares of

common stock our existing stockholders will sell under Rule 144 as this will depend on the market price of our common stock, the personal circumstances of the stockholders and other factors.

Rule 144(k)

Under Rule 144(k), in general, a stockholder who has beneficially owned shares of our common stock for at least two years and who is not deemed to have been an affiliate of our company at any time during the immediately preceding 90 days may sell shares without complying with the manner of sale provisions, notice requirements, public information requirements or volume limitations of Rule 144.

Rule 701

Subject to various limitations on the aggregate offering price of a transaction and other conditions, Rule 701 may be relied upon with respect to the resale of securities originally purchased from us by our employees, directors, officers, consultants or advisers prior to the completion of this offering, pursuant to written compensatory benefit plans or written contracts relating to the compensation of such persons. In addition, the SEC has indicated that Rule 701 will apply to stock options granted by us before this offering, along with the shares acquired upon exercise of those options. Securities issued in reliance on Rule 701 are deemed to be restricted shares and, beginning 90 days after the date of this prospectus, unless subject to the contractual restrictions described above, shares may be sold by persons other than affiliates subject only to the manner of sale provisions of Rule 144 and shares may be sold by affiliates under Rule 144 without compliance with the one-year minimum holding period requirements.

Stock Options

We intend to file a registration statement on Form S-8 under the Securities Act covering approximately shares of common stock reserved for issuance under our stock option plans. Accordingly, the shares of common stock registered under this registration statement will be available for sale in the open market upon exercise by the holders, unless those shares are subject to vesting restrictions with us or the contractual restrictions described above.

Registration Rights

In addition, upon completion of this offering, the holders of approximately 15,934,718 shares of common stock will be entitled to cause us to register the sale of those shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares, other than shares purchased by our affiliates, becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. See “Description of Capital Stock — Registration Rights.”

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement among us and the underwriters, each underwriter has severally agreed to purchase from us the following respective number of shares of common stock at the offering price less the underwriting discount set forth on the cover page of this prospectus.

Underwriter	Shares
A.G. Edwards & Sons, Inc.	
Jefferies & Company, Inc.	
First Albany Capital Inc.	
C.E. Unterberg, Towbin, LLC	
Total	

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions precedent and that the underwriters will purchase all such shares of the common stock if any of these shares are purchased. The underwriters are obligated to take and pay for all of the shares of common stock offered hereby, other than those covered by the over-allotment option described below, if any are taken.

The underwriters have advised us that they propose to offer the shares of common stock to the public at the offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession not in excess of $ per share. The underwriters may allow, and such dealers may re-allow, a concession not in excess of $ per share to certain other dealers. If all the shares are not sold at the initial offering price, the underwriters may change the offering price and other selling terms.

Pursuant to the underwriting agreement, we have granted to the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to additional shares of common stock from us, at the offering price, less the underwriting discount set forth on the cover page of this prospectus, solely to cover over-allotments.

To the extent that the underwriters exercise such option, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to the underwriter's name in the preceding table bears to the total number of shares in the table, and we will be obligated, pursuant to the option, to sell such shares to the underwriters.

We, our directors and executive officers and certain of our other stockholders have agreed that during the 180-day period after the date of this prospectus, subject to limited exceptions, we and they will not, without the prior written consent of A.G. Edwards & Sons, Inc. and Jefferies & Company, Inc., directly or indirectly, issue, sell, offer, agree to sell, grant any option or contract for the sale of, pledge, make any short sale of, maintain any short position with respect to, establish or maintain a "put equivalent option" (within the meaning of Rule 16a-1(h) under the Exchange Act) with respect to, enter into any swap, derivative transaction or other arrangement (whether any such transaction is to be settled by delivery of common stock, other securities, cash or other consideration) that transfers to another, in whole or in part, any of the economic consequences of ownership, or otherwise dispose of, any shares of our common stock (or any securities convertible into, exercisable for or exchangeable for our common stock or any interest therein or any capital stock of our subsidiary). These lock-up agreements will cover approximately % of our outstanding common stock in the aggregate. A.G. Edwards & Sons, Inc. or Jefferies & Company, Inc. may, in each of their sole discretion, allow any of these parties to dispose of common stock or other securities prior to the expiration of the 180-day period. There are, however, no agreements between A.G. Edwards & Sons, Inc. or Jefferies & Company, Inc. and the parties that would allow them to do so as of the date of this prospectus.

The 180-day restricted period described above is subject to extension such that, in the event that either (1) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to us occurs or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, the "lock-up" restrictions described above will, subject to limited exceptions, continue to apply until the

expiration of the 18-day period beginning on the date of issuance of the earnings release or the occurrence of the material news or material event.

Prior to the offering, there has been no public market for the common stock. The initial public offering price for the shares of common stock included in this offering will be determined by negotiation among us and the representatives. Among the factors considered in determining the price will be:

- the history of and prospects for our business and the industry in which we operate;
- an assessment of our management;
- our past and present revenues and earnings;
- the prospects for growth of our revenues and earnings; and
- currently prevailing conditions in the securities markets, including current market valuations of publicly traded companies which are comparable to us.

The representatives have advised us that they do not intend to confirm sales to any account over which they exercise discretionary authority.

The following table summarizes the discounts and commissions to be paid to the underwriters by us in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	Total	
	No Exercise	**Full Exercise**
Per Share	$	$
Total	$	$

We expect to incur expenses of approximately $ million in connection with this offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Until the distribution of the common stock is completed, rules of the Securities and Exchange Commission may limit the ability of the underwriters and certain selling group members to bid for and purchase the common stock. As an exception to these rules, the underwriters are permitted to engage in certain transactions that stabilize, maintain or otherwise affect the price of the common stock.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate coving transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment transactions involve sales by the underwriters of the shares of common stock in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares of common stock in the open market.
- Syndicate covering transactions involve purchases of the shares of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of the shares of common stock to close out the short position, the underwriters will consider, among other things, the price of shares of common stock available for purchase in the open market as

compared to the price at which they may purchase shares of common stock through the over-allotment option. If the underwriters sell more shares of common stock than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares of common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares of common stock in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit representatives to reclaim a selling concession from a syndicate member when the shares of common stock originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the shares of common stock or preventing or retarding a decline in the market price of the shares of common stock. As a result, the price of the shares of common stock may be higher than the price that might otherwise exist in the open market.

The underwriters will deliver a prospectus to all purchasers of shares of common stock in the short sales. The purchases of shares of common stock in short sales are entitled to the same remedies under the federal securities laws as any other purchaser of shares of common stock covered by this prospectus.

Passive market making may stabilize or maintain the market price of our common stock at a level above that which might otherwise prevail and, if commenced, may be discontinued at any time.

The underwriters are not obligated to engage in any of the transactions described above. If they do engage in any of these transactions, they may discontinue them at any time.

We have applied to list the common stock on the Nasdaq National Market under the symbol "OCLS."

From time to time in the ordinary course of their respective businesses, some of the underwriters and their affiliates may in the future engage in commercial banking or investment banking transactions with our affiliates and us.

No Public Offering Outside the United States

No action has been or will be taken in any jurisdiction (except in the United States) that would permit a public offering of our shares or the possession, circulation or distribution of this prospectus or any other material relating to use or our shares in any jurisdiction where action for that purpose is required. Accordingly, our shares may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with our shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the shares offered by this prospectus may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price on the cover page of this prospectus.

LEGAL MATTERS

The validity of the shares of our common stock offered by this prospectus will be passed upon for us by Pillsbury Winthrop Shaw Pittman LLP, Palo Alto, California. Selected legal matters relating to the offering will be passed upon for the underwriters by Latham & Watkins LLP, Menlo Park, California.

EXPERTS

Our consolidated financial statements as of March 31, 2005 and 2006 and for each of the three years in the period ended March 31, 2006 included in this prospectus have been so included in reliance on the report

of Marcum & Kliegman LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

On April 12, 2006, the Audit Committee of our board of directors approved the dismissal of PricewaterhouseCoopers LLP, or PWC, as our independent registered public accounting firm and subsequently appointed Marcum & Kliegman LLP as our independent registered public accounting firm.

We will request that PWC furnish a letter addressed to the Securities and Exchange Commission stating whether PWC believes any events requiring disclosure under Item 304 of Regulation S-K have occurred. A copy of their letter will be filed as an exhibit to the registration statement of which this prospectus forms a part.

PWC did not issue a report on our financial statements for the years ended March 31, 2004 or 2005 or for the period through April 12, 2006.

We did not consult with Marcum & Kliegman LLP on any accounting or financial reporting matters in the periods prior to their appointment.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement under the Securities Act with respect to the common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Please refer to the registration statement, exhibits and schedules for further information with respect to the common stock offered by this prospectus. Statements contained in this prospectus regarding the contents of any contract or other documents are not necessarily complete. With respect to any contract or document filed as an exhibit to the registration statement, you should refer to the exhibit for a copy of the contract or document, and each statement in this prospectus regarding that contract or document is qualified by reference to the exhibit. A copy of the registration statement and its exhibits and schedules may be inspected without charge at the SEC's public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-202-551-8090 for further information on the public reference room. Our SEC filings, including the registration statement, are also available to the public on the SEC's website at www.sec.gov.

Upon completion of this offering, we will be subject to the information and reporting requirements of the Exchange Act and, in accordance therewith, will file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information will be available for inspection at the public reference room and website of the SEC referred to above.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Oculus Innovative Sciences, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Oculus Innovative Sciences, Inc. and Subsidiaries (the "Company") as of March 31, 2005 and 2006, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended March 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oculus Innovative Sciences, Inc. and Subsidiaries, as of March 31, 2005 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2006 in conformity with United States generally accepted accounting principles.

/s/ Marcum & Kliegman llp

New York, New York
June 21, 2006

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	March 31, 2005	March 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,287	$ 7,448
Accounts receivable, net	227	1,076
Inventories	868	317
Prepaid expenses and other current assets	499	1,386
Total current assets	4,881	10,227
Property and equipment, net	1,959	1,940
Notes receivable	55	—
Restricted cash	45	44
Deferred offering costs	—	478
Total assets	$ 6,940	$ 12,689
LIABILITIES		
Current liabilities:		
Accounts payable	$ 906	$ 2,774
Accrued expenses and other current liabilities	2,335	1,686
Dividend payable	—	121
Current portion of long-term debt	950	504
Current portion of capital lease obligations	27	15
Total current liabilities	4,218	5,100
Long-term debt, less current portion	460	210
Capital lease obligations, less current portion	60	41
Total liabilities	4,738	5,351
Commitments, Contingencies and Other Matters		
Stockholders' Equity		
Convertible preferred stock, no par value; 30,000,000 shares authorized, Series A 5,351,244 and 5,391,244 shares issued and outstanding at March 31, 2005 and 2006, respectively	6,628	6,668
Series B 4,056,568 and 10,543,474 shares issued and outstanding at March 31, 2005 and 2006, respectively	16,696	43,722
Common stock, no par value; 100,000,000 shares authorized, 15,658,614 and 16,875,928 shares issued and outstanding at March 31, 2005 and 2006, respectively	3,101	3,399
Additional paid-in capital	3,674	4,644
Deferred compensation	(676)	(798)
Accumulated other comprehensive (loss) income	(141)	3
Accumulated deficit	(27,080)	(50,300)
Total stockholders' equity	2,202	7,338
Total liabilities and stockholders' equity	$ 6,940	$ 12,689

The accompanying footnotes are an integral part of these consolidated financial statements.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended March 31,		
	2004	2005	2006
Revenues			
Product	$ 95	$ 473	$ 1,966
Service	807	883	618
Total revenues	902	1,356	2,584
Cost of revenues			
Product	1,403	2,211	3,899
Service	1,265	1,311	1,003
Total cost of revenues	2,668	3,522	4,902
Gross loss	(1,766)	(2,166)	(2,318)
Operating expenses			
Research and development	1,413	1,654	2,600
Selling, general and administrative	3,918	12,492	15,933
Total operating expenses	5,331	14,146	18,533
Loss from operations	(7,097)	(16,312)	(20,851)
Interest expense	(178)	(372)	(172)
Interest income	3	8	282
Other income (expense), net	(26)	146	(377)
Net loss from continuing operations	(7,298)	(16,530)	(21,118)
Discontinued operations			
Loss from operations of discontinued business	—	—	(818)
Loss on disposal of discontinued business	—	—	(1,163)
Loss on discontinued operations	—	—	(1,981)
Net loss	(7,298)	(16,530)	(23,099)
Preferred stock dividends	—	—	(121)
Net loss available to common stockholders	$ (7,298)	$ (16,530)	$ (23,220)
Net loss per common share: basic and diluted			
Continuing operations	$ (0.47)	$ (1.06)	$ (1.28)
Discontinued operations	—	—	(0.12)
	$ (0.47)	$ (1.06)	$ (1.40)
Weighted-average number of shares used in per common share calculations:			
Basic and diluted	15,647	15,659	16,602
Other comprehensive loss, net of tax			
Net loss	$ (7,298)	$ (16,530)	$ (23,099)
Foreign currency translation adjustments	(14)	(127)	144
Comprehensive loss	$ (7,312)	$ (16,657)	$ (22,955)

The accompanying footnotes are an integral part of these consolidated financial statements.

OCULUS INNOVATIVE SCIENCES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands, except share amounts)

	Convertible Preferred Stock										
	Series A		Series B		Common Stock		Additional Paid in Capital	Deferred Stock-Based Compen-sation	Accumu-lated Other Compre-hensive Income	Accum-ulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, April 1, 2003	—	—	—	—	15,435,112	$ 2,892	$ 286	$ (5)	—	$ (3,252)	$ (79)
Issuance of common stock, net of offering costs	—	—	—	—	101,500	203	—		—	—	203
Issuance of common stock upon exercise of stock options	—	—	—	—	122,000	6			—	—	6
Deferred stock-based compensation	—	—	—	—	—	—	233	(233)	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	—	—	30	—	—	30
Non-employee stock-based compensation	—	—	—	—	—	—	7	—	—	—	7
Issuance of common stock warrants in exchange for services	—	—	—	—	—	—	44	—	—	—	44
Reclassification of options subject to cash settlement	—	—	—	—	—	—	3	—	—	—	3
Issuance of common stock warrants in connection with debt financing	—	—	—	—	—	—	88	—	—	—	88
Issuance of Series A convertible preferred stock, net of offering costs	5,351,244	$ 6,628	—	—	—	—	—	—	—	—	6,628
Translation adjustment	—	—	—	—	—	—	—	—	(14)	—	(14)
Net loss	—	—	—	—	—	—	—	—	—	(7,298)	(7,298)
Balance, March 31, 2004	5,351,244	6,628			15,658,612	3,101	661	(208)	(14)	(10,550)	(382)
Issuance of common stock upon exercise of stock options	—	—	—	—	2	—	—	—	—	—	
Deferred stock-based compensation	—	—	—	—	—	—	2,765	(2,765)	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	—	—	2,297	—	—	2,297
Non-employee stock-based compensation	—	—	—	—	—	—	30	—	—	—	30
Reclassification of options subject to cash settlement	—	—	—	—	—	—	113	—	—	—	113
Issuance of common stock warrants in connection with debt financing	—	—	—	—	—	—	28	—	—	—	28
Issuance of Series A convertible preferred stock warrants in connection with debt financing	—	—	—		—	—	77	—	—	—	77

OCULUS INNOVATIVE SCIENCES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands, except share amounts)

	Convertible Preferred Stock										
	Series A		Series B		Common Stock		Additional Paid in Capital	Deferred Stock-Based Compen-sation	Accumu-lated Other Compre-hensive Income	Accum-ulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
Issuance of Series B convertible preferred stock, net of offering costs	—	—	4,056,568	16,696	—	—	—	—	—	—	16,696
Translation adjustment	—	—	—	—	—	—	—	—	(127)	—	(127)
Net loss	—	—	—	—	—	—	—	—	—	(16,530)	(16,530)
Balances, March 31, 2005	5,351,244	$ 6,628	4,056,568	$ 16,696	15,658,614	$ 3,101	$ 3,674	$ (676)	$ (141)	$(27,080)	$ 2,202
Issuance of common stock upon exercise of stock options	—	—	—	—	1,167,314	298	—	—	—	—	298
Deferred stock-based compensation	—	—	—	—	—	—	401	(401)	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	—	—	279	—	—	279
Non-employee stock-based compensation	—	—	—	—	—	—	32	—	—	—	32
Issuance of common stock warrants in exchange for services	—	—	—	—	—	—	153	—	—	—	153
Issuance of common stock in exchange for services	—	—	—	—	50,000	—	127	—	—	—	127
Reclassification of options subject to cash settlement	—	—	—	—	—	—	257	—	—	—	257
Issuance of Series B convertible preferred stock, net of offering costs	—	—	6,486,906	27,026	—	—	—	—	—	—	27,026
Issuance of Series A convertible preferred stock in connections with convertible debt	40,000	40	—	—	—	—	—	—	—	—	40
Dividend payable to Series A preferred stockholders	—	—	—	—	—	—	—	—	—	(121)	(121)
Translation adjustment	—	—	—	—	—	—	—	—	144	—	144
Net loss	—	—	—	—	—	—	—	—	—	(23,099)	(23,099)
Balance, March 31, 2006	5,391,244	$ 6,668	10,543,474	$ 43,722	16,875,928	$ 3,399	$ 4,644	$ (798)	$ 3	$(50,300)	$7,338

The accompanying footnotes are an integral part of these consolidated financial statements.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended March 31,		
	2004	2005	2006
Cash flows from operating activities:			
Net loss from continuing operations	$ (7,298)	$ (16,530)	$ (21,118)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:			
Depreciation and amortization	163	434	651
Stock-based compensation	424	2,349	597
Non-cash interest expense	37	131	21
Loss on disposal of assets	10	2	113
Changes in operating assets and liabilities			
Accounts receivable, net of doubtful accounts	(195)	217	(849)
Inventory	(119)	(748)	551
Prepaid expenses and other current assets	(163)	(278)	(887)
Accounts payable	857	(165)	1,868
Accrued expenses and other current liabilities	726	1,055	(649)
Net cash used in operating activities	(5,558)	(13,533)	(19,702)
Cash flows from investing activities:			
Purchases of property and equipment	(982)	(1,042)	(475)
Issuance of note receivable	—	(55)	55
Changes in restricted cash	(25)	(21)	1
Deferred offering costs	—	—	(478)
Net cash used in investing activities	(1,007)	(1,118)	(897)
Cash flows from financing activities:			
Proceeds from the issuance of common stock	203	—	—
Issuance of common stock upon exercise of stock options	6	—	298
Proceeds from the issuance of preferred stock	6,628	16,696	27,026
Proceeds from issued debt	574	1,205	257
Principal payments on debt	(106)	(664)	(953)
Payments on capital leases	(34)	(41)	(31)
Net cash provided by financing activities	7,271	17,196	26,597
Cash flows from discontinued operations			
Operating cash flows	—	—	(818)
Investing cash flows	—	—	(1,163)
Net cash used in discontinued operations	—	—	(1,981)
Effect of exchange rate on cash and cash equivalents	(14)	(127)	144
Net increase (decrease) in cash and cash equivalents	692	2,418	4,161
Cash and equivalents, beginning of period	177	869	3,287
Cash and equivalents, end of period	$ 869	$ 3,287	$ 7,448
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 134	$ 221	$ 125
Equipment purchased under capital leases	$ 40	$ 37	$ —
Conversion of note into Series A preferred stock	$	$	$ 40

The accompanying footnotes are an integral part of these consolidated financial statements.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — The Company

Oculus Innovative Sciences, Inc. (the "Company") was incorporated under the laws of the State of California in April 1999. The Company's principal office is located in Petaluma, California. The Company develops, manufactures and markets a family of products intended to prevent and eliminate infection in acute and chronic wounds. The Company's platform technology, Microcyn, is a non-toxic, superoxidized water-based solution that is designed to eliminate a wide range of bacteria, viruses, fungi and spores without promoting the development of resistant strains of pathogens. The Company conducts its business worldwide, with subsidiaries in Europe and Mexico.

NOTE 2 — Liquidity and Financial Condition

The Company incurred net losses of $7,298,000, $16,530,000 and $23,099,000 for the years ended March 31, 2004, 2005 and 2006, respectively. At March 31, 2006, the Company's accumulated deficit amounted to $50,300,000.

During the years ended March 31, 2004, 2005 and 2006, the Company raised, net of offering costs, an aggregate of $6,837,000, $16,696,000 and $27,324,000, respectively in various equity financing transactions that, together with the proceeds of certain debt financing transactions, enabled it to sustain operations while attempting to execute its business plan. The Company had $5,127,000 of working capital as of March 31, 2006. In addition, the Company entered into a $5,000,000 credit facility to be used to fund its operations, and invest in new equipment in June 2006 (Note 18).

The Company's ability to continue its operations is dependent upon its ability to raise additional capital and generate revenue and operating cash flow through the execution of its business plan. The Company is also in the process of effectuating an initial public offering ("IPO") of its equity securities. The Company's Board of Directors and stockholders have also approved an amendment to the Articles of Incorporation to authorize the issuance of up to 3,500,000 shares of Series C convertible preferred stock. The Company cannot provide any assurance that it will successfully raise any capital as a result of the authorization to issue these shares.

Management believes the Company's current level of working capital and the additional funds it expects to generate from operations will sustain the business through March 31, 2007. However, the Company cannot provide any assurance that unforeseen circumstances will not require it to raise additional capital and/or make operational changes in the business to conserve liquidity. If the Company's liquidity circumstances change materially from management's plan at any time during the year ending March 31, 2007, it could be required to curtail certain activities to reduce costs in order to sustain the business. In the event that the Company is required to raise additional capital, the Company cannot provide any assurance that it will successfully secure any commitments for new financing on acceptable terms, if at all.

NOTE 3 — Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Aquamed Technologies, Inc., Oculus Technologies of Mexico C.V. ("OTM"), and Oculus Innovative Sciences B.V. ("OIS Europe"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements are presented in United States Dollars in accordance with Statement of Financial Accounting Standard ("SFAS") No. 52, "Foreign Currency Translation." ("SFAS 52"). The Company's subsidiary OTM uses the local currency (Mexican Pesos) as its functional currency and OIS Europe uses the local currency (Euro) as its functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date and revenue and expense accounts are translated at average

exchange rates during the period. Resulting translation adjustments are recorded directly to accumulated other comprehensive (loss) income.

The Company, in determining whether it is required to consolidate investee businesses, considers both the voting and variable interest models of consolidation as required under Financial Accounting Standards Board ("FASB") Interpretation No. 46(R) "Consolidation of Variable Interest Entities," ("FIN 46(R)"). Accordingly the Company consolidates investee entities when it owns less than 50% of the voting interests but, based on the risks and rewards of its participation, has established financial control. As described in Note 17, the Company's consolidated financial statements include the results of a variable interest entity that is being presented as a discontinued operation in accordance with SFAS No. 144 "Accounting for the Impairment and Disposal of Long Lived Assets."

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. These estimates and assumptions include revenue recognition reserves and write-downs related to receivables and inventories, the recoverability of long-term assets, deferred taxes and related valuation allowances and valuation of equity instruments.

Revenue Recognition

The Company generates revenue from sales of its products to hospitals, medical centers, doctors, pharmacies, distributors and partners. The Company sells its products directly to third parties and to distributors through various cancelable distribution agreements. The Company has also entered into an agreement to license its products.

The Company also provides regulatory compliance testing and quality assurance services to medical device and pharmaceutical companies.

The Company applies the revenue recognition principles set forth in Securities and Exchange Commission Staff Accounting Bulletin ("SAB") 104 "Revenue Recognition" with respect to all of its revenue. Accordingly, the Company records revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectability of the sale is reasonable assured.

The Company requires all of its product sales to be supported by evidence of a sale transaction that clearly indicates the selling price to the customer, shipping terms and payment terms. Evidence of an arrangement generally consists of a contract or purchase order approved by the customer. The Company has ongoing relationships with certain customers from which it customarily accepts orders by telephone in lieu of a purchase order.

The Company recognizes revenue at the time in which it receives a confirmation that the goods were either tendered at their destination when shipped "FOB destination," or transferred to a shipping agent when shipped "FOB shipping point." Delivery to the customer is deemed to have occurred when the customer takes title to the product. Generally, title passes to the customer upon shipment, but could occur when the customer receives the product based on the terms of the agreement with the customer.

The selling prices of all goods that the Company sells are fixed, and agreed to with the customer, prior to shipment. Selling prices are generally based on established list prices. The Company does not customarily permit its customers to return any of its products for monetary refunds or credit against completed or future sales. The Company, from time to time, may replace expired goods on a discretionary basis. The Company

records these types of adjustments, when made, as a reduction of revenue. Sales adjustments were insignificant during the years ended March 31, 2004, 2005 and 2006, respectively.

The Company evaluates the creditworthiness of new customers and monitors the creditworthiness of its existing customers to determine whether events or changes in their financial circumstances would raise doubt as to the collectability of a sale at the time in which a sale is made. Payment terms on sales made in the United States are generally 30 days and internationally, generally range from 30 days to 180 days.

In the event a sale is made to a customer under circumstances in which collectability is not reasonably assured, the Company either requires the customer to remit payment prior to shipment or defers recognition of the revenue until the time of collection. The Company maintains a reserve for amounts which may not be collectible.

During the fiscal year ended March 31, 2005, approximately $434,000 of sales in Mexico were recognized when cash was collected since collection was not reasonably assured.

The Company has entered into distribution agreements in Europe. Recognition of revenue and related cost of revenue from product sales is deferred until the product is sold from the distributors to their end customers.

When the Company receives letters of credit and the terms of the sale provide for no right of return except to replace defective product, revenue is recognized when the letter of credit becomes effective and the product is shipped.

Revenue from consulting contracts is recognized as services are provided. Revenue from testing contracts is recognized as tests are completed and a final report is sent to the customer.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents may be invested in money market funds, commercial paper, and certificates of deposits. Cash equivalents are carried at cost, which approximates fair value.

Restricted Cash

In connection with operating lease agreements, the Company is required to maintain cash deposits in a restricted account. For the year ended March 31, 2005 and 2006, cash held as security was $45,000 and $44,000, respectively, and was classified as restricted cash.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents and accounts receivable. Cash and cash equivalents are maintained in financial institutions in the United States, Mexico, and The Netherlands. The Company is exposed to credit risk in the event of default by these financial institutions for amounts in excess of the Federal Deposit Insurance Corporation insured limits. Management believes that the financial institutions that hold the Company's deposits are financially sound and have minimal credit risk.

The Company grants credit to its business customers, which are primarily located in the United States, Mexico, and Europe. Collateral is generally not required for trade receivables. The Company maintains allowances for potential credit losses.

Accounts Receivable

Trade accounts receivable are recorded net of allowances for cash discounts for prompt payment, doubtful accounts, government charge-backs and sales returns. Estimates for cash discounts, government chargebacks

and sales returns are based on contractual terms, historical trends and expectations regarding the utilization rates for these programs.

The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Other factors that the Company considers include its existing contractual obligations, historical payment patterns of its customers and individual customer circumstances, an analysis of days sales outstanding by customer and geographic region, and a review of the local economic environment and its potential impact on government funding and reimbursement practices. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company had a low occurrence of credit losses through 2005 and therefore did not consider it necessary to establish an allowance for doubtful accounts as of March 31, 2005. The allowance for doubtful accounts at March 31, 2006 represents a probable credit loss due from a single customer in the amount of $90,000.

Inventories

Inventories of finished goods and raw materials are stated at the lower of cost, determined first-in, first-out under a standard cost method, or market.

The Company also establishes reserves for obsolescence or unmarketable inventory. The Company recorded reserves to reduce the carrying amounts of inventories to their net realizable value in the amounts of $221,000 and $996,000 for the years ended March 31, 2005 and 2006, respectively, which is included in the accompanying statements of operations as a component of cost of goods sold.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Depreciation of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful life of the improvement or the remaining term of the lease. Useful lives by classification is as follows:

	Years
Office equipment	3
Manufacturing and other equipment	5
Furniture and fixtures	7

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Impairment of Long-Lived Assets

The Company periodically reviews the carrying values of its long lived assets in accordance with SFAS 144 "Long Lived Assets" when events or changes in circumstances would indicate that it is more likely than not that their carrying values may exceed their realizable values, and records impairment charges when considered necessary. Specific potential indicators of impairment include, but are not necessarily limited to:

- a significant decrease in the fair value of an asset;

- a significant change in the extent or manner in which an asset is used or a significant physical change in an asset;
- a significant adverse change in legal factors or in the business climate that affects the value of an asset;
- an adverse action or assessment by the U.S. Food and Drug Administration or another regulator;
- an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset; and operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an income-producing asset.

When circumstances indicate that an impairment may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. In estimating these future cash flows, assets and liabilities are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other such groups. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, will be recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable.

Research and Development

Research and development expense is charged to operations as incurred and consists primarily of personnel expenses, outside services and supplies. For the years ended March 31, 2004, 2005 and 2006, research and development expense amounted to $1,413,000, $1,654,000 and $2,600,000, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to $99,000, $122,000 and $126,000, for the years ended March 31, 2004, 2005 and 2006, respectively.

Shipping and Handling Costs

The Company applies the guidelines enumerated in Emerging Issues Task Force Issue (“EITF”) 00-10 “Accounting for Shipping and Handling Fees and Costs” with respect to its shipping and handling costs. Accordingly, the Company classifies amounts billed to customers related to shipping and handling in sale transactions as revenue. Shipping and handling costs incurred are recorded in cost of sales.

Foreign Currency Transactions

Foreign currency gains (losses) relate to working capital loans that the Company’s made to its foreign subsidiaries. The Company recorded foreign currency gains (losses) for the years ended March 31, 2004, 2005 and 2006 of ($4,000), $134,000, and ($283,000), respectively The related gains (losses) were recorded in other income (expense) in the accompanying statements of operations.

Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of APB No. 25, “Accounting for Stock Issued to Employees,” and its interpretations and complies with the disclosure requirements of SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123.” The Company has elected to continue to follow Interpretation of No. 44 (“FIN 44”), Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB 25, in accounting for employee stock option plans. Under APB 25, compensation

expense is based upon the excess of the estimated fair value of the Company's stock over the exercise price, if any, on the grant date. Employee stock-based compensation is amortized on a straight-line basis over the vesting period of the underlying options. SFAS No. 123 defines a "fair value" based method of accounting for an employee stock option or similar equity instrument.

In accordance with the provisions of SFAS No. 123, the fair value of each employee option is estimated on the date of grant using the minimum value method with the following weighted-average assumptions:

	Year Ended March 31,		
	2004	2005	2006
Estimated life	6 yrs	6 yrs	6 yrs
Risk-free interest rate	3.18%	3.95%	4.27%
Dividend yield	0.00%	0.00%	0.00%

Based on the above assumptions, the weighted-average estimated minimum values of options granted were $0.24, $1.25 and $0.78 for the years ended March 31, 2004, 2005 and 2006, respectively.

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation arrangements (in thousands, except per share data):

	Year Ended March 31,		
	2004	2005	2006
Net loss available to common stockholders, as reported	$ (7,298)	$ (16,530)	$ (23,220)
Add: Total stock-based employee compensation expenses included in net loss	30	2,297	279
Deduct: Total stock-based employee compensation determined under the fair-value based method for all awards	(81)	(2,448)	(503)
Net loss available to common stockholders, pro forma	$ (7,349)	$ (16,681)	$ (23,444)
Net loss per common share, basic and diluted:			
As reported	$ (0.47)	$ (1.06)	$ (1.40)
Pro forma	$ (0.47)	$ (1.07)	$ (1.41)

Non-Employee Stock Based Compensation

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF Issue No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," which requires that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instrument vests. Non-employee stock-based compensation charges are amortized over the vesting period.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes ("SFAS No. 109"). Under SFAS No. 109, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and net operating loss and credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to

impact taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Comprehensive Loss

Other comprehensive loss includes all changes in stockholders' equity (deficit) during a period from non-owner sources and is reported in the consolidated statement of stockholders' equity (deficit). To date, other comprehensive loss consists of changes in accumulated foreign currency translation adjustments during the period.

Net Loss Per Share

The Company computes net loss per share in accordance with SFAS No. 128 "Earnings Per Share" and has applied the guidance enumerated in Staff Accounting Bulletin No. 98 ("SAB Topic 4D") with respect to evaluating its issuances of equity securities during all periods presented.

Under SFAS No. 128, basic net loss per share is computed by dividing net loss per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic loss per share for the years ended March 31, 2004, 2005 and 2006 excludes potentially dilutive securities because their inclusion would be anti-dilutive.

In addition to the above, the SEC (under SAB Topic 4D) requires new registrants to retroactively include the dilutive effect of common stock or potential common stock issued for nominal consideration during all periods presented in its computation of basic earnings (loss) per share and diluted earnings per share as if they were, in substance, recapitalizations. The Company evaluated all of its issuances of equity securities and determined that it had no nominal issuances of common stock or common stock equivalents to include in its computation of loss per share for any of the periods presented.

Common stock equivalents excluded from the determination of basic and diluted net loss per share because their effect would be anti-dilutive are as follows (in thousands):

	Year Ended March 31,		
	2004	2005	2006
Options to purchase common stock	6,138	5,360	7,876
Warrants to purchase common stock	121	1,856	3,430
Convertible preferred stock (as if converted)	5,351	9,408	15,935
Warrants to purchase preferred stock (as if converted)	—	67	67
Convertible debt	80	40	—
	11,690	16,731	27,308

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash, accounts receivable, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments. The carrying amounts of the Company's line of credit obligation and other long term obligations approximate fair value as such instruments feature contractual interest rates that are consistent with current market rates of interest or have effective yields that are consistent with instruments of similar risk, when taken together with equity instruments issued to the holder.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Convertible Notes

The Company accounts for conversion options embedded in convertible notes in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19"). SFAS 133 generally requires companies to bifurcate conversion options embedded in convertible notes from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19. SFAS 133 provides for an exception to this rule when the host instruments are deemed to be conventional as that term is described in the implementation guidance to SFAS 133 and further clarified in EITF 05-2 "The Meaning of "Conventional Convertible Debt Instrument" in Issue No. 00-19.

The Company accounts for convertible notes (deemed conventional) in accordance with the provisions of EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features," ("EITF 98-5") and EITF 00-27 "Application of EITF 98-5 to Certain Convertible Instruments." Accordingly, the Company records, as a discount to convertible notes, the intrinsic value of such conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption.

The Company's convertible instruments do not host conversion options that are deemed to be free standing derivative financial instruments.

Common Stock Purchase Warrants and Other Derivative Financial Instruments

The Company accounts for the issuance of common stock purchase warrants issued and other free standing derivative financial instruments in accordance with the provisions of EITF 00-19. Based on the provisions of EITF 00-19, the Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R "Share Based Payment". This statement is a revision of SFAS Statement No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, and its related implementation guidance. SFAS 123R addresses all forms of share-based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest and will result in a charge to operations for stock-based compensation expense. The effective date for a nonpublic entity that becomes a public entity after June 15, 2005 is the first interim or annual reporting period beginning after the entity becomes a public entity. The adoption of this pronouncement will result in the recognition of stock based compensation expense in the Company's financial statements.

In EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," the EITF reached a consensus that contingently convertible instruments, such as contingently convertible debt, contingently convertible preferred stock and other such securities should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. The consensus became effective for reporting periods ending after December 15, 2004. The adoption of this pronouncement did not have material effect on the Company's financial statements.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3 ("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS 154 will have a significant effect on its financial statements.

On June 29, 2005, the EITF ratified Issue No. 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.' " EITF Issue 05-2 provides guidance on determining whether a convertible debt instrument is "conventional" for the purpose of determining when an issuer is required to bifurcate a conversion option that is embedded in convertible debt in accordance with SFAS 133. Issue No. 05-2 is effective for new instruments entered into and instruments modified in reporting periods beginning after June 29, 2005. The Company does not believe that the adoption of this pronouncement will have a significant effect on its financial statements.

In September 2005, Issue No. 05-4, "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.' " EITF 05-4 provides guidance to issuers as to how to account for registration rights agreements that require an issuer to use its "best efforts" to file a registration statement for the resale of equity instruments and have it declared effective by the end of a specified grace period and, if applicable, maintain the effectiveness of the registration statement for a period of time or pay a liquidated damage penalty to the investor. The Company is currently in the process of evaluating the effect that the adoption of this pronouncement may have on its financial statements.

In September 2005, the FASB ratified EITF Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," which addresses whether a modification to a conversion option that changes its fair value affects the recognition of interest expense for the associated debt instrument after the modification and whether a borrower should recognize a beneficial conversion feature, not a debt extinguishment if a debt modification increases the intrinsic value of the debt (for example, the modification reduces the conversion price of the debt). This issue is effective for future modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005. The Company does not believe that the adoption of this pronouncement will have a significant effect on its financial statements.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In September 2005, the FASB also ratified EITF Issue No. 05-8, "Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature," which discusses whether the issuance of convertible debt with a beneficial conversion feature results in a basis difference arising from the intrinsic value of the beneficial conversion feature on the commitment date (which is treated and recorded in stockholder's equity for book purposes, but as a liability for income tax purposes) and, if so, whether that basis difference is a temporary difference under FASB Statement No. 109, "Accounting for Income Taxes." This Issue should be applied by retrospective application pursuant to Statement 154 to all instruments with a beneficial conversion feature accounted for under Issue 00-27 included in financial statements for reporting periods beginning after December 15, 2005. The Company does not believe that the adoption of this pronouncement will have a significant effect on its financial statements.

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 addresses the following: a) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133; c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and e) amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the requirements of SFAS 155, but does not expect that the adoption of this pronouncement will have a material effect on its financial statements.

In March 2006, the FASB issued SFAS 156 "Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140" ("SFAS 156"). SFAS 156 is effective for the first fiscal year beginning after September 15, 2006. SFAS 156 changes the way entities account for servicing assets and obligations associated with financial assets acquired or disposed of. The Company has not yet completed its evaluation of the impact of adopting SFAS 156 on its results of operations or financial position, but does not expect that the adoption of SFAS 156 will have a material impact.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 4 — Accounts Receivable

Accounts receivable consisted of the following (in thousands):

	March 31,	
	2005	**2006**
Accounts receivable	$ 227	$ 1,166
Less: allowance for doubtful accounts	—	(90)
	$ 227	$ 1,076

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NOTE 5 — Inventories

Inventories consisted of the following (in thousands):

	March 31,	
	2005	2006
Raw materials	$ 272	$ 267
Finished goods	817	1,046
	1,089	1,313
Less: inventory allowances	(221)	(996)
	$ 868	$ 317

NOTE 6 — Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	March 31,	
	2005	2006
Prepaid expenses	$ 355	$ 304
Value added tax receivable	—	722
Other current assets	144	360
	$ 499	$ 1,386

NOTE 7 — Property and Equipment

Property and equipment consisted of the following (in thousands):

	March 31,	
	2005	2006
Manufacturing and other equipment	$ 1,834	$ 1,866
Office equipment	447	653
Furniture and fixtures	200	209
Leasehold improvements	219	498
Capital projects in progress	51	—
	2,751	3,226
Less accumulated depreciation and amortization	(792)	(1,286)
	$ 1,959	$ 1,940

Fixed assets include $217,000 and $186,000 of equipment purchases that were financed under capital lease obligations as of March 31, 2005 and 2006, respectively (Note 10). The Company made approximately $40,000 and $37,000 of such purchases during the years ended March 31, 2004 and 2005, respectively. The accumulated amortization on these assets amounted to $80,000 and $108,000 as of March 31, 2005 and 2006, respectively.

Depreciation expense (including amortization of leased assets) amounted to $163,000, $434,000 and $651,000 for the years ended March 31, 2004, 2005 and 2006, respectively.

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NOTE 8 — Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	March 31,	
	2005	2006
Accrued salaries	$ 220	$ 267
Accrued tax and audit costs	641	673
Estimated liability for pending litigation	335	300
Investor deposits	497	—
Accrued stock option rescission	250	—
Accrued value added tax payable	285	220
Deferred revenue	—	156
Accrued other	107	70
	$ 2,335	$ 1,686

NOTE 9 — Long-Term Debt

From May 1, 1999 through January 7, 2003, the Company issued various notes for aggregate principal amounting to $385,000 with interest rates ranging from 8% to 10.3% per annum. The proceeds of these notes were used to fund the Company's operations. The Company made the remaining principal payments on these notes which amounted to $84,000 and $185,000 during the years ending March 31, 2004 and 2005, respectively. Aggregate interest expense under these obligations amounted to $19,000 and $9,000 for the years ended March 31, 2004 and 2005, respectively.

On May 1, 1999, the Company issued a note payable in the amount of $64,000 with interest at 8% per annum and a final payment due on December 31, 2009. The remaining balance on this obligation, which amounts to $68,000 including accrued interest, is included in non-current portion of long-term debt in the accompanying balance sheet at March 31, 2006. Contractual interest expense under this note amounted to $7,000 for each of the years ended March 31, 2004 and 2005.

On February 7, 2003, the Company issued a $40,000 convertible note to a director of the Company bearing interest at the rate of 10% per annum. The note was convertible, at the option of the holder, into such number shares of the Company's common stock or Series A preferred stock determined by dividing the amount to be converted by the conversion price of $1.00 per share.

On February 26, 2003, the Company issued a $40,000 convertible note to a director of the Company bearing interest at the rate of 10% per annum with a maturity date of August 26, 2004. The note was convertible, at the option of the holder, into such number shares of the Company's common stock or Series A preferred stock determined by dividing the amount to be converted by the conversion price of $1.00 per share.

The proceeds of these notes were used to finance operating activities. The fair value of the underlying stock, measured at the commitment date of each of these financing transactions, was $2.00 per share. Accordingly, the Company recorded a $40,000 discount against the principal values of the each of these notes and a corresponding increase in stockholders' equity for the intrinsic value of the beneficial conversion feature in accordance with EITF 98-5. The principal balance of the note originated on February 2, 2003 was repaid in October 2004. The principal balance of the note originated on February 23, 2003 was converted into 40,000 shares of convertible series A preferred stock in June 2005.

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Aggregate contractual interest expense under the convertible notes amounted to $3,000, $8,000 and $4,000 for the years ended March 31, 2004, 2005 and 2006, respectively.

On April 30, 2003, the Company completed a $500,000 financing transaction through the issuance of a note bearing variable interest at the rate of 18% to 22% per annum and warrants to purchase up to 82,500 shares of the Company's common stock. The warrants have a term of 10 years and an exercise price of $1.50 to $2.00 per share. In accordance with APB Opinion No. 14 "Accounting for Convertible Debt Issued with Stock Purchase Warrants," the Company allocated $538,000 of the proceeds to the note and $117,000 of proceeds to the warrants. The difference between the carrying amount of the note and its contractual redemption amount was accreted as interest expense through July 31, 2005, its earliest date of redemption. Accretion of the aforementioned discount amounted to $36,500, $60,100, $20,400 for the years ended March 31, 2004, 2005, and 2006, respectively and is included as a component of interest expense in the accompanying statements of operations. The proceeds from this note were used to fund operating activities. Contractual interest expense under this obligation amounted to $72,500, $99,700 and $30,100 for the years ended March 31, 2004, 2005 and 2006, respectively. Principal payments on this note amounted to $100,000 and $400,000 during the years ended March 31, 2005 and 2006, respectively, including the final payment made in July 2005.

From November 2003 to March 2006, the Company issued various notes for aggregate principal amounting to $443,000 with interest rates ranging from 6.65% to 8.2% per annum. The proceeds of these notes were used to fund certain operating activities. The Company made principal payments on these notes which amounted to $21,300, $91,500 and $191,200 during the years ending March 31, 2004, 2005 and 2006, respectively. Interest expense under these note obligations amounted to $900, $2,000 and $4,800 for the years ended March 31, 2004, 2005 and 2006, respectively. The aggregate remaining principal balance of these notes, which amounts to $139,000, is included in the current portion of long-term debt in the accompanying balance sheet at March 31, 2006.

In March 2004, the Company entered into an equipment financing facility providing it with up to $1,000,000 of available credit to finance equipment purchases through March 31, 2005. During the year ended March 31, 2005, the Company drew an aggregate of $994,000 of advances under this facility, which are payable in 33 monthly installments with interest at the rate of 13.5% per annum and mature at various times through May 1, 2007. The Company also paid approximately $82,000 of fees to the lender under this arrangement including $5,000 in cash and $77,000 representing the fair value of warrants to purchase up to 66,667 shares of the Company's Series A preferred stock. The company recorded the fair value of warrants and other fees as interest expense during the year ended March 31, 2005, the one year period in which the Company was permitted to draw advances under this facility. All borrowings under this arrangement are collateralized by the equipment financed under this facility. The Company made principal payments on these notes which amounted to $288,000 and $337,000 during the years ending March 31, 2005 and 2006, respectively. Interest expense under this obligation amounted to $83,000 and $73,000 for the years ended March 31, 2005 and 2006, respectively. The remaining principal balance on this long-term debt amounted to $350,000 at March 31, 2006, including $332,000 included in the current portion of notes payable obligations in the accompanying balance sheet.

From January 2004 to March 2006, the Company issued various notes for aggregate principal amounting to $182,000 with interest rates ranging from 6.25% to 14.44% percent per annum. The proceeds of these notes were used to purchase automobiles and software. The Company made principal payments on these notes of $1,000, and $24,000 during the years ending March 31, 2005 and 2006, respectively. Aggregate interest expense under these obligations amounted to $1,000 and $8,900 for the years ended March 31, 2005 and 2006, respectively. These notes are payable in aggregate monthly installments of $3,000 through March 14, 2011. The remaining balance of these notes amounted to $156,000 at March 31, 2006, including $33,000 in the current portion of long-term debt in the accompanying balance sheet.

A summary of principal payments due in years subsequent to March 31, 2006 is as follows (in thousands):

For years ending March 31,	
2007	$ 504
2008	54
2009	39
2010	106
2011	11
Total principal payments	714
Less: current portion	(504)
Long-term portion	$ 210

NOTE 10 — Capital Lease Obligations

From September 1, 2001, through July 1, 2002, the Company entered into various capital leases under which the aggregate present value of the minimum lease payments amounted to $123,000. In accordance with SFAS 13, “Accounting for Leases” (“SFAS 13”), the present value of the minimum lease payments was calculated using discount rates ranging from 10% to 17%. Lease payments, including amounts representing interest, amounted to $38,000, $36,000 and $15,000, for the years ended March 31, 2004, 2005 and 2006, respectively. These capital leases were paid in full by March 2006.

From September 1, 2003, through October 1, 2003, the Company entered into various capital leases under which the aggregate present value of the minimum lease payments amounted to $40,000. The present value of the minimum lease payments was calculated using discount rates of ranging from 13% to 18%. Lease payments, including amounts representing interest, amounted to $3,000, $11,000 and $11,000 for the years ended March 31, 2004, 2005 and 2006, respectively. The remaining principal balance on these obligations amounted to $27,000 at March 31, 2006, including $7,700 included in the current portion of capital lease obligations in the accompanying balance sheet.

On November 10, 2004, the Company entered into a capital lease under which the present value of the minimum lease payments amounted to $37,000. The present value of the minimum lease payments was calculated using a discount rate of 10%. Lease payments, including amounts representing interest, amounted to $3,900 and $8,500 for the years ended March 31, 2005 and 2006, respectively. The remaining principal balance on these obligations amounted to $29,000 at March 31, 2006, including $7,000 included in the current portion of capital lease obligations in the accompanying balance sheet.

The Company recorded interest expense in connection with these lease agreements in the amounts of $9,600, $11,000 and $8,900 for the years ended March 31, 2004, 2005 and 2006, respectively.

Minimum lease payments due in years subsequent to March 31, 2006 are as follows (in thousands):

For years ending March 31,	
2007	$ 21
2008	21
2009	21
2010	6
Total minimum lease payments	69
Less: amounts representing interest	(13)
Present value of minimum lease payments	56
Less: current portion	(15)
Long-term portion	$ 41

NOTE 11 — Commitments, Contingencies and Other Matters

Lease Commitments

The Company has entered into various non-cancelable operating leases, primarily for office facility space, that expire at various time through April 2011. Minimum lease payments for non-cancelable operating leases are as follows (in thousands):

For years ending March 31,	
2007	$341
2008	177
2009	163
2010	92
2011	105
Total minimum lease payments	$878

Rent expense amounted to $273,000, $510,000 and $535,000 for the years ended March 31, 2004, 2005 and 2006, respectively.

Employment Agreements

During years ended March 31, 2005 and 2006, the Company entered into employment agreements with five of its key executives. The agreements provide, among other things, for the payment of aggregate annual salaries of approximately $880,000 and up to twenty four months of severance compensation for terminations under certain circumstances. Aggregate potential severance compensation amounted to $1,284,000 at March 31, 2006.

In October 2005, the Board of Directors also authorized the Company to grant 240,000 stock options at an exercise price of $0.75 per share to its Chief Financial Officer upon the successful completion of its proposed IPO (if completed). These options, if awarded, would be fully vested and non-forfeitable at the date of grant.

Legal Matters

The Company has been named as a defendant in an employment related matter under a complaint filed by one of its former employees in the Superior Court of the State of California in the County of Sonoma in April 2005. Although the Company believes that the employee's claim is without merit and intends to defend its position with respect to this matter, a $300,000 reserve was established based on the Company's estimate of potential loss. Although the Company believes that its estimate is reasonable with respect to this matter, there can be no assurance that the Company will successfully defend itself against this litigation. The reserve is a component of accrued expenses and other current liabilities in the accompanying balance sheets.

In November 2005, the Company identified a possible criminal misappropiation of its technology in Mexico, and it notified the Mexican Attorney General's office. The Company believes the Mexican Attorney General is currently conducting an investigation.

On March 14, 2006, the Company filed suit in the Northern District of California Federal Court against Nofil Corporation and Naoshi Kono, Chief Executive Officer of Nofil, for breach of contract, misappropriation of trade secrets and trademark infringement. The Company believes that Nofil Corporation violated key terms of both an exclusive purchase agreement and non-disclosure agreement by contacting and working with a potential competitor in Mexico. In the complaint, the Company seeks damages of $3,500,000 and immediate injunctive relief. No trial date has been set.

The Company is currently a party in two trademark matters asserting confusion in trademarks with respect to the Company's use of the name Microcyn60 in Mexico. Although the Company believes that the nature and intended use of its products are different from those with the similar names, it has tentatively agreed with one of the parties to change the name Microcyn60 within twelve months from the date of a proposed settlement. Although such plaintiff referred the matter to the Mexico Trademark Office, the Company is not aware of a claim for monetary damages. Company management believes that the name change will satisfy an assertion of confusion; however, Company management believes that the Company could incur a possible loss of approximately $100,000 for the use of the name Microcyn60 during the twelve month period following the date of settlement.

The Company, from time to time, is involved in legal matters arising in the ordinary course of its business. While management believes that such matters are currently insignificant, there can be no assurance that matters arising in the ordinary course of business for which the Company could become involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

Consulting Agreement

On October 1, 2005 the Company entered into a consulting agreement with a member of the Board of Directors. Under the terms of the agreement, the individual will be compensated for services provided outside his normal Board duties. Total compensation to be paid amounts to $146,000, payable in monthly installments over the one year term of the agreement.

Proposed Initial Public Offering

On September 1, 2005 the Board of Directors authorized the Company to file a registration statement with the SEC in connection with its proposed IPO. The Company incurred $478,000 of costs during the year ended March 31, 2006 in connection with its proposed IPO, which are presented as deferred offering costs in the accompanying balance sheet at March 31, 2006. If the Company completes its IPO these costs will be recorded as a reduction of the proceeds received. If the Company does not successfully complete its IPO, the costs will be recorded as a charge to operations.

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NOTE 12 — Stockholders' Equity

Authorized Capital

The Company is authorized to issue up to 100,000,000 shares of common stock and 30,000,000 shares of preferred stock of which 5,500,000 shares have been designated as Series A preferred stock and 11,222,222 shares have been designated as Series B preferred stock.

Description of Common Stock

Each share of common stock has the right to one vote. The holders of common stock are entitled to dividends when funds are legally available and when declared by the Board of Directors, subject to the prior right of the preferred Series A stockholders to cumulative dividends that accrue beginning January 1, 2006.

Convertible Preferred Stock

During the year ended March 31, 2004, the Company issued in a private placement transaction, 5,351,244 shares of its Series A convertible preferred stock for net proceeds of $6,628,000 (gross proceeds of $8,027,000 less offering costs of $1,399,000).

In addition to the above, the Company issued in a private placement transaction, an aggregate of 10,543,474 shares of its Series B for net proceeds of $43,722,000 (gross proceeds of $47,446,000 less offering costs of $3,724,000) including 4,056,568 shares issued during the year ended March 31, 2005 for net proceeds of $16,696,000 and 6,486,906 shares issued during the year ended March 31, 2006 for net proceeds of $27,026,000.

The Series A is convertible into common stock at any time, at the option of the holder at a conversion price of 1.50 per share. The Series B is convertible into common stock at any time, at the option of the holder, at a conversion price of $4.50 per share. In accordance with SFAS 133 and EITF 00-19, the Company evaluated the conversion options embedded in these securities to determine whether they should be bifurcated from their host instruments and accounted for as separate derivative financial instruments. The Company determined, in accordance with SFAS 133, that the risks and rewards of the common shares underlying the conversion feature are clearly and closely related to those of the host instrument. Accordingly the conversion features, which are not deemed to be beneficial at the commitments dates of these financing transactions, are being accounted for as embedded conversion options in accordance with EITF 98-5 and EITF 00-27.

The number of shares issuable under the conversion features of the Series A and Series B is subject to adjustment for stock splits, stock dividends, recapitalizations, dilutive issuances and other anti-dilution provisions. The Series A and Series B are also automatically convertible into shares of the Company's common stock, at the then applicable conversion price, (i) in the event that the holders of two-thirds of the outstanding shares of Series A and Series B consent to such conversion; or (ii) upon the closing of a firm commitment underwritten public offering of shares of common stock of the Company yielding aggregate proceeds of not less than $20 million (before deduction of underwriters commissions and expenses); or (iii) Company's going public by means of a merger or acquisition which has a resultant market capitalization of greater than $75 million.

The Company has reserved 16,722,222 shares of its common stock for issuance upon the conversion of its convertible preferred stock.

Each share of Series A and Series B has voting rights equal to an equivalent number of common shares into which it is convertible and votes together as one class with common stock. The holders of the Series A are entitled to receive cumulative dividends in preference to any dividend on the common stock at the rate of 6% per annum on the initial investment amount commencing January 1, 2006. Dividends accrued but unpaid with respect to this feature amounted to $121,000 and is presented as an increase in net loss available to the

common stockholders for the year ended March 31, 2006. The Company has the option of paying the dividend in either common stock or cash. The holders of Series B are entitled to receive non-cumulative dividends when and if declared by the Board. The holders of Series A and Series B are also entitled to participate pro rata in any dividends paid on the common stock, if declared by the board of directors on an as converted basis.

In the event of any liquidation or winding up of the Company, the holders of the Series A shall be entitled to participate in the ratable distribution of the assets of the Company until the holders of the Series A have received a per share amount equal to two times the original purchase price, as applicable, plus any declared but unpaid dividends. The holders of Series B are entitled to participate in the ratable distribution of the assets of the Company after the holders of Series A have received a per share amount equal to $3.00 and holders of Series B have received a per share amount equal to 125% of their original purchase price of the Series B, in both cases plus any declared but unpaid dividends. Thereafter, any remaining assets would be distributed ratably to the holders of common stock until the common stockholders have received a per share amount equal to $3.00. Any remaining assets of the Company thereafter would be distributed ratably to Series A preferred and Series B preferred stockholders and to the common stockholders, on an as converted basis.

Liquidation events include (i) a final dissolution or winding up of the Company's affairs requiring a liquidation of all classes of stock, (ii) a merger, consolidation or similar event resulting in a more than 50% change in control, (iii) the sale of all or substantially all of the Company's assets and (iv) the effectuation (at the Company's election) of any transaction or series of transactions resulting in a more than 50% change in control. The Company is required, under California law, to obtain the approval of a majority of its stockholders with respect to effectuating either a merger, consolidation or similar transaction or any transaction resulting in the sale of all or substantially all of its assets. The Company's preferred stockholders currently represent less than a 50% voting majority. Accordingly, the Company classified its Series A and Series B preferred shares in stockholders' equity in the accompanying balance sheet because the liquidation events are deemed to be within the Company's control in accordance with the provisions of EITF Topic D-98 "Classification and Measurement of Redeemable Securities."

Under the terms of Series A and B registration rights agreements between the Company and its preferred stockholders, any time after six months following the Company's IPO (if completed), the Series A and Series B investors may request that the Company file a registration statement covering the public sale of the underlying common stock under the Securities Act of 1933, as amended (the "1933 Act") with limited rights to delay by the Company. The investors are also entitled to unlimited piggyback registration rights on all 1933 Act registrations of the Company (except for registrations relating to employee benefit plans on Form S-8 and corporate reorganizations on Form S-4). The foregoing demand and piggyback registration rights terminate on the earlier of (i) one year after the Company's IPO or (ii) such time as Rule 144 or another similar exemption under the 1933 Act is available for sale of all of an Investor's shares during a three-month period without registration. The Investors Rights agreement also places certain restrictions on the preferred stockholders from selling their shares and provides them with certain rights of first refusal, co-sale and drag along and tag along rights for sales effectuated under certain circumstances.

Stock Purchase Warrants Issued in Financing Transactions

During the year ended March 31, 2004, the Company issued a warrant to purchase 62,500 shares of common stock in connection with bridge financing at an exercise price equal to the lesser of $2.00 per share or the price offered to any other investor in subsequent stock offerings prior to the expiration date of the warrants. The warrants were valued using the Black-Scholes pricing model. Assumptions used were as follows: Fair value of the underlying stock $2.00; risk-free interest rate 3.03%; contractual life of 5 years; dividend yield of 0%; and volatility of 70%. The fair value of these warrants, which amounted to $88,478, was recorded as interest expense in the accompanying statement of operations for the year ended March 31, 2004.

During the year ended March 31, 2005, the Company issued a warrant to purchase 20,000 shares of common stock in connection with bridge financing at an exercise price equal to the lesser of $1.50 per share or the price offered to any other investor in subsequent stock offerings prior to the expiration date of the warrants. The warrants were valued using the Black-Scholes pricing model. Assumptions used were as follows: Fair value of the underlying stock $1.41; risk-free interest rate 2.94%; contractual life of 4 years; dividend yield of 0%; and volatility of 70%. The fair value of the warrants amounted to $28,309 and was recorded as interest expense in the accompanying statement of operations for the year ended March 31, 2005.

During the year ended March 31, 2005, the Company issued a warrant to purchase 66,667 shares of Series A preferred stock at an exercise price of $1.50 per share in connection with an equipment leasing arrangement. The warrants were valued using the Black-Scholes pricing model. Assumptions used were as follows: Fair value of the underlying stock $1.44; risk-free interest rate 5.55% percent; contractual life of 10 years; dividend yield of 0%; and volatility of 70%. The fair value of the warrants, which amounted to $77,000, was recorded as interest expense in the accompanying statement of operations for the year ended March 31, 2005.

During the year ended March 31, 2005, the Company issued a warrant to purchase 1,735,124 shares of common stock at an exercise price of $1.50 per share to the placement agent that managed the Series A offering. The warrants were fully exercisable at the date of issuance with no future performance obligations by the placement agent and expire the second year following an IPO by the Company.

During the year ended March 31, 2006, the Company issued a warrant to purchase 1,317,933 shares of common stock at an exercise price of $4.50 per share to the placement agent that managed the Series B stock offering. The warrants were fully exercisable at the date of issuance with no future performance obligations by the placement agent and expire the second year following an IPO by the Company.

Common Stock and Common Stock Purchase Warrants Issued to Non-Employees for Services

During the year ended March 31, 2004, the Company issued warrants to purchase 38,662 shares of common stock to various consultants at exercise prices ranging from $0.75 to $2.00 per share. The warrants were fully exercisable at date of issuance and expire on dates ranging from May 31, 2013 to February 14, 2014. The warrants were valued using the Black-Scholes pricing model. Assumptions used were as follows: Fair value of the underlying stock of $1.31 to $2.00; risk-free interest rate 3.69% to 4.35%; contractual life of 10 years; dividend yield of 0%; and a volatility of 70%. The fair value of the warrants amounted to $44,000 and was recorded as selling, general and administrative expense in the accompanying statement of operations for the year ended March 31, 2004.

During the year ended March 31, 2006, the Company issued 50,000 shares of common stock to a consultant in exchange for services provided. The fair value of the underlying stock was valued at $2.54 per share. The shares were fully earned when issued with no future performance obligation by the consultant. The aggregate fair value of the shares amounted to $127,000 and was recorded as a selling, general and administrative expense in the accompanying statement of operations for the year ended March 31, 2006.

During the year ended March 31, 2006, the Company issued warrants to purchase 255,374 shares of common stock to various consultants at an exercise price of $4.50 per share. Fair value of the underlying stock at the date of grant was $2.54 per share. The warrants become exercisable at various dates through November 11, 2009 and expire at various dates through August 31, 2015. The fair value of the warrants, which amounted to $153,000, was recorded as a selling, general and administrative expense in the accompanying statement of operations for the year ended March 31, 2006.

The Company accounted for its issuance of stock based compensation to non-employees for services using the measurements date guidelines enumerated in SFAS 123 and EITF 96-18. Accordingly, the value of any awards that were vested and non forfeitable at their date of issuance were measured based on the fair

value of the equity instruments at the date of issuance. The non-vested portion of awards that are subject to the future performance of the counterparty are adjusted at each reporting date to their fair values based upon the then current market value of the company's stock and other assumptions that management believes are reasonable.

Valuation of Common Stock

For the year ended March 31, 2004, all stock options that the Company granted to employees and non-employees under its 1999, 2000 and 2003 Stock Option Plans were recorded at their cash settlement value due to a compliance matter for which the statute of limitations has expired. In July 2005, the Company engaged an outside valuation specialist to determine the fair value of its common stock. The fair value of the Company's common stock, based on this valuation study, was determined to be $2.54 per share. Accordingly, the fair value of the Company's common stock underlying all equity transactions completed during the years ended March 31, 2004, 2005 and 2006 (other than options granted under the 1999, 2000 and 2003 stock option plans) was based on the results of the valuation study. The results were adjusted to the date of grant based on an analysis performed by management. The results were assessed for reasonableness by comparing such amounts to concurrent sales of other equity instruments to unrelated parties for cash and intervening events reflected in the price of the Company's stock.

NOTE 13 — Stock Compensation Plans

1999, 2000 and 2003 Stock Plans

The 1999, 2000 and 2003 Stock Option Plans were effective May 1999, June 2000 and July 2003, respectively. The Plans provide for the issuance of both incentive stock options (ISO's) and non-qualified stock options (NSO's). Nonqualified and incentive stock options may be granted to employees, consultants and directors. A total of 4,605,000, 1,395,000 and 4,000,000 common shares were reserved for issuance under the 1999, 2000 and 2003 Plans, respectively.

In accordance with the Plans, the stated exercise price shall not be less than 100% and 85% of the estimated fair market value of common stock on the date of grant for ISO's and NSO's, respectively, as determined by the board of directors at the date of grant. With respect to any 10% shareholder, the exercise price of an ISO or NSO shall not be less than 110% of the estimated fair market value per share on the date of grant.

Options issued under the Plan have a ten-year term and generally became exercisable over a five-year period.

As of March 31, 2006, the Company's compensation committee determined that it will not grant any further awards under its 1999, 2000, and 2003 Plans. At March 31, 2006 there are 5,745,267 options approved for issue in the 1999, 2000, and 2003 Plans that will not be issued.

2004 Stock Plan

The 2004 Stock Option Plan ("the 2004 Plan") became effective July 2004. The 2004 Plan provides for the issuance of both ISO's and NSO's. Nonqualified and incentive stock options may be granted to employees, consultants and directors. A total of 6,000,000 common shares were reserved for issuance under the 2004 Plan at March 31, 2005. As of March 31, 2006, 2,201,643 shares are available for future grant under the Plan.

In accordance with the Plan, the stated exercise price shall not be less than 100% and 85% of the estimated fair market value of common stock on the date of grant for ISO's and NSO's, respectively, as determined by the board of directors at the date of grant. With respect to any 10% shareholder, the exercise price of an ISO or NSO shall not be less than 110% of the estimated fair market value per share on the date of grant.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Options issued under the Plan have a ten-year term and generally become exercisable over a five-year period.

Option activity under all Plans is as follows:

		Options Outstanding	
	Options Available for Grant	Number of Options	Weighted Average Exercise Price
Balance at March 31, 2003	1,804,400	4,108,000	$ —
Options authorized	4,000,000	—	0.75
Options granted	(2,177,632)	2,177,632	0.05
Options exercised	—	(122,000)	0.67
Options canceled	26,000	(26,000)	—
Balance at March 31, 2004	3,652,768	6,137,632	0.34
Options authorized	6,000,000	—	—
Options granted	(1,252,356)	1,252,356	0.75
Options exercised	—	(2)	0.75
Options canceled	2,030,298	(2,030,298)	0.32
Balance at March 31, 2005	10,430,710	5,359,688	0.44
Options authorized	—	—	—
Options granted	(3,148,000)	3,148,000	2.30
Options exercised	—	(1,167,314)	0.25
Options canceled	664,200	(664,200)	1.54
Balance at March 31, 2006	7,946,910	6,676,174	1.24

The options outstanding and currently exercisable by exercise price at March 31, 2006 are as follows:

	Options Outstanding and Exercisable Under Plans			Options Vested Under Plans	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.03 - $0.21	1,584,000	3.41	$ 0.09	1,584,000	$ 0.09
$0.28 - $0.63	224,000	4.53	$ 0.53	224,000	$ 0.53
$0.75 - $0.75	2,191,174	7.77	$ 0.75	996,298	$ 0.75
$1.10 - $1.10	360,000	9.05	$ 1.10	40,000	$ 1.10
$2.54 - $3.00	2,317,000	9.57	$ 2.58	—	$ —
	6,676,174	7.32	$ 1.24	2,844,298	$ 0.37

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Options Granted Outside of Plans

In May 2004, the Company granted an option to purchase 1,200,000 shares of the Company's common stock with an exercise price of $0.04 per share to the Chief Executive Officer of the Company. The fair value of the underlying common stock at the date of grant was $1.49 per share. The options were fully exercisable on the date of grant. Stock compensation expense related to these options amounted to $1,740,000 and was recorded in selling, general and administrative expense in the year ended March 31, 2005.

Non-Employee Options

The Company believes that the fair value of the stock options issued to non-employees is more reliably measurable than the fair value of the services received. The fair value of the stock options granted was calculated using the Black-Scholes option-pricing model as prescribed by SFAS No. 123 using the following weighted-average assumptions:

	Year Ended March 31,		
	2004	2005	2006
Estimated life	8.25 yrs	9.06 yrs	8.67 yrs
Risk-free interest rate	3.88%	4.50%	4.27%
Dividend yield	0.00%	0.00%	0.00%
Volatility	70%	70%	70%

The stock-based compensation expense will fluctuate as the fair market value of the common stock fluctuates. In connection with stock options granted to non-employees, the Company recorded $7,000, $30,000, $32,000 of stock-based compensation expense in the years ended March 31, 2004, 2005 and 2006, respectively.

NOTE 14 — Taxes

The Company has the following net deferred tax assets (in thousands):

	March 31,	
	2005	2006
Deferred tax assets:		
Net operating loss carryforwards	$ 8,870	$ 17,290
Tax credits carryforwards	123	212
Stock-based compensation	964	1,070
Reserves and accruals	327	186
Total deferred tax assets	10,284	18,758
Deferred tax liabilities:		
Basis difference in assets	(100)	(78)
State taxes	(508)	(897)
Total deferred tax liabilities	(608)	(975)
Net deferred tax asset	9,676	17,783
Valuation allowance	(9,676)	(17,783)
Net deferred tax asset	$ —	$ —

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's recorded income tax benefit, net of the change in the valuation allowance, for each of the periods presented is as follows (in thousands):

	Year Ended March 31,		
	2004	2005	2006
Income tax benefit	$ 2,479	$ 6,019	$ 8,107
Change in valuation allowance	(2,479)	(6,019)	(8,107)
Net income tax benefit	$ —	$ —	$ —

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended March 31,		
	2004	2005	2006
Expected statutory rate	(34.0)%	(34.0)%	(34.0)%
State income taxes, net of federal benefit	(3.0)%	(3.8)%	(3.3)%
Foreign earnings taxed at different rates	1.4%	1.0%	1.8%
Effect of permanent differences	1.7%	0.3%	0.3%
	(33.9)%	(36.5)%	(35.2)%
Change in valuation allowance	33.9%	36.5%	35.2%
Totals	0.0%	0.0%	0.0%

At March 31, 2006, the Company had net operating loss carryforwards for federal, state and foreign income tax purposes of approximately $28,800,000, $25,900,000 and $17,400,000, respectively. The carryforwards expire beginning 2020, 2010 and 2014, respectively. The Company also had, at March 31, 2006, federal and state research credit carryforwards of approximately $104,000 and $108,000, respectively. The federal credits expire beginning in 2026 and the state credits do not expire.

The Company experienced substantial ownership changes in connection with financing transactions it completed through the year ended March 31, 2006. Accordingly, the Company's utilization of its net operating loss and tax credit carryforwards against taxable income in future periods, if any, is subject to substantial limitations under the Change in Ownership rules of Section 382 of the Internal Revenue Code. The Company, after considering all available evidence, fully reserved for these and its other deferred tax assets since it is more likely than not such benefits will not be realized in future periods. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's deferred income tax assets satisfy the realization standard of SFAS No. 109, the valuation allowance will be reduced accordingly.

NOTE 15 — Employee Benefit Plan

In 2002, the Company established a program to contribute and administer individual retirement accounts for regular full time employees. Under the plan the Company matches employee contributions to the plan up to 3% of the employee's salary. The Company contributed $34,000, $63,000 and $53,000 to the program for the years ended March 31, 2004, 2005 and 2006, respectively.

NOTE 16 — Segment and Geographic Information

In accordance with SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"), operating segments are identified as components of an enterprise for which separate and

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

discreet financial information is available and is used by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief decision-makers, as defined by SFAS 131, are the Chief Executive Officer and his direct reports.

The Company's chief decision-makers review financial information presented on a consolidated basis, accompanied by disaggregated information about revenue and operating profit by operating unit. This information is used for purposes of allocating resources and evaluating financial performance.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies." Segment data includes segment revenue, segment operating profitability, and total assets by segment. Shared corporate operating expenses are reported in the U.S. segment.

The Company is organized primarily on the basis of operating units which are segregated by geography.

The following tables present information about reportable segments (in thousands):

	U.S.	Europe	Mexico	Total
Year ended March 31, 2004:				
Product revenues	$ —	$ —	$ 95	$ 95
Service revenues	807	—	—	807
Total revenues	807	—	95	902
Depreciation expense	159	2	2	163
Operating loss	(4,914)	(209)	(1,974)	(7,097)
Interest expense	(178)	—	—	(178)
Interest income	3	—	—	3
Total assets	2,150	245	597	2,992
Year ended March 31, 2005:				
Product revenues	$ 4	$ 35	$ 434	$ 473
Service revenues	883	—	—	883
Total revenues	887	35	434	1,356
Depreciation expense	365	49	17	434
Operating loss	(12,242)	(1,529)	(2,541)	(16,312)
Interest expense	(372)	—	—	(372)
Interest income	8	—	—	8
Total assets	5,017	858	1,065	6,940
Year ended March 31, 2006:				
Product revenues	$ 109	$ 69	$ 1,788	$ 1,966
Service revenues	618	—	—	618
Total revenues	727	69	1,788	2,584
Depreciation expense	463	96	92	651
Operating loss	(12,621)	(2,685)	(5,545)	(20,851)
Interest expense	(172)	—	—	(172)
Interest income	282	—	—	282
Total assets	8,977	1,652	2,060	12,689

NOTE 17 — Discontinued Operations

On June 16, 2005, the Company entered into a series of agreements with Quimica Pasteur, or QP, a Mexico-based company engaged in the business of distributing pharmaceutical products to hospitals and health care entities owned or operated by the Mexican Ministry of Health. These agreements provided, among other things, for QP to act as the Company's exclusive distributor of Microcyn to the Mexican Ministry of Health for a period of three years. The Company concurrently acquired, for no additional consideration, a 0.25% equity interest in QP and an option to acquire the remaining 99.75% directly from its principals in exchange for 600,000 shares of common stock, contingent upon QP's attainment of certain financial milestones. The Company's distribution and related agreements were cancelable by the Company on thirty days' notice without cause and included certain provisions to hold the Company harmless from debts incurred by QP outside the scope of the distribution and related agreements. The Company terminated these agreements on March 26, 2006.

Due to its liquidity circumstances, QP was unable to sustain operations without the Company's subordinated financial and management support. Accordingly, QP was deemed to be a variable interest entity in accordance with FIN 46(R) and its results were consolidated with the Company's financial statements for the period of June 16, 2005 through March 26, 2006, the effective termination date of the distribution and related agreements.

In accordance with SFAS 144, the Company has reported QP's results for the period of June 16, 2005 through March 26, 2006 as discontinued operations because the operations and cash flows of QP have been eliminated from the Company's ongoing operations as a result of having terminated these agreements. The Company no longer has any continuing involvement with QP as of the date in which the agreements were terminated. Amounts associated with the Company's loss upon the termination of its agreements with QP, which consists of funds advanced by the Company for working capital, are presented separately from QP's operating results.

Subsequent to having entered into the agreements with QP, the Company became aware of an alleged tax avoidance scheme involving the principals of QP. The audit committee of the Company's board of directors engaged an independent counsel, as well as tax counsel in Mexico to investigate this matter. The audit committee of the board of directors was advised that QP's principals could be liable for up to $7,000,000 of unpaid taxes; however, the Company is unlikely to have any loss exposure with respect to this matter because the alleged tax omission occurred prior to the Company's involvement with QP. The Company has not received any communications to date from Mexican tax authorities with respect to this matter.

While Company management and the audit committee of the board of directors do not believe that the Company is likely to experience any loss with respect to this matter, there can be no assurance that the Mexican tax authorities will not pursue this matter and, if pursued, that it would not result in a material loss to the Company.

NOTE 18 — Subsequent Events

Series C Convertible Preferred Stock

In May and June 2006, the Board of Directors and stockholders, respectively, approved an amendment to the Articles of Incorporation to authorize the issuance of up to 3,500,000 shares of Series C convertible preferred stock.

New Credit Facility

In June 2006, the Company entered into a Loan and Security Agreement with a financial institution to borrow up to a maximum of $5,000,000. The facility allows the Company to borrow up to a maximum of $2,750,000 in working capital, $1,250,000 in accounts receivable financing and $1,000,000 in equipment

financing, subject to certain conditions. Substantially all assets of the Company are pledged as security for this facility. Also in conjunction with this agreement, the Company will issue warrants to purchase up to 300,000 share of Series B preferred stock of the Company at an exercise price of $4.50 per share. Warrants to purchase 215,000 shares are earned and exercisable at execution of the agreement and warrants to purchase 85,000 shares will be earned on a pro rata basis upon use of the line. Should the Company not successfully complete its IPO by March 31, 2007, the warrant exercise price will be adjusted to 75% of the effective price per share of preferred stock issued in the next round of financing or an initial public offering. In June 2006, the Company borrowed $2,750,000 against the working capital line, $717,000 against the equipment financing line and $717,000 under the accounts receivable line.

Legal Matters

In June 2006, the Company received a written communication from the grantor of a license to an earlier version of its technology indicating that such license was terminated due to an alleged breach of the license agreement. The license agreement extends to the Company's use of the technology in Japan only. While the Company does not believe that the grantor's revocation is valid under the terms of the license agreement and no legal claim has been threatened to date, the Company cannot provide any assurance that the grantor will not take legal action to restrict the Company's use of the technology in the licensed territory.

While Company management does not anticipate that the outcome of this matter is likely to result in a material loss, there can be no assurance that if the grantor pursues legal action, such legal action would not have a material adverse effect on the Company's financial position or results of operations.

Stock Option Plans

On June 29, 2006, the compensation committee of the Company's board of directors determined that no further stock options would be granted under the 1999, 2000 or 2003 Stock Option Plans. At the time of the resolution, there were 5,745,267 options available for grant that the Company will not award in future periods.

Shares

Oculus Innovative Sciences, Inc.

Common Stock

A.G. Edwards **Jefferies & Company**
First Albany Capital **C.E. Unterberg, Towbin**

The date of this prospectus is , 2006

Until , 2006, all dealers that effect transaction in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Part II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses expected to be incurred by the Registrant in connection with the sale and distribution of the securities being registered hereby, other than underwriting discounts and commissions. All amounts listed are estimated except the Securities and Exchange Commission registration fee, the National Association of Securities Dealers, Inc. filing fee and the Nasdaq National Market listing fee.

SEC registration fee	$ 8,614
National Association of Securities Dealers, Inc. filing fee	8,550
Nasdaq National Market listing fee	100,000
Blue Sky fees and expenses	10,000
Accounting fees and expenses	*
Legal fees and expenses	*
Printing and engraving expenses	*
Registrar and Transfer Agent's fees	*
Miscellaneous fees and expenses	*
Total	$ *

* To be filed by amendment

Item 14. Indemnification of Directors and Officers

In connection with the completion of this offering, the Registrant intends to reincorporate into Delaware. Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors, and other corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933 (the "Securities Act"). The Registrant's form of Restated Certificate of Incorporation to be effective upon completion of this offering (Exhibit 3.3 hereto) and the Registrant's form of Bylaws to be effective upon completion of this offering (Exhibit 3.6 hereto) provide for indemnification of the Registrant's directors, officers, employees and other agents to the fullest extent permitted by the Delaware General Corporation Law. The Registrant has also entered into agreements with our directors and officers that will require the Registrant, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent not prohibited by law.

The Underwriting Agreement (Exhibit 1.1) will provide for indemnification by the Underwriters of the Registrant, our directors and officers, and by the Registrant, of the Underwriters, for certain liabilities, including liabilities arising under the Act, and affords certain rights of contribution with respect thereto.

Item 15. Recent Sales of Unregistered Securities

The following information does not give effect to the Registrant's reverse common stock split to be effected prior to the completion of this offering.

On various dates between January 14, 2002 and May 31, 2006, the Registrant sold 1,364,916 shares of its common stock to employees, directors and consultants pursuant to the exercise of options granted under our 1999, 2000, 2003 and 2004 stock plans. The exercise prices per share ranged from $0.033 to $0.75, for an aggregate consideration of $297,585.

On various dates between August 7, 2003 and February 25, 2004, the Registrant sold 5,391,244 shares of series A preferred stock for aggregate consideration of $8,066,866 to 198 accredited investors. In connection with these sales the Registrant paid to Brookstreet Securities, Inc. an aggregate of $1,123,746 in commissions and issued to Brookstreet and its affiliates warrants to purchase an aggregate of 1,735,124 shares of the Registrant's common stock. The Registrant also issued a warrant to purchase 66,667 shares of its series A preferred stock and a promissory note that could be converted into 40,000 shares of series A preferred stock. On June 30, 2005, this convertible note was converted into 40,000 shares of the Registrant's common stock.

On various dates between April 30, 2004 and October 27, 2005, the Registrant sold 10,543,474 shares of series B preferred stock for aggregate consideration of $47,445,663 to 361 accredited investors. In connection with these sales the Registrant paid to Brookstreet Securities, Inc. an aggregate of $3,413,818 in commissions and issued to Brookstreet and its affiliates warrants to purchase an aggregate of 1,317,933 shares of the Registrant's common stock.

The sales of the above securities were considered to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving a public offering or transactions under compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each of these transactions represented their intention to acquire the securities for investment only and not with a view to or for sale with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in these transactions. All recipients had adequate access, through their relationship with the Registrant, to information about the Registrant.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Articles of Incorporation of the Registrant.
3.2	Certificate of Amendment of Articles of Incorporation of the Registrant.
3.3	Certificate of Amendment of Articles of Incorporation of the Registrant.
3.4*	Certificate of Incorporation of the Registrant's subsidiary, OIS Reincorporation Sub, Inc., a Delaware corporation.
3.5*	Form of Restated Certificate of Incorporation of the Registrant, to be filed upon the completion of the offering to which this Registration Statement relates.
3.6	Bylaws of the Registrant, as amended (composite copy).
3.7*	Bylaws of the Registrant's subsidiary, OIS Reincorporation Sub, Inc., a Delaware corporation.
3.8*	Form of Bylaws of the Registrant, to be effective upon the completion of the offering to which this Registration Statement relates.
4.1*	Specimen Common Stock Certificate.
4.2	Warrant to Purchase Series A Preferred Stock of Registrant by and between the Registrant and Venture Lending & Leasing III, Inc., dated April 21, 2004.
4.3	Warrant to Purchase Series B Preferred Stock of Registrant by and between the Registrant and Venture Lending & Leasing IV, Inc., dated June 14, 2006.
4.4	Form of Warrant to Purchase Common Stock of Registrant.
4.5	Form of Warrant to Purchase Common Stock of Registrant.
4.6	Amended and Restated Investors Rights Agreement, effective as of April 30, 2004.
4.7	Form of Promissory Note issued to Venture Lending & Leasing III, Inc.
4.8	Form of Promissory Note (Equipment and Soft Cost Loans) issued to Venture Lending & Leasing IV, Inc.
4.9	Form of Promissory Note (Growth Capital Loans) issued to Venture Lending & Leasing IV, Inc.

Exhibit Number	Description
4.10	Form of Promissory Note (Working Capital Loans) issued to Venture Lending & Leasing IV, Inc.
4.11	Form of Warrant to Purchase Common Stock of Registrant.
5.1*	Opinion of Pillsbury Winthrop Shaw Pittman LLP.
10.1*	Form of Indemnification Agreement between the Registrant and its officers and directors.
10.2	1999 Stock Plan and related form stock option plan agreements
10.3	2000 Stock Plan and related form stock option plan agreements.
10.4	2003 Stock Plan and related form stock option plan agreements.
10.5	2004 Stock Plan and related form stock option plan agreements.
10.6*	2006 Stock Incentive Plan and related form stock option plan agreements.
10.7	Office Lease Agreement, dated October 26, 1999, between the Registrant and RNM Lakeville, L.P.
10.8	Amendment to Office Lease No. 1, dated September 15, 2000, between Registrant and RNM Lakeville L.P.
10.9	Amendment to Office Lease No. 2, dated July 29, 2005, between the Registrant and RNM Lakeville L.P.
10.10	Office Lease Agreement, dated May 15, 2005, between Oculus Technologies of Mexico, S.A. de C.V. and Antonio Sergio Arturo Fernandez Valenzuela (translated from Spanish).
10.11	Office Lease Agreement, dated July 2003, between Oculus Innovative Sciences Netherlands, B.V. and Artikona Holding B.V. (translated from Dutch).
10.12	Loan and Security Agreement, dated March 25, 2004, between the Registrant and Venture Lending & Leasing III, Inc.
10.13	Loan and Security Agreement, dated June 14, 2006, between the Registrant and Venture Lending & Leasing IV, Inc.
10.14	Employment Agreement, dated January 1, 2004, between the Registrant and Hojabr Alimi.
10.15	Employment Agreement, dated January 1, 2004, between the Registrant and Jim Schutz.
10.16	Employment Agreement, dated June 1, 2004, between the Registrant and Robert Miller.
10.17	Employment Agreement, dated June 1, 2005, between the Registrant and Bruce Thornton.
10.18	Employment Agreement, dated March 23, 2005, between the Registrant and Theresa Mitchell.
10.19	Employment Agreement, dated June 10, 2006, between the Registrant and Mike Wokasch.
10.20	Form of Director Agreement.
10.21	Consultant Agreement, dated October 1, 2005, by and between the Registrant and White Moon Medical.
10.22	Leasing Agreement, dated May 5, 2006, made by and between Mr. Jose Alfonzo I. Orozco Perez and Oculus Technologies of Mexico, S.A. de C.V.
16.1*	Letter re change in certifying accountants.
21.1	List of Subsidiaries.
23.1	Consent of Marcum & Kliegman LLP.
23.2*	Consent of Pillsbury Winthrop Shaw Pittman LLP (included in Exhibit 5.1).
24.1	Power of Attorney (see page II-5 of this Registration Statement).

* To be filed by amendment.

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the

securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) It will provide to the underwriters at the closing(s) specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Petaluma, State of California, on the 30th day of June, 2006.

Oculus Innovative Sciences, Inc.

By /s/ Hojabr Alimi
Hojabr Alimi
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Hojabr Alimi and Robert Miller and each of them, his true and lawful attorneys in fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments, including post-effective amendments, to this Registration Statement, and any registration statement relating to the offering covered by this Registration Statement and filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys in fact and agents or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ Hojabr Alimi Hojabr Alimi	President and Chief Executive Officer (Principal Executive Officer) and Director	June 30, 2006
/s/ Robert E. Miller Robert E. Miller	Chief Financial Officer (Principal Financial and Accounting Officer)	June 30, 2006
/s/ Akihisa Akao Akihisa Akao	Director	June 30, 2006
/s/ Edward M. Brown Edward M. Brown	Director	June 30, 2006
/s/ Richard Conley Richard Conley	Director	June 30, 2006
/s/ Gregory M. French Gregory M. French	Director	June 30, 2006
/s/ James J. Schutz James J. Schutz	Director	June 30, 2006

Exhibit Index

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4.6	Amended and Restated Investors Rights Agreement, effective as of April 30, 2004.
4.7	Form of Promissory Note issued to Venture Lending & Leasing III, Inc.
4.8	Form of Promissory Note (Equipment and Soft Cost Loans) issued to Venture Lending & Leasing IV, Inc.
4.9	Form of Promissory Note (Growth Capital Loans) issued to Venture Lending & Leasing IV, Inc.
4.10	Form of Promissory Note (Working Capital Loans) issued to Venture Lending & Leasing IV, Inc.
4.11	Form of Warrant to Purchase Common Stock of Registrant.
5.1*	Opinion of Pillsbury Winthrop Shaw Pittman LLP.
10.1*	Form of Indemnification Agreement between the Registrant and its officers and directors.
10.2	1999 Stock Plan and related form stock option plan agreements
10.3	2000 Stock Plan and related form stock option plan agreements.
10.4	2003 Stock Plan and related form stock option plan agreements.
10.5	2004 Stock Plan and related form stock option plan agreements.
10.6*	2006 Stock Incentive Plan and related form stock option plan agreements.
10.7	Office Lease Agreement, dated October 26, 1999, between the Registrant and RNM Lakeville, L.P.
10.8	Amendment to Office Lease No. 1, dated September 15, 2000, between the Registrant and RNM Lakeville L.P.
10.9	Amendment to Office Lease No. 2, dated July 29, 2005, between the Registrant and RNM Lakeville L.P.
10.10	Office Lease Agreement, dated May 15, 2005, between Oculus Technologies of Mexico, S.A. de C.V. and Antonio Sergio Arturo Fernandez Valenzuela (translated from Spanish).
10.11	Office Lease Agreement, dated July 2003, between Oculus Innovative Sciences, B.V. and Artikona Holding B.V. (translated from Dutch).
10.12	Loan and Security Agreement, dated March 25, 2004, between Registrant and Venture Lending & Leasing III, Inc.
10.13	Loan and Security Agreement, dated June 14, 2006, between Registrant and Venture Lending & Leasing IV, Inc.
10.14	Employment Agreement, dated January 1, 2004, between the Registrant and Hojabr Alimi.
10.15	Employment Agreement, dated January 1, 2004, between the Registrant and Jim Schutz.
10.16	Employment Agreement, dated June 1, 2004, between the Registrant and Robert Miller.

Exhibit Number	Description
10.17	Employment Agreement, dated June 1, 2005, between the Registrant and Bruce Thornton.
10.18	Employment Agreement, dated March 23, 2005, between the Registrant and Theresa Mitchell.
10.19	Employment Agreement, dated June 10, 2006, between the Registrant and Mike Wokasch.
10.20	Form of Director Agreement.
10.21	Consultant Agreement, dated October 1, 2005, by and between the Registrant and White Moon Medical.
10.22	Leasing Agreement, dated May 5, 2006, made by and between Mr. Jose Alfonso I. Orozco Perez and Oculus technologies of Mexico, S.A. de C.V.
16.1*	Letter regarding change in certifying accountants.
21.1	List of Subsidiaries.
23.1	Consent of Marcum & Kliegman LLP.
23.2*	Consent of Pillsbury Winthrop Shaw Pittman LLP (included in Exhibit 5.1).
24.1	Power of Attorney (see page II-5 of this Registration Statement).

* To be filed by amendment.

Exhibit 3.1

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
OCULUS INNOVATIVE SCIENCES, INC.

The undersigned certify that:

1. They are the President and Chief Financial Officer, respectively, of Oculus Innovative Sciences, Inc., a California corporation.

2. The Articles of Incorporation of this corporation shall be amended and restated to read in full as follows:

ARTICLE I

The name of this corporation is Oculus Innovative Sciences, Inc. (the "Corporation").

ARTICLE II

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

ARTICLE III

(A) **Classes of Stock**. The Corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Corporation is authorized to issue is one hundred twenty million (120,000,000) shares. Of such authorized shares, one hundred million (100,000,000) shares shall be designated as Common Stock and twenty million (20,000,000) shares shall be designated as Preferred Stock. Five million five hundred thousand (5,500,000) shares of the Preferred Stock are designated "Series A Preferred Stock" and three million five hundred thousand (3,500,000) shares of the Preferred Stock are designated "Series B Preferred Stock". The rights, preferences, privileges and restrictions granted to and imposed on the Preferred Stock are as set forth below in Article III(B).

(B) **Rights, Preferences and Restrictions of Preferred Stock**. The Preferred Stock authorized by these Restated Articles may be issued from time to time in one or more series, subject to the provisions of this Article III and any limitations prescribed by law. The Board of Directors is authorized to designate and to fix the number of shares of any series of Preferred Stock and to determine and to alter the rights, preferences, privileges and restrictions granted to or imposed on any wholly unissued series of Preferred Stock. The Board of Directors, within the limits stated in any resolution of the Board of Directors originally fixing the number of shares constituting any series, may increase or decrease (but not below the number of shares of such

series then outstanding) the number of shares of any series subsequent to the issuance of shares of that series. The Corporation shall from time to time in accordance with the laws of the State of California increase the authorized amount of its Common Stock if at any time the number of shares of Common Stock remaining unissued and available for issuance shall not be sufficient to permit conversion of the Preferred Stock.

1. **Dividend Provisions**.

(a) **Preferential Dividends Prior to January 1, 2006**. Prior to January 1, 2006 and subject to the dividend rights of one or more series of Preferred Stock to be designated in the future, the holders of Series B Preferred Stock shall be entitled to receive non-cumulative dividends in the amount of $0.225 on each share of Series B Preferred Stock, when and as declared by the Board of Directors of the Corporation. Prior to January 1, 2006, no dividend shall be declared and paid (or set apart for payment) with respect to the Common Stock unless dividends on the Series B Preferred Stock, as set forth above in this Section 1(a) of this Article III.B, shall have first been declared and paid (or set apart for payment); provided, however, that this restriction on the payment of dividends to holders of Common Stock shall not apply to dividends payable (i) solely in Common Stock or other securities or rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock, or (ii) pursuant to Section 4(e) of this Article III.B. Prior to January 1, 2006 and subject to the dividend rights of one or more series of Preferred Stock to be designated in the future, if the dividends to holders of the Series B Preferred Stock as set forth above in this Section 1(a) of this Article III.B has been declared and paid (or set apart for payment), any additional dividends declared shall be distributed among all holders of Series A Preferred Stock, Series B Preferred Stock, and Common Stock in proportion to the number of shares of Common Stock which would be held by each such holder if all shares of Series A Preferred Stock and Series B Preferred Stock were converted into Common Stock at the then effective Conversion Price for each such series of Preferred Stock.

(b) **Preferential Dividends After January 1, 2006**. Commencing on January 1, 2006 and subject to the dividend rights of one or more series of Preferred Stock to be designated in the future, the holders of shares of Series A Preferred Stock shall be entitled to receive cumulative dividends, out of any assets legally available therefor, in an amount equal to $0.09 (as appropriately adjusted for any stock dividends, stock splits, combinations, recapitalizations or the like with respect to such shares) per annum on each outstanding share of Series A Preferred Stock, and holders of Series B Preferred Stock shall be entitled to receive non-cumulative dividends in the amount of $0.225 on each share of Series B Preferred Stock, when and as declared by the Board of Directors of the Corporation. Commencing on January 1, 2006 and subject to the dividend rights of one or more series of Preferred Stock to be designated in the future, no dividend shall be paid to the holders of Common Stock unless and until (i) all accrued but unpaid dividends on shares of the Series A Preferred Stock shall have been paid or declared and set aside for payment, and (ii) dividends on the Series B Preferred Stock, as set forth above in this Section 1(b) of this Article III.B, shall have been declared and paid or set apart for payment; provided, however, that this restriction on the payment of dividends to holders of Common Stock shall not apply to dividends payable (i) solely in Common Stock or other securities or rights convertible into or entitling the holder thereof to receive, directly or

indirectly, additional shares of Common Stock, or (ii) pursuant to Section 4(e) of this Article III.B. Commencing on January 1, 2006 and subject to the dividend rights of one or more series of Preferred Stock to be designated in the future, after payment of cumulative dividends to holders of the Series A Preferred Stock at the annual rate set forth above and the declaration and payment (or setting apart for payment) of the dividends on the Series B Preferred Stock as set forth above in this Section 1(b) of this Article III.B, any additional dividends declared shall be distributed among all holders of Series A Preferred Stock, Series B Preferred Stock, and Common Stock in proportion to the number of shares of Common Stock which would be held by each such holder if all shares of Series A Preferred Stock and Series B Preferred Stock were converted into Common Stock at the then effective Conversion Price for each such series of Preferred Stock.

(c) **Payment of Dividends by Issuance of Common Stock**. The Corporation shall have the option of paying the dividends described in this Section l in either shares of Common Stock or in cash. If paid in shares of Common Stock, the number of shares to be distributed to the holders of the Preferred Stock shall be determined by dividing the amount of the accrued and unpaid dividends, and/or declared but unpaid dividends, as the case may be, by the Conversion Price then in effect for the applicable series of Preferred Stock. If at the time any shares of Preferred Stock are converted into Common Stock there are any accrued but unpaid dividends, and/or declared but unpaid dividends, as the case may be, on such shares, then the Corporation at its option shall either pay the unpaid dividends or issue additional shares of Common Stock in the amount of the unpaid dividends at the applicable Conversion Price then in effect for the applicable series of Preferred Stock.

2. **Liquidation**.

(a) **Preference**. In the event of any Liquidation Event (as defined in Section 2(c) below) of the Corporation, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of Common Stock and subject to the liquidation preference rights of one or more series of Preferred Stock to be designated in the future, (i) holders of the Series A Preferred Stock shall be entitled to receive, by reason of their ownership thereof, an amount per share equal to the sum of (x) $3.00 for each outstanding share of Series A Preferred Stock plus (y) all declared but unpaid dividends, and/or accrued and unpaid dividends, as the case may be, on each such share (the "Series A Liquidation Amount"), subject to appropriate adjustment of such dollar amounts for any stock dividends, stock splits, combinations, recapitalizations or like transaction with respect to such shares; and (ii) holders of the Series B Preferred Stock shall be entitled to receive, by reason of their ownership thereof, an amount per share equal to the sum of (x) $5.625 for each outstanding share of Series B Preferred Stock plus (y) all declared but unpaid dividends on each such share (the "Series B Liquidation Amount"), subject to appropriate adjustment of such dollar amounts for any stock dividends, stock splits, combinations, recapitalizations or like transaction with respect to such shares. The Series A Liquidation Amount and the Series B Liquidation Amount are referred to herein collectively as the "Preferred Liquidation Amount". If, upon the occurrence of a Liquidation Event, the assets and funds of the Corporation thus distributed among the holders of Series A Preferred Stock and Series B Preferred Stock shall be insufficient to permit the payment to such holders of the full Preferred Liquidation Amount, then, subject to the liquidation preference

rights of one or more series of Preferred Stock to be designated in the future, the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Stock and Series B Preferred Stock in a per-share amount that is in proportion to the per-share Preferred Liquidation Amount of each such series of Preferred Stock.

(b) **Remaining Assets**. Subject to the liquidation rights of one or more series of Preferred Stock to be designated in the future, any assets of the Corporation remaining after distribution to the holders of the Series A Preferred Stock and Series B Preferred Stock of the full Preferred Liquidation Amount required by Section 2(a) above shall be distributed to the holders of the Series A Preferred Stock, the Series B Preferred Stock, and the Common Stock of the Corporation as follows:

(i) In the event the quotient obtained by dividing X by CO is equal to the sum of $3.00 and CD, then the holder of each outstanding share of Common Stock shall receive the sum of $3.00 and CD;

(ii) In the event the quotient obtained by dividing X by CO is less than the sum of $3.00 and CD, then X shall be distributed to holders of the outstanding shares of Common Stock on a pro rata basis; and

(iii) In the event the quotient obtained by dividing X by CO is greater than the sum of $3.00 and CD, then (a) the holder of each outstanding share of Series A Preferred Stock and Series B Preferred Stock shall receive such amount as shall equal the quotient obtained by dividing (1) the difference obtained by subtracting ($3 + CD)(CO) from X by (2) the sum of AO, BO, and CO; and (b) each outstanding share of Common Stock shall receive such amount as shall equal $3.00 plus CD plus the quotient obtained by dividing (1) the difference obtained by subtracting ($3 + CD)(CO) from X by (2) the sum of AO, BO, and CO;

where: X = the total remaining assets of the Corporation after payment of the full Preferred Liquidation Amount as set forth in Section 2(a) above;

AO = the total number of shares of Common Stock into which the total number of outstanding shares of Series A Preferred Stock is convertible at the then applicable conversion price;

BO = the total number of shares of Common Stock into which the total number of outstanding shares of Series B Preferred Stock is convertible at the then applicable conversion price;

CO = the total number of outstanding shares of Common Stock; and

CD = all declared but unpaid dividends on each outstanding share of Common Stock, subject to appropriate adjustment of such dollar amounts for any stock dividends, stock splits, combinations, recapitalizations or like transaction with respect to such shares.

(c) **Liquidation Event**. A "Liquidation Event" means (i) liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, (ii) any merger, consolidation or other similar transaction involving the Corporation pursuant to which the shareholders of the Corporation immediately prior to such transaction shall own less than fifty percent (50%) of the voting securities of the surviving entity, (iii) a sale, conveyance or disposition of all or substantially all of the assets of the Corporation, or (iv) the effectuation by the Corporation of a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Corporation is disposed of (other than the sale of the Series B Preferred Stock or any series of Preferred Stock to be designated in the future). In the event of a Liquidation Event described in (ii), (iii) or (iv) of the preceding sentence, if the consideration received by the Corporation is other than cash, its value will be deemed to be its fair market value. Whenever the distribution provided for in this Section 2 of this Article III.B shall be payable in securities, such securities shall be valued as follows:

(1) Securities not subject to investment letter or other similar restrictions on free marketability:

(A) If traded on a securities exchange or The Nasdaq Stock Market, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the thirty-day period ending three (3) days prior to the closing;

(B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever is applicable) over the thirty-day period ending three (3) days prior to the closing; and

(C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Corporation and the holders of at least a majority of the voting power of the then outstanding shares of Preferred Stock.

(2) The method of valuation of securities subject to investment letter or other restrictions on free marketability (other than restrictions arising solely by virtue of a shareholder's status as an affiliate or former affiliate) shall be to make an appropriate discount from the market value determined as above in Section 2(c)(1) to reflect the approximate fair market value thereof, as mutually determined by the Corporation and the holders of at least a majority of the voting power of the then outstanding shares of Preferred Stock.

3. **Redemption**. The Series A Preferred Stock and Series B Preferred Stock are not redeemable.

4. **Conversion**. The holders of the Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) **Right to Convert**.

(i) Subject to Section 4(c), each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for such stock, into such number

of fully paid and nonassessable shares of Common Stock as is determined by dividing $1.50 by the Series A Conversion Price (as defined below) in effect at the time of the conversion. The initial Series A Conversion Price shall be $1.50 per share.

(ii) Subject to Section 4(c), each share of Series B Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing $4.50 by the Series B Conversion Price (as defined below) in effect at the time of the conversion. The initial Series B Conversion Price shall be $4.50 per share.

(iii) The Series A Conversion Price and the Series B Conversion Price are herein referred to collectively as the "Conversion Price". Such initial Conversion Prices shall be subject to adjustment as hereinafter provided.

(b) **Automatic Conversion**. Each share of Preferred Stock shall automatically be converted into shares of Common Stock at the then applicable Conversion Price for such series of Preferred Stock immediately upon the earlier of: (i) the written consent or agreement of two-thirds (2/3) of the outstanding Preferred Stock to such conversion or (ii) except as provided below in Section 4(c), the closing of a firm commitment underwritten public offering of shares of Common Stock under the Securities Act of 1933, as amended (the "Securities Act") which results in aggregate cash proceeds to the Corporation of not less than $20,000,000 (before deduction of underwriting commissions and expenses) (a "Qualified IPO") or (iii) going public by means of a merger or acquisition which results in a market capitalization of the Corporation of greater than $75,000,000.

(c) **Mechanics of Conversion**. Before any holder of Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Preferred Stock, and shall give written notice to the Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled upon such conversion. Such conversion shall be deemed to have been made immediately prior to the close of business on the date such shares of Preferred Stock to be converted are surrendered in accordance with the foregoing provisions, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. If the conversion is in connection with an underwritten offering of securities registered pursuant to the Securities Act the conversion may, at the option of any holder tendering Preferred Stock for conversion, be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive Common Stock upon conversion of such Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such sale of securities.

(d) **Anti-dilution Provisions**. The Conversion Price shall be subject to adjustment from time to time as follows:

(i) **Issuance of Additional Stock below Purchase Price**. If the Corporation shall issue, after the date upon which any shares of Series B Preferred Stock were first issued (the "Purchase Date"), any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to the issuance of such Additional Stock, the Conversion Price for the applicable series of Preferred Stock in effect immediately prior to each such issuance shall automatically be adjusted as set forth in this Section 4(d)(i), unless otherwise provided in this Section 4(d)(i).

(A) **Adjustment Formula**. Whenever the Conversion Price applicable to a series of Preferred Stock is adjusted pursuant to this Section (4)(d)(i), the new Conversion Price for such series of Preferred Stock shall be determined by multiplying the Conversion Price then in effect for such series of Preferred Stock by a fraction, (x) the numerator of which shall be the sum of (i) the number of shares of Common Stock outstanding immediately prior to such issuance (the "Outstanding Common"), plus (ii) the number of shares of Common Stock into which any shares of Preferred Stock outstanding immediately prior to such issuance may be converted at the applicable Conversion Price then in effect, plus (iii) the number of shares of Common Stock for which any options to purchase, rights to subscribe, warrants or other derivative securities outstanding or authorized by any duly adopted stock option plan or other plan of the Corporation may be exercised immediately prior to such issuance, plus (iv) the number of shares of Common Stock into which any other convertible or exchangeable securities, including convertible debt securities, outstanding immediately prior to such issuance may be converted or exchanged (the number that is the sum of items (i) through (iv) being referred to as the "Fully Diluted Common"), plus (v) the number of shares of Common Stock that the aggregate consideration received by the Corporation for such issuance would purchase at the Conversion Price applicable to the series of Preferred Stock as to which the calculation is being made; and (y) the denominator of which shall be the number of shares of Fully Diluted Common plus the number of shares of such Additional Stock.

(B) **Definition of "Additional Stock"**. For purposes of this Section 4(d)(i), "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to Section 4(d)(i)(E) by the Corporation after the Purchase Date) other than:

(1) Shares of Common Stock issued pursuant to a transaction described in Section 4(d)(ii) hereof;

(2) Shares of Common Stock issued to employees, officers, directors, consultants, contractors or advisors of the Corporation pursuant to stock purchase or stock option plans or agreements or other incentive stock arrangements approved by the Board of Directors of the Corporation;

(3) Shares of Common Stock issued to lenders, equipment lessors or other parties providing goods or services to the Corporation;

(4) Shares of Common Stock issued in connection with acquisition transactions;

(5) Shares of Common Stock issued in connection with the conversion of shares of Preferred Stock;

(6) Shares of Common Stock issued in strategic partnership transactions; or

(7) Shares of Common Stock issued in any other transaction in which exemption from the anti-dilution provisions of this Section 4(d)(i)(B) as applicable to the Series A Preferred Stock or Series B Preferred Stock is approved by the holders of a majority of the then-outstanding shares of the applicable series of Preferred Stock.

(C) **No Fractional Adjustments**. No adjustment of the Conversion Price shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to three years from the date of the event giving rise to the adjustment being carried forward, or shall be made at the end of three years from the date of the event giving rise to the adjustment being carried forward.

(D) **Determination of Consideration**. In the event the Corporation issues any Additional Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance and sale thereof. In the event the Corporation issues any Additional Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board of Directors irrespective of any accounting treatment.

(E) **Deemed Issuances of Common Stock**. In the event the Corporation at any time or from time to time after the Purchase Date shall issue any options to purchase or rights to subscribe for Common Stock, securities (other than the Series A Preferred Stock or Series B Preferred Stock) by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities, the following provisions shall apply for all purposes of this Section 4(d)(i), except as otherwise provided in Section 4(d)(i)(A):

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise (assuming the satisfaction of any conditions to exercisability, including without limitation, the passage of time, but without taking into account potential antidilution adjustments) of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in Section 4(d)(i)(D)), if any, received by the Corporation upon the issuance of such options or rights plus

the minimum exercise price provided in such options or rights (without taking into account potential antidilution adjustments) for the Common Stock covered thereby.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange (assuming the satisfaction of any conditions to convertibility or exchangeability, including, without limitation, the passage of time, but without taking into account potential antidilution adjustments) for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the minimum additional consideration, if any, to be received by the Corporation (without taking into account potential antidilution adjustments) upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in Section 4(d)(i)(D)).

(3) In the event of any change in the number of shares of Common Stock deliverable or in the consideration payable to the Corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the antidilution provisions thereof, the Conversion Price of the Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities or options or rights related to such securities, shall be recomputed to reflect the issuance of only the number of shares of Common Stock (and convertible or exchangeable securities which remain in effect) actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities.

(5) The number of shares of Common Stock deemed issued and the consideration deemed paid therefor pursuant to Sections 4(d)(i)(E)(1) and 4(d)(i)(E)(2) shall be appropriately adjusted to reflect any change, termination or expiration of the type described in either Section 4(d)(i)(E)(3) or 4(d)(i)(E)(4).

(F) **No Increased Conversion Price**. Notwithstanding any other provisions of this Section (4)(d)(i), except to the limited extent provided for in Sections 4(d)(i)(E)(3) and 4(d)(i)(E)(4), no adjustment of the Conversion Price pursuant to this Section

4(d)(i) shall have the effect of increasing the Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(ii) **Stock Splits and Dividends**. In the event the Corporation should at any time or from time to time after the Purchase Date fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then, as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Price shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of Preferred Stock shall be increased in proportion to such increase of the aggregate of shares of Common Stock outstanding and those issuable with respect to such Common Stock Equivalents, with the number of shares issuable with respect to Common Stock Equivalents determined from time to time in the manner provided for deemed issuances in Section 4(d)(i)(E).

(iii) **Reverse Stock Splits**. If the number of shares of Common Stock outstanding at any time after the Purchase Date is decreased by a combination of the outstanding shares of Common Stock, then, following the record date of such combination, the Conversion Price shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of Preferred Stock shall be decreased in proportion to such decrease in outstanding shares.

(e) **Other Distributions**. In the event the Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by the Corporation or other persons, assets (excluding cash dividends) or options or rights not referred to in Section 4(d)(ii), then, in each such case for the purpose of this Section 4(e), the holders of Preferred Stock shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of the Corporation into which their shares of Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution.

(f) **Recapitalizations**. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this Section 4 or Section 2), provision shall be made so that each holder of Preferred Stock shall thereafter be entitled to receive upon conversion of such holder's Preferred Stock the number of shares of stock or other securities or property of the Corporation or otherwise, to which a holder of the number of shares of Common Stock deliverable upon conversion of the Preferred Stock held by such holder would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 4 with respect to the rights of the holders of Preferred Stock after the recapitalization to the end that the provisions of this Section 4

(including adjustment of the Conversion Price then in effect and the number of shares purchasable upon conversion of Preferred Stock) shall be applicable after that event and be as nearly equivalent as practicable.

(g) **No Impairment**. The Corporation will not, by amendment of these Restated Articles or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 4 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of Preferred Stock against impairment.

(h) **No Fractional Shares and Certificate as to Adjustments**.

(i) No fractional shares shall be issued upon the conversion of any share or shares of Preferred Stock. The number of shares issuable upon such conversion shall be determined on the basis of the total number of shares of Preferred Stock the holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion. If the conversion would result in the issuance of any fractional share of Common Stock, the Company shall, in lieu of issuing any fractional share of Common Stock, pay cash equal to the product of such fraction multiplied by the Common Stock's fair value (as determined by the Corporation's Board of Directors) on the date of conversion.

(ii) Upon the occurrence of each adjustment or readjustment of the Conversion Price of the Preferred Stock pursuant to this Section 4, the Corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of the series of Preferred Stock, the Conversion Price of which is adjusted, a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Price for the applicable series of Preferred Stock at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion or a share of such series of Preferred Stock.

(i) **Notices of Record Date**. In the event of any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Corporation shall mail to each holder of the Preferred Stock, at least twenty (20) days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

(j) **Reservation of Stock Issuable Upon Conversion**. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Preferred Stock, in addition to such other remedies as shall be available to the holders of Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite shareholder approval of any necessary amendment to these Restated Articles.

(k) **Notices**. Any notice required by the provisions of this Section 4 to be given to the holders of shares of Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of the Corporation.

5 **Voting Rights**.

(a) **Number of Votes**. Subject to the voting rights of one or more series of Preferred Stock to be designated in the future, the holder of each share of Series A Preferred Stock and/or Series B Preferred Stock shall have the right to one vote for each share of Common Stock into which such share of Series A Preferred Stock and/or Series B Preferred Stock could then be converted, and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof, to notice of any shareholders' meeting in accordance with the bylaws of the Corporation. Subject to Section 5(b) below and the voting rights of one or more series of Preferred Stock to be designated in the future, holders of Series A Preferred Stock and/or Series B Preferred Stock shall be entitled to vote, together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as-converted basis (after aggregating all shares into which shares of Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward).

(b) **Election of Directors**.

(i) **By Holders of Series A Preferred Stock**. The holders of Series A Preferred Stock, voting separately as a single class and to the exclusion of all other classes of capital stock of the Corporation, shall be entitled (A) to elect one (1) director at any meeting or pursuant to any written consent of the shareholders for the election of the Corporation's Board of Directors, and (B) to fill any vacancy caused by the resignation, death or removal of any such director elected by the holders of Series A Preferred Stock.

(ii) **By Holders of Series B Preferred Stock**. The holders of Series B Preferred Stock, voting separately as a single class and to the exclusion of all other classes of capital stock of the Corporation, shall be entitled (A) to elect one (1) director at any meeting or pursuant to any written consent of the shareholders for the election of the Corporation's Board of Directors, and (B) to fill any vacancy caused by the resignation, death or removal of any such director elected by the holders of Series B Preferred Stock.

(iii) **By Holders of Common Stock**. The holders of Common Stock, voting separately as a single class and to the exclusion of all other classes of capital stock of the Corporation but subject to the voting rights of one or more series of Preferred Stock to be designated in the future, shall be entitled (A) to elect the remaining directors at any meeting or pursuant to any written consent of the shareholders for the election of the Corporation's Board of Directors, and (B) to fill any vacancy caused by the resignation, death or removal of any such director elected by the holders of Common Stock.

(c) **Removal of Directors**. Any director who has been elected pursuant to Section 5(b)(i) or Section 5(b)(ii) may be removed without cause if such removal is approved by a majority of the then outstanding shares of Series A Preferred Stock or Series B Preferred Stock, as applicable, and any director who has been elected by the holders of Common Stock pursuant to Section 5(b)(iii) may be removed without cause if such removal is approved by a majority of the then outstanding shares of Common Stock, except that no director may be removed pursuant to this Section 5(c) (unless the entire Board of Directors of the Corporation is removed) when the votes cast against removal, or not consenting in writing to the removal, would be sufficient to elect the director if voted cumulatively at an election at which the same total number of votes were cast (or, if the action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of the director's most recent election were then being elected.

(d) **Declaration of Vacancy on Board of Directors**. The Corporation's Board of Directors may declare vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony.

6. **Protective Provisions**. Subject to the voting rights of one or more series of Preferred Stock to be designated in the future, the Corporation shall not, without first obtaining the approval (by vote or written consent, as provided by law) of the holders of a majority of the then outstanding shares of Series A Preferred Stock and Series B Preferred Stock, voting together as a class, take any action that (except in the case of clauses (a) through (c) below where the holders of not less than a majority of such outstanding shares of the series affected shall vote separately as a class):

(a) amends the Articles of Incorporation in any manner that would adversely alter or change the rights, preferences, privileges or restrictions of the Preferred Stock;

(b) increases or decreases the authorized number of shares of Common Stock or Preferred Stock;

(c) creates (by reclassification or otherwise) any new class or series of shares, share equivalents, or share appreciation rights, having rights, preferences or privileges senior to the Preferred Stock; or

(d) results in the redemption of or dividend on any shares of Common Stock (other than pursuant to equity incentive agreements with service providers giving the Corporation the right to repurchase shares upon the termination of services or other agreements providing for a right of repurchase by the Corporation as approved unanimously by the Board of Directors of the Corporation).

7. **Status of Converted Stock**. In the event any shares of Preferred Stock shall be converted pursuant to Section 4 hereof, the shares so converted shall be cancelled and shall not be issuable by the Corporation. These Restated Articles shall be appropriately amended to effect the corresponding reduction in the Corporation's authorized capital stock.

(C) **Common Stock**.

1. **Dividend Rights**. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of any assets of the Corporation legally available therefor, such dividends as may be declared from time to time by the Board of Directors, which dividends shall be non-cumulative.

2. **Liquidation Rights**. Upon the liquidation, dissolution or winding up of the Corporation, the assets of the Corporation shall be distributed as provided in Section 2 of Division (B) of this Article III.

3 **Redemption**. The Common Stock is not redeemable.

4. **Voting Rights**. The holders of Common Stock shall be entitled to vote upon such matters and in such manner as may be provided in these Restated Articles or by law, and shall be entitled to notice of any shareholders' meeting in accordance with the bylaws of the Corporation. Each share of Common Stock shall be entitled to one vote on all matters, except as otherwise provided in these Restated Articles or by law.

ARTICLE IV

(A) The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

(B) The Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors, or otherwise, to the fullest extent permissible under California law.

(C) Any amendment, repeal or modification of any provision of this Article IV shall not adversely affect any right or protection of an agent of the Corporation existing at the time of

such amendment, repeal or modification.

* * *

3. The foregoing amendment and restatement of this corporation's Articles of Incorporation has been duly approved by the Board of Directors of the corporation.

4. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the required vote of shareholders, in accordance with Sections 902 and 903 of the California Corporations Code. This corporation currently has 15,658,612 shares of Common Stock and 5,351,244 shares of Series A Preferred Stock outstanding. The number of shares voting in favor of the amendment herein set forth equaled or exceeded the vote required. The percentage vote required was (i) more than fifty percent (50%) of the outstanding shares of Series A Preferred Stock voting as a separate class; (ii) more than fifty percent (50%) of the outstanding shares of Common Stock voting as a separate class; and (iii) more than fifty percent (50%) of the outstanding shares of Series A Preferred Stock and Common Stock voting together as a single class.

[Signature Page Follows]

We declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: April 30, 2004

/s/ Hojabr Alimi

Hojabr Alimi, President

/s/ Robert Miller

Robert Miller, Chief Financial Officer

Exhibit 3.2

CERTIFICATE OF AMENDMENT

OF

ARTICLES OF INCORPORATION

OF

OCULUS INNOVATIVE SCIENCES, INC.

Hojabr Alimi and Richard Conley certify that:

1. They are the President and Secretary, respectively, of Oculus Innovative Sciences, Inc., a California corporation.

2. Article III.A of the Company's Articles of Incorporation is hereby amended to read in its entirety as follows:

"**Classes of Stock**. The Corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Corporation is authorized to issue is one hundred thirty million (130,000,000) shares. Of such authorized shares, one hundred million (100,000,000) shall be designated as Common Stock and thirty million (30,000,000) shall be designated as Preferred Stock. Five million five hundred thousand (5,500,000) shares of the Preferred Stock are designated "Series A Preferred Stock" and nine million (9,000,000) shares of the Preferred Stock are designated "Series B Preferred Stock". The rights, preferences, privileges and restrictions granted to and imposed on the Series A Preferred Stock are as set forth below in Article III(B)."

3. The foregoing amendment of Articles of Incorporation has been duly approved by the Board of Directors.

4. The foregoing amendment of Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 902 of the California General Corporation Law. The total number of outstanding shares of this corporation is 15,658,612 shares of Common Stock, 5,351,244 shares of Series A Preferred Stock, and 3,392,431 shares of Series B Preferred Stock. The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was (i) more than fifty percent (50%) of the outstanding shares of Series A Preferred Stock and Series B Preferred Stock voting together as a single class, (ii) more than fifty percent (50%) of the outstanding shares of Series B Preferred Stock voting as a single class, and (ii) more than fifty percent (50%) of the outstanding shares of Common Stock, Series A Preferred Stock and Series B Preferred Stock voting together as a single class.

The undersigned declare under penalty of perjury that the matters set forth in the foregoing certificate are true of their own knowledge. Executed at Petaluma, California on March 15, 2005.

/s/ Hojabr Alimi
Hojabr Alimi, President

/s/ Richard Conley
Richard Conley, Secretary

Exhibit 3.3

CERTIFICATE OF AMENDMENT

OF

ARTICLES OF INCORPORATION

OF

OCULUS INNOVATIVE SCIENCES, INC.

Hojabr Alimi and Richard Conley certify that:

1. They are the President and Secretary, respectively, of Oculus Innovative Sciences, Inc., a California corporation.

2. Article III.A of the Company's Articles of Incorporation is hereby amended to read in its entirety as follows:

"**Classes of Stock**. The Corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Corporation is authorized to issue is one hundred thirty million (130,000,000) shares. Of such authorized shares, one hundred million (100,000,000) shall be designated as Common Stock and thirty million (30,000,000) shall be designated as Preferred Stock. Five million five hundred thousand (5,500,000) shares of the Preferred Stock are designated "Series A Preferred Stock" and eleven million two hundred twenty-two thousand, two hundred twenty-two (11,222,222) shares of the Preferred Stock are designated "Series B Preferred Stock". The rights, preferences, privileges and restrictions granted to and imposed on the Preferred Stock are as set forth below in Article III(B)."

3. The foregoing amendment of Articles of Incorporation has been duly approved by the Board of Directors of the Corporation.

4. The foregoing amendment of Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Sections 902 and 903 of the California Corporation Code. The total number of outstanding shares of each class of the Corporation entitled to vote with respect to the amendment is 16,758,271 shares of Common Stock, 5,351,244 shares of Series A Preferred Stock, and 6,443,588 shares of Series B Preferred Stock. The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was (i) more than fifty percent (50%) of the outstanding shares of Series A Preferred Stock and Series B Preferred Stock voting together as a single class, (ii) more than fifty percent (50%) of the outstanding shares of Series A Preferred Stock voting as a single class, (iii) more than fifty percent (50%) of the outstanding shares of Series B Preferred Stock voting as a single class, (iv) more than fifty percent (50%) of the outstanding shares of Common Stock voting as a single class, and (v) more than fifty percent (50%) of the outstanding shares of Common Stock, Series A Preferred Stock and Series B Preferred Stock voting together as a single class.

[Signature Page Follows]

The undersigned declare under penalty of perjury that the matters set forth in the foregoing certificate are true of their own knowledge. Executed at Petaluma, California on August 10, 2005.

/s/ Hojabr Alimi

Hojabr Alimi, President

/s/ Richard Conley

Richard Conley, Secretary

Exhibit 3.6

BYLAWS OF
MICROMED LABORATORIES, INC.

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BYLAWS OF

MICROMED LABORATORIES, INC.

ARTICLE I

CORPORATE OFFICES

1.1 PRINCIPAL OFFICE

The Board of Directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside California and the corporation has one or more business offices in California, then the Board of Directors shall fix and designate a principal business office in California.

1.2 OTHER OFFICES

The Board of Directors may at any time establish branch or subordinate offices at any place or places.

ARTICLE II

MEETINGS OF SHAREHOLDERS

2.1 PLACE OF MEETINGS

Meetings of shareholders shall be held at any place within or outside the State of California designated by the Board of Directors. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the corporation or at any place consented to in writing by all persons entitled to vote at such meeting, given before or after the meeting and filed with the Secretary of the corporation.

2.2 ANNUAL MEETING

An annual meeting of shareholders shall be held each year on a date and at a time designated by the Board of Directors. At that meeting, directors shall be elected. Any other proper business may be transacted at the annual meeting of shareholders.

2.3 SPECIAL MEETINGS

Special meetings of the shareholders may be called at any time, subject to the provisions of Sections 2.4 and 2.5 of these Bylaws, by the Board of Directors, the Chairman of the Board, the President or the holders of shares entitled to cast not less than ten percent (10%) of the votes at that meeting.

If a special meeting is called by anyone other than the Board of Directors or the President or the Chairman of the Board, then the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by other written communication to the Chairman of the Board, the President, any Vice President or the Secretary of the corporation. The officer receiving the request forthwith shall cause notice to be given to the shareholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of these Bylaws, that a meeting will be held at the time requested by the person or persons calling the meeting, so long as that time is not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, then the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the Board of Directors may be held.

2.4 NOTICE OF SHAREHOLDERS' MEETINGS

All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 2.5 of these Bylaws not less than ten (10) (or, if sent by third-class mail pursuant to Section 2.5 of these Bylaws, not less than thirty (30)) nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote thereat. Such notice shall state the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, and no business other than that specified in the notice may be transacted, or (ii) in the case of the annual meeting, those matters which the Board of Directors, at the time of the mailing of the notice, intends to present for action by the shareholders, but, subject to the provisions of the next paragraph of this Section 2.4, any proper matter may be presented at the meeting for such action. The notice of any meeting at which Directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by the Board for election.

If action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the California Corporations Code (the "Code"), (ii) an amendment of the Articles of Incorporation, pursuant to Section 902 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, (iv) a voluntary dissolution of the corporation, pursuant to Section 1900 of the Code, or (v) a distribution in dissolution other than in accordance with the rights of any outstanding preferred shares, pursuant to Section 2007 of the Code, then the notice shall also state the general nature of that proposal.

2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Notice of a shareholders' meeting shall be given either personally or by first-class mail, or, if the corporation has outstanding shares held of record by five hundred (500) or more persons (determined as provided in Section 605 of the Code) on the record date for the shareholders' meeting, notice may be sent by third-class mail, or other means of written communication, addressed to the shareholder at the address of the shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice; or if no such address appears or is given, at the place where the principal executive office of the

corporation is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. The notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication.

If any notice (or any report referenced in Article VII of these Bylaws) addressed to a shareholder at the address of such shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the shareholder upon written demand of the shareholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of mailing of any notice or report in accordance with the provisions of this Section 2.5, executed by the Secretary, Assistant Secretary or any transfer agent, shall be prima facie evidence of the giving of the notice or report.

2.6 QUORUM

Unless otherwise provided in the Articles of Incorporation of the corporation, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of the shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

In the absence of a quorum, any meeting of shareholders may be adjourned from time to time by the vote of a majority of the shares represented either in person or by proxy, but no other business may be transacted, except as provided in the last sentence of the preceding paragraph.

2.7 ADJOURNED MEETING; NOTICE

Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if its time and place are announced at the meeting at which the adjournment is taken. However, if the adjournment is for more than forty-five (45) days from the date set for the original meeting or if a new record date for the adjourned meeting is fixed, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.4 and 2.5 of these Bylaws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.8 VOTING

The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 2.11 of these Bylaws, subject to the provisions of Sections 702 through 704 of the Code (relating to voting shares held by a fiduciary, in the name of a corporation, or in joint ownership).

Elections for directors and voting on any other matter at a shareholders' meeting need not be by ballot unless a shareholder demands election by ballot at the meeting and before the voting begins.

Except as provided in the last paragraph of this Section 2.8, or as may be otherwise provided in the Articles of Incorporation, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote of the shareholders. Any holder of shares entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or may vote them against the proposal other than elections to office, but, if the shareholder fails to specify the number of shares such shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares which the shareholder is entitled to vote.

The affirmative vote of the majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by the Code or by the Articles of Incorporation.

At a shareholders' meeting at which directors are to be elected, a shareholder shall be entitled to cumulate votes either (i) by giving one candidate a number of votes equal to the. number of directors to be elected multiplied by the number of votes to which that shareholder's shares are normally entitled or (ii) by distributing the shareholder's votes on the same principle among as many candidates as the shareholder thinks fit, if the candidate or candidates' names have been placed in nomination prior to the voting and the shareholder has given notice prior to the voting of the shareholder's intention to cumulate the shareholder's votes. If any one shareholder has given such a notice, then every shareholder entitled to vote may cumulate votes for candidates in nomination. The candidates receiving the highest number of affirmative votes, up to the number of directors to be elected, shall be elected; votes against any candidate and votes withheld shall have no legal effect.

2.9 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT

The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, are as valid as though they had been taken at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. Neither the business to be transacted at nor the purpose of any annual or special meeting of shareholders need be specified in any written waiver of notice or consent to the holding of the meeting or approval of the minutes thereof, except that if action is taken or

proposed to be taken for approval of any of those matters specified in the second paragraph of Section 2.4 of these Bylaws, the waiver of notice or consent or approval shall state the general nature of the proposal. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance of a person at a meeting shall constitute a waiver of notice of and presence at that meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by the Code to be included in the notice of such meeting but not so included, if such objection is expressly made at the meeting.

2.10 SHAREHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

All such consents shall be maintained in the corporate records. Any shareholder giving a written consent, or the shareholder's proxy holders, or a transferee of the shares, or a personal representative of the shareholder, or their respective proxy holders, may revoke the consent by a writing received by the Secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the Secretary.

If the consents of all shareholders entitled to vote have not been solicited in writing, the Secretary shall give prompt notice of any corporate action approved by the shareholders without a meeting by less than unanimous written consent to those shareholders entitled to vote who have not consented in writing. Such notice shall be given in the manner specified in Section 2.5 of these Bylaws. In the case of approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Code, (ii) indemnification of a corporate "agent," pursuant to Section 317 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, and (iv) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of the Code, the notice shall be given at least ten (10) days before the consummation of any action authorized by that approval, unless the consents of all shareholders entitled to vote have been solicited in writing.

2.11 RECORD DATE FOR SHAREHOLDER NOTICE; VOTING; GIVING CONSENTS

In order that the corporation may determine the shareholders entitled to notice of any meeting or to vote, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days prior to the date of such meeting nor more than sixty (60) days before any other action. Shareholders at the close of business on the record

date are entitled to notice and to vote, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in. the Articles of Incorporation or the Code.

A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting, but the Board of Directors shall fix a new record date if the meeting is adjourned for more than forty-five (45) days from the date set for the original meeting.

If the Board of Directors does not so fix a record date:

(a) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

(b) The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the Board has been taken, shall be the day on which the first written consent is given, or (ii) when prior action by the Board has been taken, shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

The record date for any other purpose shall be as provided in Section 8.1 of these Bylaws.

2.12 PROXIES

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the Secretary of the corporation. A proxy shall be deemed signed if the shareholder's name or other authorization is placed on the proxy (whether by manual signature, typewriting, telegraphic or electronic transmission or otherwise) by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in fall force and effect unless (i) the person who executed the proxy revokes it prior to the time of voting by delivering a writing to the corporation stating that the proxy is revoked or by executing a subsequent proxy and presenting it to the meeting or by attendance at such meeting and voting in person, or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date thereof, unless otherwise provided in the proxy. The dates contained on the forms of proxy presumptively determine the order of execution, regardless of the postmark dates on the envelopes in which they are mailed. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Code.

2.13 INSPECTORS OF ELECTION

In advance of any meeting of shareholders, the Board of Directors may appoint inspectors of election to act at the meeting and any adjournment thereof. If inspectors of election are not so appointed or designated or if any persons so appointed fail to appear or refuse to act, then the Chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election (or persons to replace those who so fail to appear) at the meeting. The number of inspectors shall be either one (1) or three (3). If appointed at a meeting on the request of one (1) or more shareholders or proxies, the majority of shares represented in person or by proxy shall determine whether one (1) or three (3) inspectors are to be appointed.

The inspectors of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies, receive votes, ballots or consents, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine when the polls shall close, determine the result and do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the Code and any limitations in the Articles of Incorporation and these Bylaws relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors. The Board may delegate the management of the day-to-day operation of the business of the corporation to a management company or other person provided that the business and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board.

3.2 NUMBER OF DIRECTORS

The authorized number of directors of the Corporation shall be not less than five (5) nor more than nine (9), and the exact number of directors shall be seven (7) until changed, within the limits specified above, by a resolution amending such exact number, duly adopted by the Board of Directors or by the shareholders. The minimum and maximum number of directors may be changed, or a definite number may be fixed without provision for an indefinite number, by a duly adopted amendment to the Articles of Incorporation or by an amendment to this Bylaw duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that an amendment reducing the fixed number or the minimum number of directors to a number less than five (5) cannot be adopted if the votes cast against its adoption at a meeting, or the shares not consenting in the case of an action by written consent, are equal to more than sixteen and two-thirds percent (16-2/3%) of the outstanding shares entitled to vote thereon. No reduction of the authorized number of directors shall have the effect

of removing any director before that director's term of office expires. No amendment may change the stated maximum number of authorized directors to a number greater than two (2) times the stated minimum number of directors minus one (1).

Notwithstanding the foregoing, the number of directors shall be one (1) so long as there is only one shareholder of record.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS

At each annual meeting of shareholders, directors shall be elected to hold office until the next annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified, except in the case of the death, resignation, or removal of such a director.

3.4 REMOVAL

The entire Board of Directors or any individual director may be removed from office without cause by the affirmative vote of a majority of the outstanding shares entitled to vote on such removal; provided, however, that unless the entire Board is removed, no individual director may be removed when the votes cast against such director's removal, or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election at which the same total number of votes cast were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected.

3.5 RESIGNATION AND VACANCIES

Any director may resign effective upon giving oral or written notice to the Chairman of the Board, the President, the Secretary or the Board of Directors, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation of a director is effective at a future time, the Board of Directors may elect a successor to take office when the resignation becomes effective.

Vacancies on the Board of Directors may be filled by a majority of the remaining directors, or if the number of directors then in office is less than a quorum by (i) unanimous written consent of the directors then in office, (ii) the affirmative vote of a majority of the directors then in office at a meeting held pursuant to notice or waivers of notice, or (iii) a sole remaining director; however, a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which, shares voting affirmatively also constitute at least a majority of the required quorum), or by the unanimous written consent of all shares entitled to vote thereon. Each director so elected shall hold office until the next annual meeting of the shareholders and until a successor has been elected and qualified, or until his or her death, resignation or removal.

A vacancy or vacancies in the Board of Directors shall be deemed to exist (i) in the event of the death, resignation or removal of any director, (ii) if the Board of Directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of

court or convicted of a felony, (iii) if the authorized number of directors is increased, or (iv) if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be elected at that meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election by written consent, other than to fill a vacancy created by removal, shall require the consent of the holders of a majority of the outstanding shares entitled to vote thereon. A director may not be elected by written consent to fill a vacancy created by removal except by unanimous consent of all shares entitled to vote for the election of directors.

3.6 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

Regular meetings of the Board of Directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the Board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the Board may be held at any place within or outside the State of California that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Members of the Board may participate in a meeting through the use of conference telephone or similar communications equipment, so long as all directors participating in such meeting can hear one another. Participation in a meeting pursuant to this paragraph constitutes presence in person at such meeting.

3.7 REGULAR MEETINGS

Regular meetings of the Board of Directors maybe held without notice if the time and place of such meetings are fixed by the Board of Directors.

3.8 SPECIAL MEETINGS; NOTICE

Subject to the provisions of the following paragraph, special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairman of the Board, the President, any Vice President, the Secretary or any two (2) directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail, telegram, charges prepaid, or by telecopier, addressed to each director at that director’s address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or by telecopier or telegram, it shall be delivered personally or by telephone or by telecopier or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting.

3.9 QUORUM

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.11 of these Bylaws. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the Board of Directors, subject to the provisions of Section 310 of the Code (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest), Section 311 of the Code (as to appointment of committees), Section 317(e) of the Code (as to indemnification of directors), the Articles of Incorporation, and other applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

3.10 WAIVER OF NOTICE

Notice of a meeting need not be given to any director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the Board of Directors.

3.11 ADJOURNMENT

A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place.

3.12 NOTICE OF ADJOURNMENT

If the meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time and place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of the adjournment.

3.13 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action required or permitted to betaken by the Board of Directors maybe taken without a meeting, if all members of the Board individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of the Board of Directors.

3.14 FEES AND COMPENSATION OF DIRECTORS

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the Board of Directors. This Section 3.14 shall not be construed to preclude any director from

serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

3.15 APPROVAL OF LOANS TO OFFICERS

If these Bylaws have been approved by the corporation's shareholders in accordance with the Code, the corporation may, upon the approval of the Board of Directors alone, make loans of money or property to, or guarantee the obligations of, any officer of the corporation or of its parent, if any, whether or not a director, or adopt an employee benefit plan or plans authorizing such loans or guaranties provided that (i) the Board of Directors determines that such a loan or guaranty or plan may reasonably be expected to benefit the corporation, (ii) the corporation has outstanding shares held of record by 100 or more persons (determined as provided in Section 605 of the Code) on the date of approval by the Board of Directors, and (iii) the approval of the Board of Directors is by a vote sufficient without counting the vote of any interested director or directors. Notwithstanding the foregoing, the corporation shall have the power to make loans permitted by the Code.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The Board of Directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two (2) or more directors, to serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any such committee shall have authority to act in the manner and to the extent provided in the resolution of the Board and may have all the authority of the Board, except with respect to:

(a) The approval of any action which, under the Code, also requires shareholders' approval or approval of the outstanding shares.

(b) The filling of vacancies on the Board of Directors or in any committee.

(c) The fixing of compensation of the directors for serving on the Board or on any committee.

(d) The amendment or repeal of these Bylaws or the adoption of new Bylaws.

(e) The amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable.

(f) A distribution to the shareholders of the corporation, except at a rate, in a periodic amount or within a price range set forth in the Articles of Incorporation or determined by the Board of Directors.

(g) The appointment of any other committees of the Board of Directors or the members thereof.

4.2 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.6 (place of meetings), Section 3.7 (regular meetings), Section 3.8 (special meetings and notice), Section 3.9 (quorum), Section 3.10 (waiver of notice), Section 3.11 (adjournment), Section 3.12 (notice of adjournment), and Section 3.13 (action without meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the Board of Directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

ARTICLE V

OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a President, a Secretary, and a Chief Financial Officer. The corporation may also have, at the discretion of the Board of Directors, a Chairman of the Board, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these Bylaws. Any number of offices may be held by the same person.

5.2 APPOINTMENT OF OFFICERS

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these Bylaws, shall be chosen by the Board and serve at the pleasure of the Board, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS

The Board of Directors may appoint, or may empower the Chairman of the Board or the President to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the Board of Directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, all officers serve at the pleasure of the Board of Directors and any officer may be removed, either with or without cause, by the Board of Directors at any regular or special meeting of the Board or, except in case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

5.6 CHAIRMAN OF THE BOARD

The Chairman of the Board, if such an officer be elected, shall, if present, preside at meetings of the Board of Directors and exercise and perform such other powers and duties as may from time to time be assigned by the Board of Directors or as may be prescribed by these Bylaws. If there is no President, then the Chairman of the Board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these Bylaws.

5.7 PRESIDENT

Subject to such supervisory powers, if any, as maybe given by the Board of Directors to the Chairman of the Board, if there be such an officer, the President shall be the chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and the officers of the corporation. The President shall preside at all meetings of the shareholders and, in the absence or nonexistence of a Chairman of the Board, at all meetings of the Board of Directors. The President shall have the general powers and duties of management usually vested in the office of President of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

5.8 VICE PRESIDENTS

In the absence or disability of the President, the Vice Presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked, a Vice President designated by the Board of Directors, shall perform all the duties of the President and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for

them respectively by the Board of Directors, these Bylaws, the President or the Chairman of the Board.

5.9 SECRETARY

The Secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the Board of Directors may direct, a book of minutes of all meetings and actions of Directors, committees of directors and shareholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board of Directors, a share register, or a duplicate share register, showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the Board of Directors required to be given by law or by these Bylaws. The Secretary shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by these Bylaws.

5.10 CHIEF FINANCIAL OFFICER

The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The Chief Financial Officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the Board of Directors. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the Board of Directors, shall render to the President and directors, whenever they request it, an account of all of his or her transactions as Chief Financial Officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS

The corporation shall, to the maximum extent and in the manner permitted by the Code, indemnify each of its directors against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was a director of the corporation. For purposes of this Article VI, a director of the corporation includes airy person (i) who is or was a director of the corporation, (ii) who is or was serving at the request of the corporation as a director of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the extent and in the manner permitted by the Code, to indemnify each of its employees, officers, and agents (other than directors) against expenses (as defined in Section 317(a) of the Code), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the Code), arising by reason of the fact that such person is or was an employee, officer, or agent of the corporation. For purposes of this Article VI, an employee or officer or agent of the corporation (other than a director) includes any person (i) who is or was an employee, officer, or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee, officer; or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee, officer, or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 PAYMENT OF EXPENSES IN ADVANCE

Expenses and attorneys' fees incurred in defending any civil or criminal action or proceeding for which indemnification is required pursuant to Section 6.1, or if otherwise authorized by the Board of Directors, shall be paid by the corporation in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay such amount if it shall ultimately be determined that the indemnified party is not entitled to be indemnified as authorized in this Article VI.

6.4 INDEMNITY NOT EXCLUSIVE

The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any Bylaw, agreement, vote of shareholders or directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The rights to indemnity hereunder shall

continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person.

6.5 INSURANCE INDEMNIFICATION

The corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation against any liability asserted against or incurred by such person in such capacity or arising out of that person's status as such, whether or not the corporation would have the power to indemnify that person against such liability under the provisions of this Article VI.

6.6 CONFLICTS

No indemnification or advance shall be made under this Article VI, except where such indemnification or advance is mandated by law or the order, judgment or decree of any court of competent jurisdiction, in any circumstance where it appears:

(1) That it would be inconsistent with a provision of the Articles of Incorporation, these

Bylaws, a resolution of the shareholders or an agreement in effect at the time of the accrual of the alleged cause of the action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(2) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

6.7 RIGHT TO BRING SUIT

If a claim under this Article is not paid in full by the corporation within 90 days after a written claim has been received by the corporation (either because the claim is denied or because no determination is made), the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expenses of prosecuting such claim. The corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the Code for the corporation to indemnify the claimant for the claim. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he or she has met the applicable standard of conduct, if any, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant has not met the applicable standard of conduct, shall be a defense to such action or create a presumption for the purposes of such action that the claimant has not met the applicable standard of conduct.

6.8 INDEMNITY AGREEMENTS

The Board of Directors is authorized to enter into a contract with any director, officer, employee or agent of the corporation, or any person who is or was serving at the request of the

corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, or any person who was a director, officer, employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation, providing for indemnification rights equivalent to or, if the Board of Directors so determines and to the extent permitted by applicable law, greater than, those provided for in this Article VI.

6.9 AMENDMENT, REPEAL OR MODIFICATION

Any amendment, repeal or modification of any provision of this Article VI shall not adversely affect any right or protection of a director or agent of the corporation existing at the time of such amendment, repeal or modification.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF SHARE REGISTER

The corporation shall keep either at its principal executive office or at the office of its transfer agent or registrar (if either be appointed), as determined by resolution of the Board of Directors, a record of its shareholders listing the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation or who hold at least one percent (1%) of such voting shares and have filed a Schedule 14B with the United States Securities and Exchange Commission relating to the election of directors, shall have an absolute right to do either or both of the following (i) inspect and copy the record of shareholders' names, addresses, and shareholdings during usual business hours upon five (5) days' prior written demand upon the corporation, or (ii) obtain from the transfer agent for the corporation, upon written demand and upon the tender of such transfer agent's usual charges for such list (the amount of which charges shall be stated to the shareholder by the transfer agent upon request), a list of the shareholders' names and addresses who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which it has been compiled or as of a date specified by the shareholder subsequent to the date of demand. The list shall be made available on or before the later of five (5) business days after the demand is received or the date specified therein as the date as of which the list is to be compiled.

The record of shareholders shall also be open to inspection and copying by any shareholder or holder of a voting trust certificate at any time during usual business hours upon written demand on the corporation, for a purpose reasonably related to the holder's interests as a shareholder or holder of a voting trust certificate.

Any inspection and copying under this Section 7.1 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

7.2 MAINTENANCE AND INSPECTION OF BYLAWS

The corporation shall keep at its principal executive office or, if its principal executive office is not in the State of California, at its principal business office in California, the original or a copy of these Bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in such state, then it shall, upon the written request of any shareholder, furnish to such shareholder a copy of these Bylaws as amended to date.

7.3 MAINTENANCE AND INSPECTION OF OTHER CORPORATE RECORDS

The accounting books and records and the minutes of proceedings of the shareholders and the Board of Directors, and committees of the Board of Directors shall be kept at such place or places as are designated by the Board of Directors or, in absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form, and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form.

The minutes and accounting books and records shall be open to inspection upon the written demand on the corporation of any shareholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a shareholder or as the holder of a voting trust certificate. Such inspection by a shareholder or holder of a voting trust certificate may be made in person or by an agent or attorney and the right of inspection includes the right to copy and make extracts. Such rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

7.4 INSPECTION BY DIRECTORS

Every director shall have the absolute right at any reasonable time to inspect and copy all books, records, and documents of every kind and to inspect the physical properties of the corporation and each of its subsidiary corporations, domestic or foreign. Such inspection by a director may be made in person or by an agent or attorney and the right of inspection includes the right to copy and make extracts.

7.5 ANNUAL REPORT TO SHAREHOLDERS; WAIVER

The Board of Directors shall cause an annual report to be sent to the shareholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent to the shareholders at least fifteen (15) (or, if sent by third-class mail, thirty-five (35)) days prior to the annual meeting of shareholders to be held during the next fiscal year and in the manner specified in Section 2.5 of these Bylaws for giving notice to shareholders of the corporation.

The annual report shall contain a balance sheet as of the end of the fiscal year and an income statement and statement of changes in financial position for the fiscal year, accompanied by any report thereon of independent accountants or, if there is no such report, the certificate of

an authorized officer of the corporation that the statements were prepared without audit from the books and records of the corporation.

The foregoing requirement of an annual report shall be waived so long as the shares of the corporation arc held by fewer than one hundred (100) holders of record.

7.6 FINANCIAL STATEMENTS

If no annual report for the fiscal year has been sent to shareholders, then the corporation shall, upon the written request of any shareholder made more than one hundred twenty (120) days after the close of such fiscal year, deliver or mail to the person making the request, within thirty (30) days thereafter, a copy of a balance sheet as of the end of such fiscal year and an income statement and statement of changes in financial position for such fiscal year.

A shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of the corporation may make a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the current fiscal year ended more than thirty (30) days prior to the date of the request and a balance sheet of the corporation as of the end of that period. The statements shall be delivered or mailed to the person making the request within thirty (30) days thereafter. A copy of the statements shall be kept on file in the principal office of the corporation for twelve (12) months and it shall be exhibited at all reasonable times to any shareholder demanding an examination of the statements or a copy shall be mailed to the shareholder. If the corporation has not sent to the shareholders its annual report for the last fiscal year, the statements referred to in the first paragraph of this Section 7.6 shall likewise be delivered or mailed to the shareholder or shareholders within thirty (30) days after the request.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report thereon, if any, of any independent accountants engaged by the corporation or the certificate of an authorized officer of the corporation that the financial statements were prepared without audit from the books and records of the corporation.

7.7 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The Chairman of the Board, the President, any Vice President, the Chief Financial Officer, the Secretary or Assistant Secretary of this corporation, or any other person authorized by the Board of Directors or the President or a Vice President, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted maybe exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE VIII

GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING

For purposes of determining the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action (other than with respect to notice or voting at a shareholders meeting or action by shareholders by written consent without a meeting), the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days prior to any such action. Only shareholders of record at the close of business on the record date are entitled to receive the dividend, distribution or allotment of rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Articles of Incorporation or the Code.

If the Board of Directors does not so fix a record date, then the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto or the sixtieth (60th) day prior to the date of that action, whichever is later.

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS

From time to time, the Board of Directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED

The Board of Directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 CERTIFICATES FOR SHARES

A certificate or certificates for shares of the corporation shall be issued to each shareholder when any of such shares are fully paid.. The Board of Directors may authorize the issuance of certificates for shares partly paid provided that these certificates shall state the total amount of the consideration to be paid for them and the amount actually paid. All certificates shall be signed in the name of the corporation by the Chairman of the Board or the Vice Chairman of the Board or the President or a Vice President and by the Chief Financial Officer or an Assistant Treasurer or the Secretary or an Assistant Secretary, certifying the number of shares

and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be by facsimile.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if that person were an officer, transfer agent or registrar at the date of issue.

8.5 LOST CERTIFICATES

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation or its transfer agent or registrar and canceled at the same time. The Board of Directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed (as evidenced by a written affidavit or affirmation of such fact), authorize the issuance of replacement certificates on such terms and conditions as the Board may require; the Board may require indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

8.6 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Code shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term person includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

9.1 AMENDMENT BY SHAREHOLDERS

New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the Articles of Incorporation of the corporation set forth the number of authorized Directors of the corporation, then the authorized number of Directors may be changed only by an amendment of the Articles of Incorporation.

9.2 AMENDMENT BY DIRECTORS

Subject to the rights of the shareholders as provided in Section 9.1 of these Bylaws, Bylaws, other than a Bylaw or an amendment of a Bylaw changing the authorized number of directors (except to fix the authorized number of directors pursuant to a Bylaw providing for a variable number of directors), may be adopted, amended or repealed by the Board of Directors.

9.3 RECORD OF AMENDMENTS

Whenever an amendment or new Bylaw is adopted, it shall be copied in the book of minutes with the original Bylaws. If any Bylaw is repealed, the fact of repeal, with the date of the meeting at which the repeal was enacted or written consent was filed, shall be stated in said book.

ARTICLE X

INTERPRETATION

Reference in these Bylaws to any provision of the California Corporations Code shall be deemed to include all amendments thereof.

SECRETARY'S CERTIFICATE OF ADOPTION OF BYLAWS

OF

MICROMED LABORATORIES, INC.

The undersigned does hereby certify:

1. I am the duly elected and acting Secretary of MicroMed Laboratories, Inc., a California corporation.

2. That the foregoing Bylaws consisting of-twenty-three (23) pages, including this page, constitute the Bylaws of said corporation as adopted by the Directors of said corporation by unanimous written consent on April 16, 1999.

IN WITNESS WHEREOF, I hereunto subscribe my name effective this 16th day of April, 1999.

/s/ Hojabr Alimi
Hojabr Alimi, Secretary

Exhibit 4.2

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE AND DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED DUE TO AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

WARRANT TO PURCHASE

66,667 SHARES OF SERIES A PREFERRED STOCK OF

OCULUS INNOVATIVE SCIENCES, INC.

(Void after December 31, 2014)

This certifies that VENTURE LENDING & LEASING III, LLC, a Delaware limited liability company, or assigns (the "Holder"), for value received, is entitled to purchase from OCULUS INNOVATIVE SCIENCES, INC., a California corporation (the "Company"), 66,667 fully paid and nonassessable shares of the Company's Series A Preferred Stock ("Preferred Stock") for cash at a price of $1.50 per share (the "Stock Purchase Price") at any time or from time to time up to and including 5:00 p.m. (Pacific time) on December 31, 2014 (the "Expiration pate"), upon surrender to the Company at its principal office at 1129 North McDowell Blvd., Petaluma, California 94954. (or at such other location as the Company may advise Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof The Stock Purchase Price and the number of shares purchasable hereunder are subject to adjustment as provided in Section 4 of this Warrant.

This Warrant is subject to the following terms and conditions:

1. Exercise: Issuance of Certificates: Payment for Shares.

(a) Unless an election is made pursuant to clause (b) of this Section 1, this Warrant shall be exercisable at the option of the Holder, at any time or from time to time, on or before the Expiration Date for all or any portion of the shares of Preferred Stock (but not for a fraction of a share) which may be purchased hereunder for the Stock Purchase Price multiplied by the number of shares to be purchased. In the event, however, that pursuant to the Company's Articles of Incorporation, as amended, an event causing automatic conversion of the Company's Preferred Stock shall have occurred prior to the exercise of this Warrant, in whole or in part, then this Warrant shall be exercisable for the number of shares of Common Stock of the Company into which the Preferred Stock not purchased upon any prior exercise of this Warrant would have been so converted (and, where the context requires, reference to "Preferred Stock" shall be deemed to be or include such Common Stock, as may be appropriate). The Company agrees that the shares of Preferred Stock purchased under this Warrant shall be and are deemed to be issued

to the Holder hereof as the record owner of such shares as of the close of business on the date on which the form of subscription shall have been delivered and payment made for such shares. Subject to the provisions of Section 2, certificates for the shares of Preferred Stock so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. Except as provided in clause (b) of this Section 1, in case of a purchase of less than all the shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the shares purchasable under this Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each stock certificate so delivered shall be in such denominations of Preferred Stock as may be requested by the Holder hereof and shall be registered in the name of such Holder or such other name as shall be designated by such Holder, subject to the limitations contained in Section 2.

(b) The Holder, in lieu of exercising this Warrant by the cash payment of the Stock Purchase Price pursuant to clause (a) of this Section I, may elect, at any time on or before the Expiration Date, to surrender this Warrant and receive that number of shares of Preferred Stock equal to the quotient of: (i) the difference between (A) the Per Share Price (as hereinafter defined) of the Preferred Stock, less (B) the Stock Purchase Price then in effect, multiplied by the number of shares of Preferred Stock the Holder would otherwise have been entitled to purchase hereunder pursuant to clause (a) of this Section 1 (or such lesser number of shares as the Holder may designate in the case of a partial exercise of this Warrant); over (ii) the Per Share Price. Election to exercise under this section (b) may be made by delivering a signed form of subscription to the Company via facsimile, to be followed by delivery of this Warrant.

(c) For purposes of clause (b) of this Section I, "Per Share Price" means the product of: (1) the greater of (A) the closing price of the securities issuable upon conversion of the Preferred Stock, as quoted by NASDAQ or listed on any exchange, whichever is applicable, as published in the Western Edition of The Wail Street Journal for the trading day immediately prior to the date of the Holder's election hereunder or, (B) if applicable at the time of or in connection with the exercise under clause (b) of this Section I, the gross sales price of one share of the Company's Common Stock pursuant to a registered public offering or that amount which stockholders of the Company will receive for each share of Common Stock pursuant to a merger, reorganization or sale of assets; and (ii) that number of shares of Common Stock into which each share of Preferred Stock is convertible. If the securities issuable upon conversion of the Preferred Stock are not quoted by NASDAQ or listed on an exchange and none of the above clauses apply, the Per Share Price of the Preferred Stock (or the equivalent number of shares of Common Stock into which such Preferred Stock is convertible) shall be the price per share which the Board of Directors of the Company shall determine in good faith.

2. Limitation on Transfer.

(a) This Warrant and the Preferred Stock shall not be transferable without the prior written consent of the Company (which shall not be unreasonably withheld or delayed) and then only after compliance with the conditions specified in this Section 2, which conditions are intended to insure compliance with the provisions of the Securities Act. Each holder of this

Warrant or the Preferred Stock issuable hereunder will cause any proposed transferee of the Warrant or Preferred Stock to agree to take and hold such securities subject to the provisions and upon the conditions specified in this Section 2.

(b) Each certificate representing (i) this Warrant, (ii) the Preferred Stock, (iii) shares of the Company's Common Stock issued upon conversion of the Preferred Stock and (iv) any other securities issued in respect to the Preferred Stock or Common Stock issued upon conversion of the Preferred Stock upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of this Section 2 or unless such securities have been registered under the Securities Act or sold under Rule 144) be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE AND DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED DUE TO AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

(c) The Holder of this Warrant and each person to whom this Warrant is subsequently - transferred (if permitted hereunder) represents and warrants to the Company (by acceptance of such transfer) that it will not transfer this Warrant (or securities issuable upon exercise hereof unless a registration statement under the Securities Act was in effect with respect to such securities at the time of issuance thereof) except pursuant to (1) an effective registration statement under the Securities Act, (ii) Rule 144 under the Securities Act (or any other rule under the Securities Act relating to the disposition of securities), or (iii) an opinion of counsel, reasonably satisfactory to counsel for the Company, that an exemption from such registration is available.

3. Shares to be Fully Paid: Reservation of Shares. The Company covenants and agrees that all shares of Preferred Stock which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Preferred Stock, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such shares of Preferred Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Preferred Stock may be listed. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as defined in Section 4 hereof) (i) if the total number of shares of Preferred Stock issuable after such action

upon exercise of all outstanding warrants, together with all shares of Preferred Stock then outstanding and all shares of Preferred Stock then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of shares of Preferred Stock then authorized by the Company's Articles of Incorporation, (ii) if the total number of shares of Common Stock issuable after such action upon the conversion of all such shares of Preferred Stock together with all shares of Common Stock then outstanding and then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding would exceed the total number of shares of Common Stock then authorized by the Company's Articles of Incorporation or (iii) if the par value per share of the Preferred Stock would exceed the Stock Purchase Price.

4. Adjustment of Stock Purchase Price and Number of Shares. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 4. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment

4.1 Subdivision or Combination of Stock. In case the Company shall at any time subdivide its outstanding shares of Preferred Stock into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Preferred Stock of the Company shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

4.2 Dividends in Preferred Stock, Other Stock, Property, Reclassification. If at any time or from time to time the holders of Preferred Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(a) Preferred Stock, or any shares of stock or other securities whether or not such securities are at any time directly or indirectly convertible into or exchangeable for Preferred Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution, or

(b) any cash paid or payable otherwise than as a cash dividend, or

(c) Preferred Stock or other or additional stock or other securities or property (including cash) by way of spin off, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than shares of Preferred Stock issued as a stock split, adjustments in respect of which shall be covered by the terms of Section 4.1 above),

Then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Preferred Stock receivable thereupon,

and without payment of any additional consideration therefore, the amount of stock and other securities and property (including cash in the cases referred to in clauses (b) and (c) above) which such Holder would hold on the date of such exercise had he been the holder of record of such Preferred Stock as of the date on which holders of Preferred Stock received or became entitled to receive such shares and/or all other additional stock and other securities and property.

4.3 Reorganization, Reclassification, Consolidation, Mercer or Sale. If any capital reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Preferred Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Preferred Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby the holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Preferred Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby) such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Preferred Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. in any such case, appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Stock Purchase Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be possible, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof The Company will not effect arty such consolidation, merger or sale unless, prior to the consummation thereof; the successor corporation (if other than the Company) resulting from such consolidation, or the corporation purchasing such assets shall assume by written instrument, executed and mailed or delivered to the registered Holder hereof at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to purchase.

4.4 Sale or Issuance Below Purchase Price. The other antidilution rights applicable to the shares of series Preferred Stock purchasable hereunder are set forth in the Company's Articles of Incorporation, as amended through the date hereof (the "Charter"). The Company shall promptly provide the Holder hereof with any restatement, amendment, modification or waiver of the Charter promptly after the same has been made.

4.5 Notice of Adjustment. Upon any adjustment of the Stock Purchase Price, and/or any increase or decrease in the number of shares purchasable upon the exercise of this Warrant the Company shall give written notice thereof; by first class mail, postage prepaid, addressed to the registered holder of this Warrant at the address of such holder as shown on the books of the Company. The notice, which may be substantially in the form of Exhibit "A" attached hereto, shall be signed by the Company's chief financial officer and shall state the Stock Purchase Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

4.6 Other Notices. If at any time:

(a) the Company shall declare any cash dividend upon its Preferred Stock;

(b) the Company shall declare any dividend upon its Preferred Stock payable in stock or make any special dividend or other distribution to the holders of its Preferred Stock;

(c) the Company shall offer for subscription pro rata to the holders of its Preferred Stock any additional shares of stock in connection with a Down Round or additional shares of stock of any class or other rights;

(d) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another entity;

(e) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company; or

(f) the Company shall take or propose to take any other action, notice of which is actually provided to holders of the Preferred Stock;

then, in any one or more of said cases, the Company shall give, by first class mail, postage prepaid, addressed to the Holder of this Warrant at the address of such Holder as shown on the books of the Company, (i) at least 20 day's prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action and (ii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action, at least 20 day's written notice of the date when the same shall take place. Any notice given in accordance with the foregoing clause (i) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Preferred Stock shall be entitled thereto. Any notice given hi accordance with the foregoing clause (ii) shall also specify the date on which the holders of Preferred Stock shall be entitled to exchange their Preferred Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action as the case may be.

4.7 Certain Events. If any change in the outstanding Preferred Stock of the Company or any other event occurs as to which the other provisions of this Section 4 are not strictly applicable and the Board of Directors in good faith believes that an adjustment is necessary to effect the essential intent and principles with the adjustment provisions of this Warrant or if the provisions of this Section 4 are strictly applicable to an event but the application of such provisions would not fairly effect the adjustments to this Warrant in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall make in good faith an adjustment in the number and class of shares issuable under this Warrant, the Stock Purchase Price and/or the application of such provisions, in accordance with such essential intent and principles, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of this Warrant upon

exercise for the same aggregate Stock Purchase Price the total number, class and kind of shares as the Holder would have owned had this Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment.

5. Issue Tax. The issuance of certificates for shares of Preferred Stock upon the exercise of this Warrant shall be made without charge to the Holder of this Warrant for any issue tax in respect thereof, provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of this Warrant being exercised.

6. Closing of Books. The Company will at no time close its transfer books against the transfer of this Warrant or of any shares of Preferred Stock issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant, unless required by applicable law or regulation, or to avoid the violation of any applicable law or regulation..

7. No Voting or Dividend Ruts: Limitation of Liability. Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant-shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase shares of Preferred Stock, and no mere enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a stockholder of the Company, whether such liability is asserted by the Company or by its creditors.

8. Intentionally Omitted.

9. Registration Rights. The Holder hereof shall be entitled, with respect to the shares of Preferred Stock issued upon exercise hereof or the shares of Common Stock or other securities issued upon conversion of such Preferred Stock as the case may be, to all of the registration rights set forth in the Series A Preferred Shares Investors Rights Agreement executed by the holders of Series A Preferred Stock in connection with the offering of Series A Preferred Shares (the "Rights Agreement"), to the same extent and on the same terms and conditions as possessed by the investors thereunder with the following exceptions and clarifications: (i) the Holder will have no demand registration rights; (ii) the Holder will be subject to the same provisions regarding indemnification as contained in the Rights Agreement; (iii) the registration rights are freely assignable by the Holder of this Warrant in connection with a permitted transfer of this Warrant or the shares issuable upon exercise hereof; and (iv) the Holder will be subject to the same lock-up obligations as contained in the Rights Agreement. The Company shall take such action as may be reasonably necessary to assure that the granting of such registration rights to the Holder does not violate the provisions of the Rights Agreement or any of the Company's charter documents or rights of prior grantees of registration rights.

10. Rights and Obligations Survive Exercise of Warrant. The rights and obligations of the Company, of the Holder of this Warrant and of the holder of shares of Preferred Stock issued upon exercise of this Warrant, contained in Sections 6 and 9 shall survive the exercise of this Warrant.

11. Modification and Waiver. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

12. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder hereof or the Company shall be deemed to have been given (i) upon receipt if delivered personally or by courier (ii) upon confirmation of receipt if by telecopy or (iii) three business days after deposit in the US mail, with postage prepaid and certified or registered, to each such Holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant

13. Binding Effect on Successors. This Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets. All of the obligations of the Company relating to the Preferred Stock issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assign of the holder hereof. The Company will, at the time of the exercise of this Warrant, in whole or in part, upon request of the Holder hereof and at the Holder's expense, acknowledge in writing its continuing obligation to the Holder hereof in respect of any rights (including, without limitation, any right to registration of the shares of Common Stock) to which the Holder hereof shall continue to be entitled after such exercise in accordance with this Warrant; provided, that the failure of the Holder hereof to make any such request shall not affect the continuing obligation of the Company to the Holder hereof in respect of such rights.

14. Descriptive Headings and Governing Law. The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.

15. Lost Warrants pr Stock Certificates. The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of any Warrant or stock certificate and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant or stock certificate, the Company at its expense will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

16. Fractional Share. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

17. Representations of Holder. With respect to this Warrant, Holder represents and warrants to the Company as follows:

17.1 Experience. It is an "accredited investor" as that term is defined in Rule 501 (a) promulgated under the Securities Act of 1933, as amended; is experienced in evaluating and investing in companies engaged in businesses similar to that of the Company; it understands that investment in this Warrant involves substantial risks; it has made detailed inquiries concerning the Company, its business and services, its officers and its personnel; the officers of the Company have made available to Holder any and all written information it has requested; the officers of the Company have answered to Holder's satisfaction all inquiries made by it; in making this investment it has relied upon information made available to it by the Company; and it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of investment in the Company and it is able to bear the economic risk of that investment.

17.2 Investment. It is acquiring this Warrant for investment for its own account and not with a view to, or for resale in connection with, any distribution thereof. It understands that this Warrant, the shares of Preferred Stock issuable upon exercise thereof and the shares of Common Stock issuable upon conversion of the Preferred Stock, have not been registered under the Securities Act, nor qualified under applicable state securities laws.

17.3 Rule 144. It acknowledges that this Warrant, the Preferred Stock and the Common Stock must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. It has been advised or is aware of the provisions of Rule 144 promulgated under the Securities Act.

17.4 Access to Data. It has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has had the opportunity to inspect the Company's facilities.

18. Additional Representations and Covenants of the Company. The Company hereby represents, warrants and agrees as follows:

18.1 Corporate Power. The Company has all requisite corporate power and corporate authority to issue this Warrant and to carry out and perform its obligations hereunder.

18.2 Authorization. All corporate action on the part of the Company, its directors and stockholders necessary for the authorization, execution, delivery and performance by the Company of this has been taken. This Warrant is a valid and binding obligation of the Company, enforceable in accordance with its terms.

18.3 Offering. Subject in part to the truth and accuracy of Holder's representations set forth in Section 17 hereof, the offer, issuance and sale of this Warrant is, and the issuance of Preferred Stock upon exercise of this Warrant and the issuance of Common Stock upon conversion of the Preferred Stock will be exempt from the registration requirements of the Securities Act, and are exempt from the qualification requirements of any applicable state securities laws; and neither the Company nor anyone acting on its behalf will take any action hereafter that would cause the loss of such exemptions.

18.4 Stock Issuance. Upon exercise of this Warrant, the Company will use its best efforts to cause stock certificates representing the shares of Preferred Stock purchased pursuant to the exercise to be issued in the names of Holder, its nominees or assignees, as appropriate at the time of such exercise. Upon conversion of the shares of Preferred Stock into shares of Common Stock, the Company will issue the Common Stock in the names of Holder, its nominees or assignees, as appropriate.

18.5 Certificates and By-Laws. The Company has provided Holder with true and complete copies of the Company's Certificate of Incorporation, By-Laws, and each Certificate of Designation or other charter document setting, forth any rights, preferences and privileges of Company's capital stock, each as amended and in effect on the date of issuance of this Warrant.

18.6 Conversion of Preferred Stock. As of the date hereof, each share of the Preferred Stock is convertible into one share of the Common Stock.

18.7 Financial and Other Reports. From time to time up to the earlier of the Expiration Date or the complete exercise of this Warrant, the Company shall furnish to Holder (i) within 90 days after the close of each fiscal year of the Company an audited balance sheet and statement of changes in financial position at and as of the end of such fiscal year, together with an audited statement of income for such fiscal year; (ii) within 45 days after the close of each fiscal quarter of the Company, an unaudited balance sheet and statement of cash flows at and as of the end of such quarter, together with an unaudited statement of income for such quarter, and (iii) promptly after sending, making available, or filing, copies of all reports, proxy statements, and financial statements that the Company sends or makes available to its stockholders and all registration statements and reports that the Company files with the SEC or any other governmental or regulatory authority.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its officers, thereunto duly authorized this 21 day of April, 2004.

OCULUS INNOVATIVE SCIENCES, INC

By: /s/ Robert E. Miller

Title: CFO

VENTURE LENDING & LEASING III, LLC

By VLLI CAPITAL, LLC,
a Delaware limited liability company,
its Managing Member

By: Westech Investment Advisors, Inc.
its Managing Member

By: /s/ Salvador O. Gutierrez
Name: Salvador O. Gutierrez
Title: President

FORM OF SUBSCRIPTION

(To be signed only upon exercise of Warrant)

To: OCULUS INNOVATIVE SCIENCES, INC.

☐ The undersigned, the holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, (l) See Below _____ (_____) shares (the "Shares") of Stock of _____ and herewith makes payment of _____ Dollars ($_____) therefor, and requests that the certificates for such shares be issued in the name of, and delivered to, _____, whose address is _____.

☐ The undersigned hereby elects to convert _____ percent (%_____) of the value of the Warrant pursuant to the provisions of Section 1(b) of the Warrant.

The undersigned acknowledges that it has reviewed the representations and warranties contained in Section 17 of this Warrant and by its signature below hereby makes such representations and warranties to the Company.

Dated _____

Holder: _____

By: _____

Its: _____

(Address)

_____

_____

(1) Insert here the number of shares called for on the face of the Warrant (or, in the case of a partial exercise, the portion thereof as to which the Warrant is being exercised), in either case without making any adjustment for additional Preferred Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the Warrant, may be issuable upon exercise.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned, the holder of the within Warrant, hereby sells, assigns and transfers all of the rights of the undersigned under the within Warrant, with respect to the number of shares of Preferred Stock covered thereby set forth herein below, unto:

Name of Assignee	Address	No. of Shares

Dated _____

Holder: _____

By: _____

Its: _____

EXHIBIT "A"

[On letterhead of the Company]

Reference is hereby made to that certain Warrant dated February ___, 2004 issued by OCULUS INNOVATIVE SCIENCES, INC, a California corporation (the "Company"), to VENTURE LENDING & LEASING III, INC., a Maryland corporation (the "Holder").

(1F APPLICABLE] Notice is hereby given pursuant to Section 4.5 of the Warrant that the following adjustment(s) have been made to the Warrant: (describe adjustments, setting forth details regarding method of calculation and facts upon which calculation is based].

This certifies that the Holder is entitled to purchase from the Company _____(_____) fully paid and nonassessable shares of the Company's _____Stock at a price of _____ Dollars ($_____) per share (the "Stock Purchase Price"). The Stock Purchase Price and the number of shares purchasable under the Warrant remain subject to adjustment as provided in Section 4 of the Warrant.

Executed this _____ day of _____, 200_____.

OCULUS INNOVATIVE SCIENCES, INC

By: _____

Name: _____

Title: _____

Exhibit 4.3

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE AND DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED DUE TO AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

WARRANT TO PURCHASE

SHARES OF SERIES B PREFERRED STOCK OF

OCULUS INNOVATIVE SCIENCES, INC.

(Void after March 31, 2017)

This certifies that VENTURE LENDING & LEASING IV, LLC, a Delaware limited liability company, or assigns (the "Holder"), for value received, is entitled to purchase from OCULUS INNOVATIVE SCIENCES, INC., a California corporation (the "Company"), a number of fully paid and nonassessable shares of the Company's securities for an aggregate exercise price and at a price per share (the "Stock Purchase Price") determined as follows:

All capitalized terms used in this Warrant and not otherwise defined shall have the meanings ascribed to them in Section 11 of the Loan and Security Agreement dated as of even date herewith (the "Loan Agreement") and Part 1 of the Supplement thereto of even date therewith, between the Company and Venture Lending & Leasing IV, Inc. ("Lender").

Additional defined terms for this Warrant. For purposes of this Warrant:

"Alternate Price" means (A) seventy-five percent (75%) of the Next Round Price, if the Next Round occurs prior to an IPO, or (B) seventy-five percent (75%) of the IPO Price, if an IPO occurs prior to the Next Round.

"IPO" means Company's first underwritten public offering of its shares of Common Stock pursuant to an effective registration statement under the Securities Act of 1933, as amended.

"IPO Price" means the price per share to the public in its IPO.

"Next Round" means the next transaction after the Closing Date, other than an IPO, in which the Company issues and sells a class or series of equity securities in connection with a bona fide round of equity financing resulting in net aggregate proceeds to Company of at least $2,000,000.

"Next Round Price" means the lowest price per share paid by an investor for Next Round Shares.

"Next Round Shares" means the type and series of securities issued by Company in the Next Round.

"Series B Price" means $4.50 per share.

"Shares" means the series of Preferred Stock issued or issuable upon the exercise of this Warrant, or the Company's Common Stock if Common Stock is issued or issuable upon the exercise of this Warrant.

"Vested Additional Share Amount" shall mean for each advance by the Lender of any Loan to the Company pursuant to the Commitment, a percentage of the total Commitment represented by such Loan multiplied by 85,000. (As an example for illustration purposes only, if Company draws $1,000,000 of the Commitment in a

Loan, Lender would be entitled to additional shares of Preferred Stock as follows: 1,000,000/5,000,000=.20*85,000= 17,000 additional shares)

The Holder shall be entitled initially to purchase hereunder Two Hundred Fifteen Thousand (215,000) fully paid and nonassessable shares of Series B Preferred Stock of the Company at the Series B Price, provided, however, if the Company does not successfully complete an IPO on or before March 31, 2007, then the Holder shall be entitled to purchase the Shares at the Alternate Price. (For purposes of this Warrant, "Stock Purchase Price" means either the Series B Price or the Alternate Price, as determined in this paragraph.)

In addition thereto, for each Loan advanced by Lender to the Company pursuant to the Commitment up to Five Million United States Dollars ($5,000,000), Holder shall be entitled to purchase at the Stock Purchase Price the Vested Additional Share Amount of fully paid and nonassessable shares of the Company's Preferred Stock up to Eighty-Five Thousand (85,000) shares.

If this Warrant is exercisable at the Alternate Price based upon an IPO, it shall be exercisable for shares of Company's Common Stock. The Stock Purchase Price and the number of Shares purchasable hereunder are subject to adjustment as provided in Section 4 of this Warrant.

As soon as reasonably practicable after the occurrence or non-occurrence of the latest event or condition necessary to determine (i) the actual number and type of the Company's securities issuable upon exercise of this Warrant and (ii) the initial Stock Purchase Price, the Company shall execute and deliver a supplement to this Warrant in substantially the form of Exhibit "A" attached hereto, completed with such quantity and price terms and other information as have been determined as a result of the occurrence or non-occurrence of such events or conditions. The provisions of such supplement, once completed and executed, shall control the interpretation and exercise of this Warrant; provided, however, that the failure of the Company to deliver such supplement shall not affect the rights of the Holder of this Warrant to receive the number of securities at the Stock Purchase Price as set forth herein.

This Warrant may be exercised at any time or from time to time up to and including 5:00 p.m. (Pacific time) on March 31, 2017 (the "Expiration Date"), upon surrender to the Company at its principal office at 1129 North McDowell Blvd., Petaluma, California 94954 (or at such other location as the Company may advise Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof.

This Warrant is subject to the following terms and conditions:

1. Exercise; Issuance of Certificates; Payment for Shares.

(a) Unless an election is made pursuant to clause (b) of this Section 1, this Warrant shall be exercisable at the option of the Holder, at any time or from time to time, on or before the Expiration Date for all or any portion of the Shares (but not for a fraction of a share) which may be purchased hereunder for the Stock Purchase Price multiplied by the number of Shares to be purchased. In the event, however, that pursuant to the Company's Articles of Incorporation, as amended, an event causing automatic conversion of the Company's Preferred Stock shall have occurred prior to the exercise of this Warrant, in whole or in part, then this Warrant shall be exercisable for the number of shares of Common Stock of the Company into which the Preferred Stock not purchased upon any prior exercise of this Warrant would have been so converted (and, where the context requires, reference to "Preferred Stock" shall be deemed to be or include such Common Stock, as may be appropriate). The Company agrees that the Shares purchased under this Warrant shall be and are deemed to be issued to the Holder hereof as the record owner of such Shares as of the close of business on the date on which the form of subscription shall have been delivered and payment made for such Shares. Subject to the provisions of Section 2, certificates for the Shares so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. Except as provided in clause (b) of this

Section 1, in case of a purchase of less than all the Shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the Shares purchasable under this Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each warrant so delivered shall be in such denominations as may be requested by the Holder hereof and shall be registered in the name of such Holder or such other name as shall be designated by such Holder, subject to the limitations contained in Section 2.

(b) The Holder, in lieu of exercising this Warrant by the cash payment of the Stock Purchase Price pursuant to clause (a) of this Section 1, may elect, at any time on or before the Expiration Date, to surrender this Warrant and receive that number of Shares equal to the quotient of: (i) the difference between (A) the Per Share Price (as hereinafter defined), less (B) the Stock Purchase Price then in effect, multiplied by the number of Shares the Holder would otherwise have been entitled to purchase hereunder pursuant to clause (a) of this Section 1 (or such lesser number of Shares as the Holder may designate in the case of a partial exercise of this Warrant); over (ii) the Per Share Price. Election to exercise under this section (b) may be made by delivering a signed form of subscription to the Company via facsimile, to be followed by delivery of this Warrant.

(c) For purposes of clause (b) of this Section 1, "Per Share Price" means the product of: (i) the greater of (A) the closing price of the securities issuable upon conversion of the Preferred Stock, as quoted by NASDAQ or listed on any exchange, whichever is applicable, as published in the Western Edition of The Wall Street Journal for the trading day immediately prior to the date of the Holder's election hereunder or, (B) if applicable at the time of or in connection with the exercise under clause (b) of this Section 1, the gross sales price of one share of the Company's Common Stock pursuant to a registered public offering or that amount which stockholders of the Company will receive for each share of Common Stock pursuant to a merger, reorganization or sale of assets; and (ii) that number of shares of Common Stock into which each share of Preferred Stock is convertible. If the securities issuable upon conversion of the Preferred Stock are not quoted by NASDAQ or listed on an exchange and none of the above clauses apply, the Per Share Price of the Preferred Stock (or the equivalent number of shares of Common Stock into which such Preferred Stock is convertible) shall be the price per share which the Board of Directors of the Company shall determine in good faith.

2. Limitation on Transfer.

(a) This Warrant and the Shares shall not be transferable without the prior written consent of the Company (which shall not be unreasonably withheld or delayed) and then only after compliance with the conditions specified in this Section 2, which conditions are intended to insure compliance with the provisions of the Securities Act. The effectiveness of any transfer of this Warrant or the Shares issuable hereunder is subject to the execution and delivery by the proposed transferee of the Warrant or the Shares of an assignment and assumption document in a form provided by the Company whereby such proposed transferee agrees to take and hold such securities subject to the provisions and upon the conditions specified in this Section 2.

(b) Each certificate representing (i) this Warrant, (ii) the Shares, (iii) if applicable, shares of the Company's Common Stock issued upon conversion of the Shares and (iv) any other securities issued in respect to the Preferred Stock or Common Stock issued upon conversion of the Preferred Stock upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of this Section 2 or unless such securities have been registered under the Securities Act or sold under Rule 144) be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE AND DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED DUE TO AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

(c) The Holder of this Warrant and each person to whom this Warrant is subsequently transferred (if permitted hereunder) represents and warrants to the Company (by acceptance of such transfer) that it will not transfer this Warrant (or securities issuable upon exercise hereof unless a registration statement under the Securities Act was in effect with respect to such securities at the time of issuance thereof) except pursuant to (i) an effective registration statement under the Securities Act, (ii) Rule 144 under the Securities Act (or any other rule under the Securities Act exempting the disposition of securities from registration), or (iii) an opinion of counsel, reasonably satisfactory to counsel for the Company, that an exemption from such registration is available.

3. Shares to be Fully Paid; Reservation of Shares. The Company covenants and agrees that all Shares which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Shares, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Shares may be listed. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as defined in Section 4 hereof) (i) if the total number of Shares issuable after such action upon exercise of all outstanding warrants, together with all shares of Preferred Stock then outstanding and all shares of Preferred Stock then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of shares of Preferred Stock then authorized by the Company's Articles of Incorporation, (ii) if the total number of shares of Common Stock issuable after such action upon the conversion of all such shares of Preferred Stock together with all shares of Common Stock then outstanding and then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding would exceed the total number of shares of Common Stock then authorized by the Company's Articles of Incorporation, or (iii) if the par value per share of the Preferred Stock would exceed the Stock Purchase Price.

4. Adjustment of Stock Purchase Price and Number of Shares. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 4. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment.

4.1 Subdivision or Combination of Stock. Without duplication of any provision in the Company's Articles of Incorporation, as amended, in case the Company shall at any time subdivide its outstanding Shares into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding Shares shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

4.2 Dividends in Preferred Stock, Other Stock, Property, Reclassification. If at any time or from time to time the holders of Preferred Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(a) Preferred Stock, or any shares of stock or other securities whether or not such securities are at any time directly or indirectly convertible into or exchangeable for Preferred Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution, or

(b) any cash paid or payable otherwise than as a cash dividend, or

(c) Preferred Stock or other or additional stock or other securities or property (including cash) by way of spin off, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than shares of Preferred Stock issued as a stock split, adjustments in respect of which shall be covered by the terms of Section 4.1 above),

Then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Preferred Stock receivable thereupon, and without payment of any additional consideration therefore, the amount of stock and other securities and property (including cash in the cases referred to in clauses (b) and (c) above) which such Holder would hold on the date of such exercise had he been the holder of record of such Preferred Stock as of the date on which holders of Preferred Stock received or became entitled to receive such shares and/or all other additional stock and other securities and property.

4.3 Reorganization, Reclassification, Consolidation, Merger or Sale. If any capital reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Shares shall be entitled to receive stock, securities or assets with respect to or in exchange for Shares, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby the holder hereof shall thereafter have the right to purchase and receive (in lieu of the Shares of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby) such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding Shares equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. In any such case, appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Stock Purchase Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be possible, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company will not effect any such consolidation, merger or sale unless, prior to the consummation thereof, the successor corporation (if other than the Company) resulting from such consolidation or the corporation purchasing such assets shall assume by written instrument, executed and mailed or delivered to the registered Holder hereof at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to purchase.

4.4 Sale or Issuance Below Purchase Price; "Pay-to-Play" Exemption.

(a) The other antidilution rights applicable to the Shares purchasable hereunder are set forth in the Company's Articles of Incorporation, as amended through the date hereof (the "Charter"). Such antidilution rights shall not be restated, amended, modified or waived in any manner without the Holder's prior written consent if the effect of such restatement, amendment, modification or waiver on the Holder hereof would be more adverse to the Holder hereof than, and substantially dissimilar to, its effect on the other holders of the same series of the Company's stock. The Company shall promptly provide the Holder hereof with any restatement, amendment, modification or waiver of the Charter promptly after the same has been made.

(b) In the event that any "pay to play" terms or conditions (i.e. terms or conditions that require a holder of the Company's Preferred Stock to purchase securities in a future round of equity financing or else lose the benefit of antidilution protection applicable to the shares of Preferred Stock issuable upon the exercise of this Warrant or have such shares of Preferred Stock automatically convert to common stock or convert to another class and series of the Company's capital stock) in the Company's Articles of Incorporation, as amended from time to time, are triggered in connection with the consummation of a Down Round (as defined below) or otherwise after the date hereof, then in such event, the Shares issued or issuable upon the exercise of the Warrant shall not be subject to such automatic conversion.

4.5 Notice of Adjustment. Upon any adjustment of the Stock Purchase Price, and/or any increase or decrease in the number of shares purchasable upon the exercise of this Warrant the Company shall give written notice thereof, by first class mail, postage prepaid, addressed to the registered holder of this Warrant at the

address of such holder as shown on the books of the Company. The notice, which may be substantially in the form of Exhibit "A" attached hereto, shall be signed by the Company's chief financial officer and shall state the Stock Purchase Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

4.6 Other Notices. If at any time:

(a) the Company shall declare any cash dividend upon its Preferred Stock (other than in connection with the Series A dividends as provided in the Companys' Articles of Incorporation as amended to date);

(b) the Company shall declare any dividend upon its Preferred Stock payable in stock or make any special dividend or other distribution to the holders of its Preferred Stock (other than in connection with the Series A dividends as provided in the Companys' Articles of Incorporation as amended to date);

(c) the Company shall offer for subscription pro rata to the holders of its Preferred Stock any additional shares of stock of any class or other rights;

(d) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another entity;

(e) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company; or

(f) the Company shall take or propose to take any other action, notice of which is actually provided to holders of the Preferred Stock;

then, in any one or more of said cases, the Company shall give, by first class mail, postage prepaid, addressed to the Holder of this Warrant at the address of such Holder as shown on the books of the Company, (i) at least 20 day's prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action and (ii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action, at least 20 day's written notice of the date when the same shall take place. Any notice given in accordance with the foregoing clause (i) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Preferred Stock shall be entitled thereto. Any notice given in accordance with the foregoing clause (ii) shall also specify the date on which the holders of Preferred Stock shall be entitled to exchange their Preferred Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action as the case may be.

4.7 Certain Events. If any change in the outstanding Preferred Stock of the Company or any other event occurs as to which the other provisions of this Section 4 are not strictly applicable and the Board of Directors in good faith believes that an adjustment is necessary to effect the essential intent and principles with the adjustment provisions of this Warrant or if the provisions of this Section 4 are strictly applicable to an event but the application of such provisions would not fairly effect the adjustments to this Warrant in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall make in good faith an adjustment in the number and class of shares issuable under this Warrant, the Stock Purchase Price and/or the application of such provisions, in accordance with such essential intent and principles, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of this Warrant upon exercise for the same aggregate Stock Purchase Price the total number, class and kind of shares as the Holder would have owned had this

Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment.

5. Issue Tax. The issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder of this Warrant for any issue tax in respect thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of this Warrant being exercised.

6. Closing of Books. The Company will at no time close its transfer books against the transfer of this Warrant or of any Shares issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant, unless required by applicable law or regulation, or to avoid the violation of any applicable law or regulation..

7. No Voting or Dividend Rights; Limitation of Liability. Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase Shares, and no mere enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a stockholder of the Company, whether such liability is asserted by the Company or by its creditors.

8. Intentionally Omitted.

9. Registration Rights. The Holder hereof shall be entitled, with respect to the securities issued upon exercise hereof or the shares of Common Stock or other securities issued upon conversion of such securities as the case may be, to all of the registration rights set forth in the Investors Rights Agreement executed by the holders in connection with the offering of the type of securities for which this Warrant is exercisable (the "Rights Agreement"), to the same extent and on the same terms and conditions as possessed by such investors thereunder with the following exceptions and clarifications: (i) the Holder will have no right to initiate a demand registration; (ii) the Holder will be subject to the same provisions regarding indemnification as contained in the Rights Agreement; (iii) the registration rights will have the same rights of assignment as contained in the Rights Agreement, and (iv) the Holder will be subject to the same lock-up obligations as contained in the Rights Agreement. The Company shall take such action as may be reasonably necessary to assure that the granting of such registration rights to the Holder does not violate the provisions of the Rights Agreement or any of the Company's charter documents or rights of prior grantees of registration rights.

10. Rights and Obligations Survive Exercise of Warrant. The rights and obligations of the Company, of the Holder of this Warrant and of the holder of shares of Preferred Stock issued upon exercise of this Warrant, contained in Sections 6 and 9 shall survive the exercise of this Warrant.

11. Modification and Waiver. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

12. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder hereof or the Company shall be deemed to have been given (i) upon receipt if delivered personally or by courier (ii) upon confirmation of receipt if by telecopy or (iii) three business days after deposit in the US mail, with postage prepaid and certified or registered, to each such Holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant.

13. Binding Effect on Successors. This Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets. All of the obligations of the Company relating to the Shares issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assign of the holder hereof. The Company will, at the time of the exercise of this Warrant, in whole or in part, upon request of the Holder hereof and at the Holder's expense, acknowledge in writing its continuing obligation to the Holder hereof in respect of any rights (including, without limitation, any right to registration of the shares of Common Stock) to which the Holder hereof shall continue to be entitled after such exercise in accordance with this Warrant; provided, that the failure of the Holder hereof to make any such request shall not affect the continuing obligation of the Company to the Holder hereof in respect of such rights.

14. Descriptive Headings and Governing Law. The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.

15. Lost Warrants or Stock Certificates. The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of any Warrant or stock certificate and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant or stock certificate, the Company at Holder's expense will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

16. Fractional Shares. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

17. Representations of Holder. With respect to this Warrant, Holder represents and warrants to the Company as follows:

17.1 Experience. It is an "accredited investor" as that term is defined in Rule 501 (a) promulgated under the Securities Act of 1933, as amended; is experienced in evaluating and investing in companies engaged in businesses similar to that of the Company; it understands that investment in this Warrant involves substantial risks; it has made detailed inquiries concerning the Company, its business and services, its officers and its personnel; the officers of the Company have made available to Holder any and all written information it has requested; the officers of the Company have answered to Holder's satisfaction all inquiries made by it; in making this investment it has relied upon information made available to it by the Company; and it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of investment in the Company and it is able to bear the economic risk of that investment.

17.2 Investment. It is acquiring this Warrant for investment for its own account and not with a view to, or for resale in connection with, any distribution thereof. It understands that this Warrant, the shares of Preferred Stock issuable upon exercise thereof and the shares of Common Stock issuable upon conversion of the Preferred Stock, have not been registered under the Securities Act, nor qualified under applicable state securities laws.

17.3 Rule 144. It acknowledges that this Warrant, the Preferred Stock and the Common Stock must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. It has been advised or is aware of the provisions of Rule 144 promulgated under the Securities Act.

17.4 Access to Data. It has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has had the opportunity to inspect the Company's facilities.

18. Additional Representations and Covenants of the Company. The Company hereby represents, warrants and agrees as follows:

18.1 Corporate Power. The Company has all requisite corporate power and corporate authority to issue this Warrant and to carry out and perform its obligations hereunder.

18.2 Authorization. All corporate action on the part of the Company, its directors and stockholders necessary for the authorization, execution, delivery and performance by the Company of this has been taken. This Warrant is a valid and binding obligation of the Company, enforceable in accordance with its terms.

18.3 Offering. Subject in part to the truth and accuracy of Holder's representations set forth in Section 17 hereof, the offer, issuance and sale of this Warrant is, and the issuance of Preferred Stock upon exercise of this Warrant and the issuance of Common Stock upon conversion of the Preferred Stock will be exempt from the registration requirements of the Securities Act, and are exempt from the qualification requirements of any applicable state securities laws; and neither the Company nor anyone acting on its behalf will take any action hereafter that would cause the loss of such exemptions.

18.4 Stock Issuance. Upon exercise of this Warrant, the Company will use its best efforts to cause stock certificates representing the Shares purchased pursuant to the exercise to be issued in the names of Holder, its nominees or assignees, as appropriate at the time of such exercise. Upon conversion of the shares of Preferred Stock into shares of Common Stock, the Company will issue the Common Stock in the names of Holder, its nominees or assignees, as appropriate.

18.5 Certificates and By-Laws. The Company has provided Holder with true and complete copies of the Company's Articles of Incorporation, By-Laws, and each Certificate of Designation or other charter document setting, forth any rights, preferences and privileges of Company's capital stock, each as amended and in effect on the date of issuance of this Warrant.

18.6 Conversion of Preferred Stock. As of the date hereof, each share of the Preferred Stock is convertible into one share of the Common Stock.

18.7 Financial and Other Reports. From time to time up to the earlier of the Expiration Date or the complete exercise of this Warrant, the Company shall furnish to Holder (i) within 150 days after the close of each fiscal year of the Company an audited balance sheet and statement of changes in financial position at and as of the end of such fiscal year, together with an audited statement of income for such fiscal year; (ii) within 45 days after the close of each fiscal quarter of the Company, an unaudited balance sheet and statement of cash flows at and as of the end of such quarter, together with an unaudited statement of income for such quarter; and (iii) promptly after sending, making available, or filing, copies of all reports, proxy statements, and financial statements that the Company sends or makes available to its stockholders and all registration statements and reports that the Company files with the SEC or any other governmental or regulatory authority.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its officers, thereunto duly authorized this 14th day of June, 2006.

OCULUS INNOVATIVE SCIENCES, INC

By: /s/ Hojabr Alimi
Name: Hojabr Alimi
Title: President & CEO

VENTURE LENDING & LEASING IV, LLC

By: WESTECH INVESTMENT ADVISORS, INC., a California Corporation, its Managing Member

By: /s/ Ronald W. Swenson
Name: Ronald W. Swenson
Title: CEO

FORM OF SUBSCRIPTION

(To be signed only upon exercise of Warrant)

To: OCULUS INNOVATIVE SCIENCES, INC.

☐ The undersigned, the holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, (1) See Below _____ (___)shares (the "Shares") of Stock of _____ and herewith makes payment of _____ Dollars ($_____) therefor, and requests that the certificates for such shares be issued in the name of, and delivered to, _____, whose address is _____.

☐ The undersigned hereby elects to convert _____ percent (___%) of the value of the Warrant pursuant to the provisions of Section 1(b) of the Warrant.

The undersigned acknowledges that it has reviewed the representations and warranties contained in Section 17 of this Warrant and by its signature below hereby makes such representations and warranties to the Company.

Dated _____

Holder: _____

By: _____

Its: _____

(Address)

_____

_____

(1) Insert here the number of shares called for on the face of the Warrant (or, in the case of a partial exercise, the portion thereof as to which the Warrant is being exercised), in either case without making any adjustment for additional Preferred Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the Warrant, may be issuable upon exercise.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned, the holder of the within Warrant, hereby sells, assigns and transfers all of the rights of the undersigned under the within Warrant, with respect to the number of shares of Preferred Stock covered thereby set forth herein below, unto:

Name of Assignee	Address	No. of Shares

Dated _____

Holder: _____

By: _____

Its: _____

EXHIBIT "A"

[On letterhead of the Company]

Reference is hereby made to that certain Warrant dated March ___, 2006, issued by OCULUS INNOVATIVE SCIENCES, INC, a California corporation (the "Company"), to VENTURE LENDING & LEASING IV, INC., a Maryland corporation (the "Holder").

[IF APPLICABLE] The Warrant provides that the actual number of shares of the Company's capital stock issuable upon exercise of the Warrant and the initial exercise price per share are to be determined by reference to one or more events or conditions subsequent to the issuance of the Warrant. Such events or conditions have now occurred or lapsed, and the Company wishes to confirm the actual number of shares issuable and the initial exercise price. The provisions of this Supplement to Warrant are incorporated into the Warrant by this reference, and shall control the interpretation and exercise of the Warrant.

[IF APPLICABLE] Notice is hereby given pursuant to Section 4.5 of the Warrant that the following adjustment(s) have been made to the Warrant: [describe adjustments, setting forth details regarding method of calculation and facts upon which calculation is based].

This certifies that the Holder is entitled to purchase from the Company _____ (_____) fully paid and nonassessable shares of the Company's _____ Stock at a price of _____ Dollars ($_____) per share (the "Stock Purchase Price"). The Stock Purchase Price and the number of shares purchasable under the Warrant remain subject to adjustment as provided in Section 4 of the Warrant.

Executed this ___day of _____, 200___.

OCULUS INNOVATIVE SCIENCES, INC

By: _____

Name: _____

Title: _____

Exhibit 4.4

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, EXCHANGED, HYPOTHECATED OR TRANSFERRED IN ANY MANNER EXCEPT PURSUANT TO A REGISTRATION OR AN EXEMPTION FROM SUCH REGISTRATION AND IN COMPLIANCE WITH SECTION 1.3 OF THE AGREEMENT PURSUANT TO WHICH THEY WERE ISSUED.

Warrant Certificate No. «warrant_no»

MANAGING DEALER WARRANTS TO PURCHASE «issued» SHARES OF COMMON STOCK

OCULUS INNOVATIVE SCIENCES, INC.
INCORPORATED UNDER THE LAWS
OF THE STATE OF CALIFORNIA

This certifies that, for value received, «holder», the registered holder hereof or assigns (the "Warrantholder"), is entitled to purchase from OCULUS INNOVATIVE SCIENCES, INC. (the "Company"), at any time prior to: (1) the second anniversary of the completion of an Initial Public Offering by the Company, or (2) a liquidation, merger, acquisition, sale of voting control or sale of substantially all of the assets of the Company in which the shareholders of the Company do not own a majority of the outstanding shares of the surviving corporation, at the purchase price per share of «price» (the "Warrant Price"), the number of Shares of Common Stock of the Company set forth above (the "Shares"). The number of Shares issuable upon exercise of each Warrant evidenced hereby and the Warrant Price shall be subject to adjustment from time to time as set forth in the Managing Dealer Agreement referred to below.

The Warrants evidenced hereby represent the right to purchase an aggregate of up to «issued» Shares, subject to certain adjustments, and are issued under and in accordance with a Managing Dealer Warrant Agreement, dated as of October 27, 2005 (the "Managing Dealer Warrant Agreement"), between the Company and Brookstreet Securities Corporation and are subject to the terms and provisions contained in the Managing Dealer Warrant Agreement, all of which the Warrantholder by acceptance hereof consents. All capitalized terms in this Warrant Certificate, to the extent not otherwise defined herein, shall have the meaning assigned to such terms in the Managing Dealer Warrant Agreement.

The Warrants evidenced hereby may be exercised in whole or in part by presentation of this Warrant Certificate with the Purchase Form attached hereto duly executed (with a signature guarantee as provided thereon) and simultaneous payment of the Warrant Price at the principal office of the Company. Payment of such price shall be made by the Warrantholder in cash, by check, or any combination thereof.

Upon any partial exercise of the Warrants evidenced hereby, there shall be signed and issued to the Warrantholder a new Warrant Certificate in respect of the Shares as to which the Warrants evidenced hereby shall not have been exercised. These Warrants may be exchanged at the office of the Company by surrender of this Warrant Certificate properly endorsed for one or more new Warrants of the same aggregate number of Shares as evidenced by the Warrant or Warrants exchanged. No fractional Shares of Common Stock will be issued upon the exercise of rights to purchase hereunder, but the Company shall pay the cash value of any fraction upon the exercise of one or more Warrants. These Warrants are transferable at the office of the Company in the manner and subject to the limitations set forth in the Managing Dealer Warrant Agreement.

This Warrant Certificate does not entitle any Warrantholder to any of the rights of a stockholder of the Company unless and until the Warrantholder exercises its rights to purchase Shares hereunder.

OCULUS INNOVATIVE SCIENCES, INC.

Dated: «date»

_____

By: _____
Its: _____

PURCHASE FORM

OCULUS INNOVATIVE SCIENCES, INC.
1129 North McDowell Boulevard
Petaluma, CA 94954

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Warrant Certificate for, and to purchase thereunder, _____Shares of Common Stock (the "Shares") provided for therein, and requests that certificates for the Shares be issued in the name of:

_____

(Please Print or Type Name)

_____

_____

(Address, including zip code)

_____

(Social Security No. or Tax I.D. No.)

and, if said number of Shares shall not be all the Shares purchasable hereunder, that a new Warrant Certificate for the balance of the Shares purchasable under the within Warrant Certificate be registered in the name of the undersigned Warrantholder or his Assignee as below indicated and delivered to the address stated below.

Name of Warrantholder
or Assignee: _____

(Please Print)

Address: _____

_____

Signature: _____ Dated: _____

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever, unless these Warrants have been assigned.

Signatures Guaranteed: _____

(Signature must be guaranteed by a bank or trust company having an office or correspondent in the United States or by a member firm of a registered securities exchange or the National Association of Securities Dealers, Inc.)

ASSIGNMENT

(To be signed only upon assignment of Warrants)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto the assignee named below all of the rights of the undersigned represented by the attached Warrant with respect to the number of Shares covered by the Warrant set forth below:

(Name and Address of Assignee Must Be Printed or Typewritten)

Name of Assignee	Social Security No. or Tax ID No.	Address	No. of Shares

and does hereby irrevocably constitute and appoint _____ Attorney to transfer said Warrants on the books of the Company, with full power of substitution in the premises.

Dated: _____ _____

Signature of Registered Holder

Note: The signature on this assignment must correspond with the name as it appears upon the face of the within Warrant Certificate in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: _____

(Signature must be guaranteed by a bank or trust company having an office or correspondent in the United States or by a member firm of a registered securities exchange or the National Association of Securities Dealers, Inc.)

Exhibit 4.5

Warrant

THIS WARRANT AND THE UNDERLYING SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO SUCH SECURITIES UNDER THE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

Oculus Innovative Sciences, Inc.
WARRANT TO PURCHASE COMMON STOCK

No. ___ **<<DATE>>**

Void AFTER <<DATE>>

This Certifies That, subject to the terms of this Warrant, for value received, _____ (the "Holder"), is entitled to subscribe for and purchase at the Exercise Price (defined below) from **Oculus Innovative Sciences, Inc.,** a California corporation, with its principal office at 1129 N. McDowell Blvd., Petaluma, CA 94954 (the "Company") up to ___ shares of the Common Stock of the Company (the "Common Stock").

This Warrant is being issued pursuant to that certain Consultant Agreement (Advisory Services), dated _____, entered into by and between the Company and the Holder (the "Consultant Agreement").

1. Definitions. As used herein, the following terms shall have the following respective meanings:

(a) "Exercise Period" shall mean the period commencing with _____, or such other date as the Board of Directors shall determine that the milestones set forth on Exhibit A to the Consultant Agreement have been achieved, as set forth in resolutions of the Board of Directors and ending on _____, unless sooner terminated as provided below.

(b) "Exercise Price" shall mean $ per share, subject to adjustment pursuant to Section 5 below.

(c) "Exercise Shares" shall mean the shares of the Company's Common Stock issuable upon exercise of this Warrant, subject to adjustment pursuant to the terms herein, including but not limited to adjustment pursuant to Section 5 below.

2. Exercise of Warrant. Subject to Holder's continuous service under the Consultant Agreement, the vesting schedule contained in the Consultant Agreement, and the other limitations contained in the Consultant Agreement and this Warrant, the rights represented by this Warrant may be exercised in whole or in part at any time during the Exercise Period by

delivery of the following to the Company at its address set forth above (or at such other address as it may designate by notice in writing to the Holder):

(a) An executed Notice of Exercise in the form attached hereto;

(b) Payment of the Exercise Price either (i) in cash or by check, or (ii) by cancellation of indebtedness; and

(c) This Warrant.

Upon the exercise of the rights represented by this Warrant, a certificate or certificates for the Exercise Shares so purchased, registered in the name of the Holder or persons affiliated with the Holder, if the Holder so designates, shall be issued and delivered to the Holder within a reasonable time after the rights represented by this Warrant shall have been so exercised.

The person in whose name any certificate or certificates for Exercise Shares are to be issued upon exercise of this Warrant shall be deemed to have become the holder of record of such shares on the date on which this Warrant was surrendered and payment in full of the Exercise Price was made, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

3. Covenants of the Company.

(a) Covenants as to Exercise Shares. The Company covenants and agrees that all Exercise Shares that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued and outstanding, fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issuance thereof. The Company further covenants and agrees that the Company will at all times during the Exercise Period, have authorized and reserved, a sufficient number of shares of its Common Stock to provide for the exercise of the rights represented by this Warrant. If at any time during the Exercise Period the number of authorized but unissued shares of Common Stock shall not be sufficient to permit exercise of this Warrant, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(b) Notices of Record Date. In the event of any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend which is the same as cash dividends paid in previous quarters) or other distribution, the Company shall mail to the Holder, at least ten (10) days prior to the date specified herein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend or distribution.

4. Representations of Holder.

(a) Acquisition of Warrant for Personal Account. The Holder represents and warrants that it is acquiring the Warrant and the Exercise Shares solely for its account for

investment and not with a view to or for sale or distribution of said Warrant or Exercise Shares or any part thereof. The Holder also represents that the entire legal and beneficial interests of the Warrant and Exercise Shares the Holder is acquiring is being acquired for, and will be held for, its account only. The Holder, by reason of Holder's business or financial experience, has the capacity to evaluate the merits and risks of purchasing Exercise Shares of the Company and to make an informed investment decision with respect thereto and to protect Holder's interests in connection with the acquisition of this Warrant and the Exercise Shares. Holder has obtained information from the Company to make an informed decision relating to the acquisition of the Warrant.

(b) Securities Are Not Registered.

(i) The Holder understands that the Warrant and the Exercise Shares have not been registered under the Act on the basis that no distribution or public offering of the stock of the Company is to be effected. The Holder realizes that the basis for the exemption may not be present if, notwithstanding its representations, the Holder has a present intention of acquiring the securities for a fixed or determinable period in the future, selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the securities. The Holder has no such present intention.

(ii) The Holder recognizes that the Warrant and the Exercise Shares must be held indefinitely unless they are subsequently registered under the Act or an exemption from such registration is available. The Holder recognizes that the Company has no obligation to register the Warrant or the Exercise Shares of the Company, or to comply with any exemption from such registration.

(iii) The Holder is aware that neither the Warrant nor the Exercise Shares may be sold pursuant to Rule 144 adopted under the Act unless certain conditions are met, including, among other things, the existence of a public market for the shares, the availability of certain current public information about the Company, the resale following the required holding period under Rule 144 and the number of shares being sold during any three month period not exceeding specified limitations. Holder is aware that the conditions for resale set forth in Rule 144 have not been satisfied and that the Company presently has no plans to satisfy these conditions in the foreseeable future.

(c) Disposition of Warrant and Exercise Shares.

(i) The Holder further agrees not to make any disposition of all or any part of the Warrant or Exercise Shares in any event unless and until:

(A) The Company shall have received a letter secured by the Holder from the Securities and Exchange Commission stating that no action will be recommended to the Commission with respect to the proposed disposition;

(B) There is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with said registration statement and applicable securities laws; or

(C) The Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, the Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, for the Holder to the effect that such disposition will not require registration of such Warrant or Exercise Shares under the Act or any applicable state securities laws.

(D) The Warrants may not be exercised if the issuance of the Exercise Shares upon such exercise would constitute a violation of any applicable federal or state securities laws or regulations or would not be exempt from federal securities law registration and qualification under applicable state law. As a condition to the exercise of the Warrants, the Company may require Holder to make such representations and warranties to the Company as may be required by applicable law or regulation.

(ii) The Holder understands and agrees that all certificates evidencing the Exercise Shares may bear the following legend:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER THE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

5. Adjustment of Exercise Price. In the event of changes in the outstanding Common Stock of the Company by reason of stock dividends, split-ups, recapitalizations, reclassifications, combinations or exchanges of shares, separations, reorganizations, liquidations, or the like, the number and class of shares available under the Warrant in the aggregate and the Exercise Price shall be correspondingly adjusted to give the Holder of the Warrant, on exercise for the same aggregate Exercise Price, the total number, class, and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment; provided, however, that such adjustment shall not be made with respect to, and this Warrant shall terminate if not exercised prior to, the events set forth in Section 7 below. The form of this Warrant need not be changed because of any adjustment in the number of Exercise Shares subject to this Warrant.

6. Fractional Shares. No fractional shares shall be issued upon the exercise of this Warrant as a consequence of any adjustment pursuant hereto. All Exercise Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying the then current fair market value of an Exercise Share by such fraction.

7. Early Termination. In the event of, at any time during the Exercise Period, any capital reorganization, or any reclassification of the capital stock of the Company (other than a change in par value or from par value to no par value or no par value to par value or as a result of a stock dividend or subdivision, split-up or combination of shares), or the consolidation or merger of the Company with or into another corporation (other than a merger solely to effect a reincorporation of the Company into another state), or the sale or other disposition of all or substantially all the properties and assets of the Company in its entirety to any other person, the Company shall provide to the Holder twenty (20) days advance written notice of such reorganization, reclassification, consolidation, merger or sale or other disposition of the Company's assets, and this Warrant shall terminate unless exercised prior to the closing of such reorganization, reclassification, consolidation, merger or sale or other disposition of the Company's assets.

8. Market Stand-Off Agreement. Holder shall not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock (or other securities) of the Company held by Holder, for a period of time specified by the managing underwriter(s) (not to exceed one hundred eighty (180) days following the effective date of a registration statement of the Company filed under the Act. Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company and/or the managing underwriter(s) which are consistent with the foregoing or which are necessary to give further effect thereto. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to such Common Stock (or other securities) until the end of such period. The underwriters of the Company's stock are intended third party beneficiaries of this Section 8 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto.

9. No Stockholder Rights. This Warrant in and of itself shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company.

10. No Transfer. This Warrant and all rights hereunder may not be transferred by the Holder without the prior written consent of the Company, and any purported transfer, assignment, pledge or hypothecation in contravention of this Section 10 shall be of no force or effect.

11. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

12. Notices, etc. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally

recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company at the address listed on the signature page and to Holder at 1129 N. McDowell Blvd., Petaluma, California 94954 or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other party hereto.

13. Acceptance. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

14. Governing Law. This Warrant and all rights, obligations and liabilities hereunder shall be governed by the laws of the State of California.

In Witness Whereof, the Company has caused this Warrant to be executed by its duly authorized officer as of _____.

Oculus Innovative Sciences, Inc.

By: _____

Hoji Alimi, President and CEO

HOLDER:

_____

<NAME>

NOTICE OF EXERCISE

TO: Oculus Innovative Sciences, Inc.

(1) The undersigned hereby elects to purchase _____ shares of Common Stock of **Oculus Innovative Sciences, Inc.** (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

_____

(Name)

_____

_____

(Address)

(3) The undersigned represents that (i) he is an accredited investor, as defined in Section 501(a) of Regulation D, promulgated under the Securities Act of 1933, as amended (the "Securities Act"); (ii) the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares; (iii) the undersigned is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision regarding its investment in the Company; (iv) the undersigned is experienced in making investments of this type and has such knowledge and background in financial and business matters that the undersigned is capable of evaluating the merits and risks of this investment and protecting the undersigned's own interests; (v) the undersigned understands that the shares of Common Stock issuable upon exercise of this Warrant have not been registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act, which exemption depends upon, among other things, the bona fide nature of the investment intent as expressed herein, and, because such securities have not been registered under the Securities Act, they must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available; (vi) the undersigned is aware that the aforesaid shares of Common Stock may not be sold pursuant to Rule 144 adopted under the Securities Act unless certain conditions are met and until the undersigned has held the shares for the number of years prescribed by Rule 144, that among the conditions for use of the Rule is the availability of current information to the public about the Company and the Company has not made such information available and has no present plans to do so; and (vii) the undersigned agrees not to make any disposition of all or any part of the aforesaid shares of Common Stock unless and until there is then in effect a registration statement

under the Securities Act covering such proposed disposition and such disposition is made in accordance with said registration statement, or the undersigned has provided the Company with an opinion of counsel satisfactory to the Company, stating that such registration is not required.

(Date)	(Signature)
	(Print name)

Exhibit 4.6

OCULUS INNOVATIVE SCIENCES, INC.
AMENDED AND RESTATED
INVESTORS RIGHTS AGREEMENT

THIS AMENDED AND RESTATED INVESTORS RIGHTS AGREEMENT (this "Agreement") is made and entered into effective as of the date set forth in Section 28 hereof, by and among (i) Oculus Innovative Sciences, Inc., a California corporation (the "Company"), (ii) those parties (each an "Existing Investor" and collectively the "Existing Investors") listed on Schedule A attached to that certain Series A Preferred Shares Investors' Rights Agreement previously entered into by and among such Existing Investors and the Company (the "Prior Agreement"), (iii) those parties as set forth in Schedule A attached hereto (each a "New Investor" and collectively the "New Investors"), and (iv) the individuals as set forth in Schedule B attached hereto (each a "Principal Shareholder" and collectively the "Principal Shareholders"). The Existing Investors and the New Investors are referred to herein collectively as the "Investors".

RECITALS

WHEREAS, the Company and the Existing Investors have previously entered into the Prior Agreement providing certain registration and other rights to the Existing Investors.

WHEREAS, the Company proposes to sell and issue to certain New Investors and such New Investors desire to purchase up to an aggregate of 3,500,000 shares of Series B Preferred Stock of the Company (the "Series B Preferred"), any or all of which Series B Preferred may be sold pursuant to a Private Placement Memorandum (the "Memorandum") and the Series B Preferred Share Subscription Agreement attached to the Memorandum as Exhibit C (the "Subscription Agreement"), or such other documents as the Company may deem appropriate (the "Other Documents") (the Memorandum, Subscription Agreement, and the Other Documents are referred to herein collectively as the "Purchase Documents").

WHEREAS, the Company may sell such number of shares of the Series B Preferred as may be necessary to accommodate the exercise of the Existing Preemptive Rights held by the Existing Investors under the Prior Agreement.

WHEREAS, the Company may propose to sell to certain New Investors in the future shares of one or more series of preferred stock of the Company to be designated in the future.

WHEREAS, The Company, the Investors, and the Principal Shareholders desire that this Agreement amend and supersede the Prior Agreement in its entirety to govern the registration and other rights set forth herein with respect to all Investors and Principal Shareholders.

NOW, THEREFORE, in consideration of the mutual promises and covenants hereinafter set forth, the parties hereto agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"Board" means the Board of Directors of the Company.

"Change of Control" means (i) the Company's sale of all or substantially of its assets, (ii) any merger, consolidation or other similar transaction involving the Company, where the shareholders of the Company immediately prior to such transaction fail to hold more than 50% of the capital stock of the surviving entity immediately following such transaction, or (iii) any transaction involving the transfer, directly or indirectly, of capital stock of the Company representing 50% or more of the voting power of the Company.

"Commission" means the Securities and Exchange Commission or any successor agency.

"Common Shares" means the Common Stock of the Company.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing Preemptive Rights" means the preemptive rights held by the Existing Investors under Section 16 of the Prior Agreement.

"Holder" means any person owning of record outstanding Registrable Securities which have not been sold to the public, or any assignee thereof in accordance with Sections 7 and 13 hereof. In addition, for purposes of Sections 2 through 12 hereof, the term "Holder" shall also include the Managing Dealer and the parties to whom the rights of the Managing Dealer under the Managing Dealer Warrants were transferred in accordance with Section 1.3 of each applicable Managing Dealer Warrant.

"Initial Public Offering" means an initial public offering of securities of the Company pursuant to a registration statement filed and declared effective under the Securities Act, upon completion of which the Company has a class of stock that is registered under the Exchange Act and is listed or quoted on an exchange or quotation system.

"Major Shareholder" means any shareholder, as of the applicable date, who is an officer or director of the Company, or holder of more than 4.9% of the Company's capital stock on a fully-diluted basis as calculated by dividing (1) the number of Common Shares and Preferred Shares held by such holder by (2) the sum of (i) the number of Common Shares outstanding at the applicable time, plus (ii) the number of Common Shares into which any Preferred Shares outstanding at the applicable time may be converted at the applicable conversion price then in effect, plus (iii) the number of Common Shares and Preferred Shares for which any options to purchase, rights to subscribe, warrants or other derivative equity securities are outstanding or authorized by any duly adopted stock option plan or other plan of the Company at the applicable time, plus (iv) the number of Common Shares into which any other convertible or exchangeable securities, including convertible debt securities, outstanding at the applicable time may be converted or exchanged; provided, however, that the term "Major Shareholder" shall not include any Holder.

"Managing Dealer" means Brookstreet Securities Corporation, a California corporation.

"Managing Dealer Warrants" means those certain warrants issued, as of the applicable date, to the Managing Dealer pursuant to that certain Managing Dealer Agreement

entered into effective April 19, 2004 by and between the Company and the Managing Dealer, as may be subsequently amended from time to time.

"Parties" means the parties that are signatories of this Agreement or hereafter agree in writing to be bound by this Agreement; "Party" shall refer to any one of the Parties.

"Permitted Transfers" means (i) any sale or transfer by a Principal Shareholder of less than 10% of the Shares such Principal Shareholder then owned in a single transaction or series of related transactions, (ii) any transfer to another Holder, or (iii) any transfer of the Shares to a Principal Shareholder's ancestors, descendants or spouse, brother or sister of the Principal Shareholder, the adopted child or adopted grandchild of the Principal Shareholder, or to a trust or trusts for the benefit of such Principal Shareholder or such Principal Shareholder's family members as described above, or transfers by a Principal Shareholder by devise or descent, in all cases for estate planning purposes.

"Preferred Shares" means the Series A Preferred Stock and Series B Preferred Stock of the Company, as well as any one or more series of the Preferred Stock of the Company to be designated as of a future date.

"Principal Shareholders" means the individuals identified in Schedule B attached hereto, who are, as of the date of this Agreement, Major Shareholders.

"Registrable Securities" means (i) Common Shares issued or issuable upon the conversion of the Preferred Shares; and (ii) any other Common Shares issued as (or issuable upon conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to or in exchange for or replacement of the Preferred Shares. In addition, for purposes of Sections 2 through 12 hereof, the term "Registrable Securities" shall also include Common Shares issued or issuable upon the exercise of the Managing Dealer Warrants. Notwithstanding the foregoing, the term "Registrable Securities" shall not include any securities (i) sold by a person to the public either pursuant to a registration statement or Rule 144, or (ii) sold in a private transaction in which the transferor's rights under Section 2 or Section 3 of this Agreement are not assigned.

The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"Registration Expenses" means all reasonable out-of-pocket expenses incurred by the Company in complying with Sections 2 and 3 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, accounting fees of the Company, and the reasonable fees and expenses of one special counsel, if any, for the selling Holders, not to exceed $25,000.

"Restricted Securities" has the meaning set forth in Section 12 hereof.

"Securities Act" means the Securities Act of 1933, as amended.

"Selling Expenses" means all underwriting discounts, selling commissions and share transfer taxes applicable to the securities registered by the Holders pursuant to this Agreement inclusive of all fees and disbursements of counsel for any Holder (excluding amounts specified under the definition for Registration Expenses).

"Series A Preferred" means the Series A Preferred Stock of the Company.

"Series B Director" means the director on the Board for whom the holders of Series B Preferred have a right to elect under the Company's Articles of Incorporation.

"Series B Holder" means the holder of any Series B Preferred.

"Series B Preferred" means the Series B Preferred Stock of the Company.

"Shares" has the meaning set forth in Section 9 hereof.

2. Piggyback Registration Rights.

2.1 Obligation to Register. If the Company determines, in its discretion, to register any of its securities under the Securities Act in connection with the public offering of such securities for cash, either for its own account or the account of a security holder on a form in which the Registrable Securities may be included, other than (i) a registration relating to employee stock option, stock purchase or other benefit plans, (ii) a registration relating to Rule 145 of the Securities Act or similar transaction, or (iii) a registration on any form that does not include substantially the same information as could be required to be included in a registration statement covering the sale of Registrable Securities, the Company will (i) promptly give to each Holder written notice thereof; and (ii) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within twenty (20) days after mailing of written notice by the Company, by any Holder, except as set forth in Section 2.2 below.

2.2 Underwriting. If the registration is for a registered public offering involving an underwriting, the Company shall so advise the Holders as part of the written notice given pursuant to Section 2.1 above and the right of any Holder to registration pursuant to this Section 2 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and other holders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. Notwithstanding any other provision of this Section 2, if the managing underwriter advises the Company in writing that in its opinion pricing or marketing factors make advisable a limitation of the number of shares to be underwritten, then (i) in the Company's Initial Public Offering of Common Shares, the managing underwriter may exclude all Registrable Securities from such registration involving an underwriting; and (ii) in a registered public offering and underwriting not involving an Initial Public Offering, limit the number of Registrable Securities to be included in the registration and underwriting by reducing the number of Registrable Securities included on behalf of the Holders on a pro rata basis based on the total number of Registrable Securities entitled to registration held

by each Holder; provided, however, that no Registrable Securities shall be excluded from a registration under this clause (ii) until all other outstanding securities of the Company held by the Major Shareholders shall have first been excluded from such registration and underwriting and provided further that in no event may the number of Registrable Securities to be included in a registration and underwriting other than the Company's Initial Public Offering of Common Shares be reduced to less than 30% of the total number of shares to be included in such registration and underwriting. The Company shall advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto of any such limitations.

3. Demand Registration. If, at any time after six months following the Company's Initial Public Offering of Common Shares, the Holders holding at least 50% of the total Registrable Securities ("Initiating Holders") request in writing that the Company file a registration statement on a form in which the Registrable Securities may be included, the Company shall (i) promptly give written notice of the proposed registration to all other Holders; and (ii) cause all or such portion of such Registrable Securities as are specified in such request in writing received by the Company within thirty (30) days after mailing of such written notice from the Company to be registered on such form (or any successor thereto). Notwithstanding the foregoing, if the Board determines that such a filing would not be in the best interest of the Company at the time of the request, the Company may delay the filing of a registration statement requested pursuant to this Section 3 for a period (a "Company Delay Period") not in excess of 120 days, which right may not be exercised more than twice in any 12-month period provided that in the aggregate any and all Company Delay Periods shall not exceed 120 days. The Company shall be required to file no more than one registration statement pursuant to this Section 3. The Company may elect to use Form S-3 (or any successor thereto) to satisfy any registration pursuant to this Section 3 if such form is available.

4. Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to Section 2 and Registration Expenses of up to one registration pursuant to Section 3 shall be borne by the Company, *provided, however*, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to such Section 3 if the registration request is subsequently withdrawn at the request of the Holder(s) that requested such registration or the Holders of a majority of the Registrable Securities to be registered (in which case such Holders shall bear such expenses). All Selling Expenses relating to securities registered by the Holders shall be borne by the Holders of such securities.

5. Registration Procedures. In the case of each registration, qualification or compliance effected by the Company with respect to Registrable Securities pursuant to this Agreement, the Company will keep each Holder advised in writing as to the initiation of each registration, qualification or compliance and as to the completion thereof, and, at the Company's expense, will:

5.1 Effectiveness. Prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its commercially reasonable best efforts to cause such registration statement to become and remain effective for at least 90 days or until the distribution described in the registration statement has been completed, whichever is shorter; *provided, however*, that such 90 day period shall be extended (i) to the extent required by Section 5.7, and (ii) for a period of time equal to any period the Holder refrains from selling any

securities during the effectiveness of such registration at the request of an underwriter or the Company pursuant to Section 9;

5.2 Amendments. Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement;

5.3 Copies of Documents. Furnish to the Holders participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such underwriters or such Holders may reasonably request in order to facilitate the public offering of such Registrable Securities;

5.4 Blue Sky Laws. Use its commercially reasonable best efforts to register and qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Holders; *provided* that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

5.5 Underwriting Agreement. In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering; *provided* that each Holder participating in such underwriting shall also enter into and perform its obligations under such underwriting agreement;

5.6 Notification. Notify each Holder of Registrable Securities covered by such registration statement if at any time the Company shall determine that the registration statement or any prospectus included therein shall contain an untrue statement of material fact or omit a material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading, and thereafter, subject to Section 5.7 and the last paragraph of this Section 5, promptly prepare and file with the Commission an amendment to the registration statement or a supplement to the prospectus as may be necessary to correct such untrue statement or omission, and notify the selling Holders of such filing;

5.7 Amendment or Supplement to Registration Statement. In the event that, at any time when a prospectus relating to such Registrable Securities is required to be delivered under the Securities Act, the Company determines that any event shall have occurred as the result of which any such prospectus or any other prospectus then in effect would include an untrue statement of a material fact or omit a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading or if the Company determines that an amendment to the registration statement or supplement to the prospectus is advisable before further sales of Registrable Securities should be made, prepare and file as soon as reasonable with the Commission such amendment to the registration statement or supplement to the prospectus and promptly notify each Holder of Registrable Securities covered by such registration statement of the filing of such amendment or supplement to the registration statement or prospectus as may be necessary to correct any statements or omissions; provided

that if the Board of Directors of the Company determines that amending the registration statement or supplementing the prospectus might be detrimental to the Company, then, notwithstanding this Section 5.7, the Company may defer such amendment or supplement for up to 120 days, provided that: (i) the Company shall not use such right of deferral with respect to any registration statement for more than an aggregate of 120 days in any 12-month period; and (ii) the number of days the Company is required to keep the registration statement effective shall be extended by the number of days for which the Company shall have used such right of deferral;

5.8 Stop Order. Advise each Holder of Registrable Securities covered by such registration statement promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Commission suspending the effectiveness of the Registration Statement or the initiation or threatening of any proceeding for that purpose and promptly use its commercially reasonable best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued;

5.9 Listing. Cause such Registrable Securities registered hereunder to be listed on each securities exchange or quoted on a quotation system on which similar securities issued by the Company are then listed; and

5.10 Transfer Agent and Registrar. Provide a transfer agent and registrar for all Registrable Securities registered hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

If a Holder receives a notification from the Company pursuant to this Section 5 that a registration statement or prospectus contains an untrue statement or omission or that the Company is exercising its rights pursuant to Section 5.7, then such Holder shall: (i) keep the fact of such notification and its contents confidential, and (ii) immediately suspend all sales of securities of the Company and any use of the registration statement or prospectus as to which the notification applies, until such time as such Holder receives notification from the Company that an amendment to the registration statement or a supplement to the prospectus has been filed and that sales may be made.

6. Termination of Registration Rights. Except as provided elsewhere in this Agreement, the registration rights granted pursuant to this Agreement shall terminate on the first to occur of the following: (i) as to all Holders, on the second anniversary of the closing of the Initial Public Offering, and (ii) as to any Holder, at anytime after the Initial Public Offering that such Holder holds less than 1% of the total outstanding Common Shares of the Company, or (iii) as to any Holder, at such time as such Holder is eligible to sell all Registrable Securities held by it pursuant to Rule 144 promulgated under the Securities Act.

7. Transfer of Registration Rights. The rights granted hereunder to cause the Company to register securities or to participate in a registration of the Company may not be assigned to any transferee or assignee of Restricted Securities unless the transferee agrees to be bound by the terms and conditions of this Agreement and the Company receives written notice within twenty (20) days after such transfer.

8. Indemnification.

8.1 Company Indemnification. The Company will indemnify each Holder, each of its officers, directors and partners, and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages and liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of any rule or regulation promulgated under the Securities Act applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each such Holder, each of its officers, directors and partners, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, provided the Company shall not be liable for amounts paid in settlement of any claims if such settlement is made without the consent of the Company, which consent shall not be unreasonably withheld, and that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by a Holder or underwriter specifically for use therein.

8.2 Holder Indemnification. Each Holder will, if Registrable Securities held by such Holder are included in the securities as to which registration, qualification or compliance has been effected pursuant to this Agreement, indemnify the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act, and each other such Holder, each of its officers and directors and each person controlling such Holder within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder and stated to be specifically for use therein; *provided, however*, that the obligations of any such Holder hereunder shall be limited to an amount equal to the gross proceeds before expenses and commissions to such Holder of Registrable Securities sold as contemplated herein.

8.3 Notification of Claim. Each party entitled to indemnification under this Section 8 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense; *provided, however*, that the Indemnified Party (together with all other Indemnified Parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the Indemnifying Party, if representation of such Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to differing interests between such Indemnified Party and any other party represented by such counsel in such proceeding; and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement, except to the extent, but only to the extent, that the Indemnifying Party's ability to defend against such claim or litigation is impaired as a result of such failure to give notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

8.4 Contribution. If the indemnification provided for in Sections 8.1 and 8.2 of this Section 8 is unavailable or insufficient to hold harmless an Indemnified Party thereunder, then each Indemnifying Party thereunder shall contribute to the account paid or payable by such Indemnified Party as a result of the losses, claims, damages, costs, expenses, liabilities or actions referred to in Sections 8.1 and 8.2 in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and the Indemnified Party on the other in connection with statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statements or omissions. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 8.4 were to be determined by *pro rata* or per capita allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the first sentence of this Section 8.4. The amount paid by an Indemnified Party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this Section 8.4 shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any action or claim which is the subject of this Section 8.4. Promptly after receipt by an Indemnified Party of notice of the commencement of any action against such party in respect of which a claim for contribution may be made against an Indemnifying Party under Section 8.4, such Indemnified Party shall notify the Indemnifying Party in writing of the commencement thereof if the notice specified in Section 8.3 has not been given with respect to such action; *provided* that the omission so to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability which it may have to any Indemnified Party otherwise under Section 8.4, except to the extent that the Indemnifying Party is actually

prejudiced by such failure to give notice. The parties hereto agree with each other and shall agree with the underwriters of the Common Shares of the Company pursuant to the terms hereof, if requested by such underwriters, that (i) the underwriters' portion of such contribution shall not exceed the underwriting discount, commission and other compensation, and (ii) the amount of such contribution shall not exceed an amount equal to the proceeds received by such Indemnifying Party from the sale of securities in the offering to which the losses, claims, damages or liabilities of the indemnified parties relate. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

9. Lock-up Agreement. In consideration for the Company agreeing to its obligations under this Agreement, each Holder severally hereby agrees that such Holder shall not, to the extent requested by the managing underwriter of a public offering in which Shares (as defined below) are sold, directly or indirectly, offer, sell, pledge, contract to sell, transfer the economic risk of ownership in, make any short sale, grant any option to purchase or otherwise dispose of any Registrable Securities or any securities convertible into or exchangeable or exercisable for or any other rights to purchase or acquire Registrable Securities, including, without limitation, Common Shares which may be deemed to be beneficially owned by the Holders in accordance with the rules and regulations of the Commission and Common Shares which may be issued upon exercise of a stock option or warrant, or enter into any Hedging Transaction (as defined below) relating to Registrable Securities (each of the foregoing referred to as a "Disposition") for a period of 180 days after the effective date of the registration statement relating to such public offering (the "Lock-Up Period") unless the managing underwriter otherwise agrees; *provided, however*, that all officers and directors of the Company enter into similar agreements. The foregoing restriction is expressly intended to preclude any Holder from engaging in any Hedging Transaction or other transaction which is designed to or reasonably expected to lead to or result in a Disposition during the Lock-Up Period even if the securities would be disposed of by someone other than such Holder. "Hedging Transaction" means any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Shares. "Shares" shall mean equity securities of the Company that are, or that are convertible directly or indirectly into, Common Shares. Each Holder agrees that the Company may instruct its transfer agent to place stop transfer notations in its records to enforce the provisions of this Section 9.

10. Information by Holder. The Holder or Holders of Registrable Securities included in any registration shall furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

11. Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Restricted Securities to the public without registration, after such time as a public market exists for the Common Shares of the Company, the Company agrees to:

11.1 Public Information. Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after 90 days

from the effective date of the first registration statement under the Securities Act filed by the Company for an offering of its securities to the general public;

11.2 Filings with Commission. Use its commercially reasonable best efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

11.3 Compliance Statement. Furnish to Holders of Registrable Securities forthwith upon request, a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company as a Holder of Registrable Securities may reasonably request in availing itself of any rule or regulation of the Commission allowing such Holder to sell any such securities without registration.

12. Restrictive Legend. Each certificate representing (i) Common Shares, (ii) Preferred Shares, (iii) Common Shares issued upon conversion of the Preferred Shares, and (iv) any other securities issued in respect of the Preferred Shares and Common Shares issued upon conversion of the Preferred Shares (any such securities listed in the preceding subsections (i), (ii), (iii) or (iv), "Restricted Securities"), shall (unless otherwise permitted by the provisions of Section 13 below) be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required under applicable state securities laws):

> THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE SECURITIES ACT OF 1933, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED. THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO AN AGREEMENT RESTRICTING THEIR TRANSFER, A COPY OF WHICH IS ON FILE AT THE OFFICE OF THE COMPANY AND WILL BE FURNISHED TO ANY PROSPECTIVE PURCHASERS ON REQUEST. THE AGREEMENT PROVIDES, AMONG OTHER THINGS, FOR CERTAIN RESTRICTIONS ON THE SALE, TRANSFER, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SHARES REPRESENTED BY THIS CERTIFICATE.

13. Restrictions on Transferability. Each Investor who holds certificate(s) representing Restricted Securities, by acceptance thereof, agrees to comply in all respects with the provisions of this Section 13. Prior to any proposed transfer of any Restricted Securities by an Investor, unless there is in effect a registration statement under the Securities Act covering the proposed transfer, such Investor shall give written notice to the Company of such Investor's intention to effect such transfer. Each such notice shall describe the manner and circumstances of the proposed transfer in sufficient detail, and shall, if the Company so requests, be

accompanied (except in transactions in compliance with Rule 144) by an unqualified written opinion of legal counsel (to be paid for by the Company in an amount not to exceed $500) who shall be reasonably satisfactory to the Company, addressed to the Company and reasonably satisfactory in form and substance to the Company's counsel, to the effect that the proposed transfer of the Restricted Securities may be effected without registration under the Securities Act or applicable blue sky laws. Each Investor shall cause any proposed transferee of the Registrable Securities held by such Investor to agree to take and hold such securities subject to the provisions specified in this Section 13 and Section 9 hereof. Each certificate evidencing the Restricted Securities transferred as above provided shall bear the appropriate restrictive legend set forth in Section 12 above, except that such certificate shall not bear such restrictive legend if in the opinion of counsel for the Company such legend is not required in order to establish compliance with any provisions of the Securities Act.

14. Information Rights. The Company shall furnish to any Investor, (i) within 90 days after the end of each fiscal year, unaudited annual financial reports, or audited financial statements if they are available, (ii) within 45 days after the end of each quarter, quarterly management reports, and (iii) at least 30 days prior to the end of each fiscal year, an annual budget. The Company shall also make its officers available to any Investor upon reasonable notice to answer questions and shall make its financial records available to any Investor upon reasonable notice. The information rights set forth in this Section 14 shall expire upon the earlier of: (i) the closing date of the Initial Public Offering, (ii) the time the Company becomes a reporting company under the Exchange Act, or (iii) a Change of Control.

15. Co-Sale Rights.

15.1 Notice of Proposed Transfer. Before a Principal Shareholder may effect any transfer of any Common Shares owned by such Principal Shareholder (the "Offered Shares") other than pursuant to a Permitted Transfer, such Principal Shareholder (the "Selling Principal Shareholder") must give to the Company and to the Holders a written notice signed by the Selling Principal Shareholder (the "Selling Principal Shareholder's Notice") stating (a) the number of Offered Shares to be transferred, and (b) the bona fide cash price or, in reasonable detail, other consideration, per share (the "Offered Price") for which the Selling Principal Shareholder proposes to transfer such Offered Shares.

15.2 Rights of Co-Sale.

(1) Each Holder will have the right to sell, on the terms and to the proposed transferee described in the Selling Principal Shareholder's Notice, that number of Shares equal to the product obtained by multiplying (i) the aggregate number of Offered Shares by (ii) a fraction, the numerator of which is the number of Shares then held by such Holder, and the denominator of which is the total combined number of Shares then held by the Selling Principal Shareholder (including shares transferred pursuant to Permitted Transfers by such selling Principal Shareholder in accordance herewith) and the number of Shares issued or issuable to all Holders that desire to exercise their co-sale rights pursuant to this Section 15. For purposes of making such computation, the Holder shall be deemed to own the number of Shares issued or issuable upon conversion of all its Preferred Shares. Holders may exercise such rights of co-sale by giving written notice to the Selling Principal Shareholder within ten (10) days after the date of the Selling Principal Shareholder's Notice, specifying the number of Shares which the

Holder desires to transfer to the Selling Principal Shareholder's proposed transferee, in which case the number of Offered Shares which the Selling Principal Shareholder may sell pursuant to the Selling Principal Shareholder's Notice shall be correspondingly reduced.

(2) The Holder may effectuate its right of co-sale contemplated by this Section 15 by delivering to the Selling Principal Shareholder for transfer to the proposed transferee one or more certificates, properly endorsed for transfer, which represent:

i. the number of Common Shares which the Holder is entitled to, and elects to, sell pursuant to this Section 15; or

ii. that number of Preferred Shares which is at such time convertible into the number of Common Shares which such Holder elects to sell pursuant to this Section 15; *provided, however*, that if the proposed transferee objects to the delivery of Preferred Shares in lieu of Common Shares, the Holder may convert and deliver Common Shares as provided in subparagraph 15.2(2)(i) above.

15.3 Deliveries. The stock certificate or certificates which a Holder delivers to a Selling Principal Shareholder pursuant to Section 15.2 shall be transferred by such Selling Principal Shareholder to the proposed transferee in consummation of the sale of the Shares pursuant to the terms and conditions specified in the Selling Principal Shareholder's Notice, and such Selling Principal Shareholder shall promptly thereafter remit to such Holder that portion of the sale proceeds to which such Holder is entitled by reason of its participation in such sale.

15.4 Subsequent Sale of Shares. The exercise or non-exercise of the rights of any Holder under this Section 15 to participate in one or more sales of the Shares made by a Selling Principal Shareholder shall not adversely affect its right to participate in subsequent sales of Shares by such Selling Principal Shareholder pursuant to this Section 15.

15.5 Prohibited Transfers. In the event any Principal Shareholder should sell any Shares in contravention of the right of co-sale set forth in this Section 15 (a "Prohibited Transfer"), a Holder, in addition to such other remedies as may be available at law or in equity or hereunder, shall have the put option provided Section 15.6 below, and such Principal Shareholder shall be bound by the applicable provisions of such put option.

15.6 Put Option. In the event of a Prohibited Transfer by a Principal Shareholder, a Holder shall have the right (but shall not be obligated) to sell, to the Principal Shareholder who made the Prohibited Transfer, a number of Common Shares (either directly or through conversion of Preferred Shares) equal to the number of Shares that the Holder would have been entitled to transfer to the proposed purchaser in the Prohibited Transfer pursuant to this Section 15, assuming the Holder elected to exercise its co-sale rights under Section 15.2 to their fullest extent. Such sale shall be made on the following terms and conditions:

15.6.1 The price per share at which the Shares are to be sold to any such Principal Shareholder shall be equal to the price per share paid by the purchaser to such Principal Shareholder in the Prohibited Transfer. Such Principal Shareholder shall also reimburse the Holder for any and all reasonable fees and expenses, including attorneys' fees and expenses, incurred pursuant to any exercise of the Holder's rights under this Section 15.6.

15.6.2 Within 90 days after the earlier of the dates on which the Holder (i) received notice from such Principal Shareholder of the Prohibited Transfer, or (ii) otherwise obtained actual knowledge of the Prohibited Transfer, the Holder shall, if exercising the put option created hereby, deliver to such Principal Shareholder the certificate or certificates representing Shares to be sold, each certificate to be properly endorsed for transfer. The failure of the Holder to exercise the put option in such 90-day period shall constitute a waiver of the Holder's right under this Section 15.6.

15.6.3 Such Principal Shareholder shall, upon receipt of the certificate or certificates for the Shares to be sold by the Holder, pursuant to Section 15.6.2, pay the aggregate purchase price therefor and the amount of fees and expenses reimbursable under Section 15.6.1, by check or wire transfer made payable to the order of the Holder.

15.7 Permitted Transfers. The rights of the Holders under Section 15 shall not pertain or apply to Permitted Transfers; provided, however, that in the event of a Permitted Transfer relating to any transfer of the Shares to a Principal Shareholder's ancestors, descendants or spouse, brother or sister of the Principal Shareholder, the adopted child or adopted grandchild of the Principal Shareholder, or to a trust or trusts for the benefit of such Principal Shareholder or such Principal Shareholder's family members as described above, or transfers by a Principal Shareholder by devise or descent, the Principal Shareholder shall inform the Company and the Holders of such transfer prior to effecting it, and (2) the permitted transferee shall furnish the Company and the Holders with a written agreement to be bound by and to comply with all provisions of this Agreement applicable to such Principal Shareholder.

15.8 Termination. The provisions of this Section 15 shall terminate upon the occurrence of any one of the following events: (i) the closing of an Initial Public Offering; or (ii) a Change of Control.

15.9 Legends. Each certificate representing Shares now or hereafter owned by the Principal Shareholders or issued to any permitted transferee pursuant to this Section 15 above shall be endorsed with a legend in substantially the following form:

> THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RIGHTS OF CO-SALE AS SET FORTH IN AN AMENDED AND RESTATED INVESTORS RIGHTS AGREEMENT DATED [_____ ___], 2004, BY AND AMONG THE REGISTERED HOLDER, THE CORPORATION AND OTHERS. COPIES OF SUCH AGREEMENT MAY BE OBTAINED BY THOSE PERSONS OR ENTITIES HAVING A LEGITIMATE INTEREST UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION.

15.10 Amendment of Co-Sale Rights. The observance of any provision of this Section 15 may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of Holders owning a majority of the Preferred Shares (including shares issuable upon conversion of Preferred Shares) or their permitted transferees of such rights. Any provision of this Section 15 may be amended or terminated only with the written consent of (i) the Company; (ii) Holders owning a majority of the Preferred Shares (including shares issuable upon conversion of Preferred Shares) or their permitted

transferees of such rights, and (iii) the Principal Shareholders holding a majority of the shares of capital stock of the Company then held by such Principal Shareholders.

16. Rights of First Refusal.

16.1 Subsequent Offerings. Each Holder shall have a right of first refusal to purchase its *pro rata* share of all Equity Securities, as defined below, that the Company may, from time to time, propose to sell and issue for cash after the date of this Agreement, other than the Equity Securities excluded by Section 16.7 hereof; provided, however, that such Holder shall be, at the time of the offer of such Equity Securities, an "accredited investor" as such term is defined under Rule 501(a) promulgated under the Securities Act and shall have provided to the Company with evidence reasonably satisfactory to the Company that such Holder is an "accredited investor." Each Holder's *pro rata* share is equal to the ratio of (a) the number of Common Shares (including all Common Shares issued or issuable upon conversion of the Preferred Shares) which such Holder is deemed to be a holder immediately prior to the issuance of such Equity Securities to (b) the total number of shares of the Company's Fully Diluted Common immediately prior to the issuance of the Equity Securities. The term "Equity Securities" shall mean (i) any Common Shares, Preferred Shares or other equity security of the Company, (ii) any equity security convertible, with or without consideration, into any Common Shares, Preferred Shares or other equity security (including any option to purchase such a convertible security), (iii) any security carrying any warrant or right to subscribe to or purchase any Common Shares, Preferred Shares or other equity security or (iv) any such warrant or right. For purposes of calculating a Holder's *pro rata* share pursuant to this Section 16.1, the number of shares of the Company's Common Shares which such Holder is deemed to hold may, at the election of such Holder, include shares held by any entity affiliated with such Holder, provided that, if such affiliated entity is also a Holder, such shares shall only be counted once in such *pro rata* calculation, such that the shares are included for only one such Holder. The term "Fully Diluted Common" shall mean the sum of (i) the number of Common Shares outstanding immediately prior to such issuance, plus (ii) the number of Common Shares into which any Preferred Shares outstanding immediately prior to such issuance may be converted at the applicable conversion price then in effect, plus (iii) the number of Common Shares and Preferred Shares for which any options to purchase, rights to subscribe, warrants or other derivative equity securities are outstanding or authorized by any duly adopted stock option plan or other plan of the Company prior to such issuance, plus (iv) the number of Common Shares into which any other convertible or exchangeable securities, including convertible debt securities, outstanding immediately prior to such issuance may be converted or exchanged.

16.2 Exercise of Rights. If the Company proposes to issue any Equity Securities, it shall give each Holder written notice (the "First Refusal Notice") of its intention, describing the Equity Securities, the price and the terms and conditions upon which the Company proposes to issue the same. Each Holder shall have 15 days from the giving of such notice to agree to purchase its *pro rata* share of the Equity Securities for the price and upon the terms and conditions specified in the notice by giving written notice to the Company and stating therein the quantity of Equity Securities to be purchased. If the Holders fail to exercise in full the rights of first refusal, the Company shall have 90 days thereafter to sell the Equity Securities in respect of which the Holders' rights were not exercised, at a price and upon general terms and conditions no more favorable to the purchasers thereof than specified in the First

Refusal Notice. If the Company has not sold such Equity Securities within 90 days of the date of the First Refusal Notice, the Company shall not thereafter issue or sell any Equity Securities, without first offering such securities to the Holders in the manner provided above. Notwithstanding the foregoing, the Company shall not be required to offer or sell such Equity Securities to any Holder who would cause the Company to be in violation of applicable federal or state securities laws by virtue of such offer or sale.

16.3 Reserved.

16.4 Sale Without Notice. In lieu of giving notice to the Holders prior to the issuance of Equity Securities as provided in Section 16.2, the Company may elect to give notice to the Holders within 30 days after the issuance of Equity Securities. Such notice shall describe the type, price and terms of the Equity Securities. Each Holder shall have 30 days from the date of receipt of such notice to elect to purchase its *pro rata* share of Equity Securities (as defined in Section 16.1, and calculated by excluding such already issued Equity Securities from the Fully Diluted Common). The closing of such sale shall occur within 60 days of the date of notice to the Holders.

16.5 Termination and Waiver of Rights of First Refusal. The rights of first refusal established by this Section 16 shall terminate immediately prior to the effective date of the registration statement pertaining to the Company's Initial Public Offering.

16.6 Transfer of Rights of First Refusal. The rights of first refusal of each Holder under this Section 16 may be transferred to the same parties, subject to the same restrictions as any transfer of registration rights pursuant to Section 7.

16.7 Excluded Securities. The rights of first refusal established by this Section 16 shall have no application to any of the following Equity Securities:

(1) Equity Securities issued pursuant to stock splits, stock dividends or other recapitalization transactions;

(2) Equity Securities issued to employees, officers, directors, consultants, contractors or advisors of the Company pursuant to stock purchase or stock option plans or agreements or other incentive stock arrangements approved by the Board of Directors of the Company;

(3) Equity Securities issued to lenders, equipment lessors or other parties providing goods or services to the Company;

(4) Equity Securities issued in connection with acquisition transactions;

(5) Equity Securities issued upon exercise of the Managing Dealer Warrants;

(6) Equity Securities issued in strategic partnership transactions;

(7) Any shares of the Series B Preferred (provided, however, that the Existing Preemptive Rights held by holders of the Series A Preferred shall apply to the Series B Preferred); and

(8) Equity Securities issued in any other transaction in which exemption from the right of first refusal provisions of this Section 16 is approved by the Holders of a majority of the then outstanding Preferred Shares.

16.8 Waiver of Rights of First Refusal. The Existing Investors hereby waive the right of first refusal under Section 16 of the Prior Agreement with respect to an additional 17,911 shares of Series A Preferred issued and sold by the Company in connection with the Offering (as such term is defined under the Prior Agreement). The waiver of right of first refusal as provided under this Section 16.8 shall not affect the Existing Preemptive Rights of the Existing Investors with respect to the offering of the Series B Preferred.

17. Series B Director.

17.1 Covenants of Series B Holders. Each Investor who now holds or hereafter acquires any shares of the Series B Preferred hereby agrees as follows:

(1) At any time prior to the receipt by such Investor of written notice from the Company stating that the aggregate gross proceeds resulting from the sale of the Series B Preferred pursuant to that certain Managing Dealer Agreement dated April 19, 2004 by and between the Company and the Managing Dealer, as may be subsequently amended from time to time (the "Managing Dealer Agreement"), has reached an amount of no less than $3,000,000, such Investor shall not exercise its right to elect the Series B Director as provided for in the Company's Articles of Incorporation;

(2) In the event that the aggregate gross proceeds resulting from the sale of the Series B Preferred pursuant to the Managing Dealer Agreement shall be less than $3,000,000 upon the termination of such agreement, such Investor shall take all such action as may be requested by the Company to facilitate the amendment of the Articles of Incorporation of the Company so as to remove the rights of Series B Preferred Holders to elect the Series B Director;

(3) For purposes of this Section 17, in determining the aggregate gross proceeds resulting from the sale of the Series B Preferred pursuant to the Managing Dealer Agreement, there shall not be included any proceeds resulting from the sale of shares of the Series B Preferred pursuant to the Existing Preemptive Rights; and

(4) In the event of an Initial Public Offering or Change of Control, such Investor shall (i) take all such action as may be requested by the Company to facilitate the amendment of the Articles of Incorporation of the Company so as to remove the rights of the Series B Preferred Holders to elect the Series B Director; (ii) not exercise its right to elect the Series B Director as provided for in the Company's Articles of Incorporation; and (iii) take all such action as may be requested by the Company to remove the Series B Director, if any, then serving on the Board.

17.2 Voting Shares. Each Party to this Agreement agrees to hold all of its Common Shares and Preferred Shares and any and all other voting securities of the Company legally or beneficially acquired by each such Party after the date hereof (the "Voting Shares") subject to, and to vote such shares (and consent to actions taken by written consent) in accordance with, the provisions of this Section 17. In the event that the Articles of Incorporation of the Company are required to be amended by the terms of Section 17.1 above, each Party shall vote all of its Voting Shares (and consent to actions taken by written consent) in favor of such amendment pursuant to the terms of Section 17.1 above.

17.3 Successors in Interest. The provisions of this Section 17 shall be binding upon and inure to the benefit of all transferees or assignees of the Voting Shares. The Company shall not permit the transfer of any of the Voting Shares on its books or issue a new certificate representing any of the Voting Shares unless and until the person to whom such security is to be transferred agrees to be bound by the terms and conditions of this Agreement.

17.4 Legend Requirement. In addition to other legends that are required, either by agreement or by the relevant federal or state securities laws, each certificate representing any of the Voting Shares shall be marked by the Company with a legend substantially in the following form:

> THE SHARES EVIDENCED HEREBY ARE SUBJECT TO CERTAIN VOTING RESTRICTIONS AS SET FORTH IN AN AMENDED AND RESTATED INVESTORS RIGHTS AGREEMENT DATED [_____ ___], 2004, BY AND AMONG THE REGISTERED HOLDER, THE CORPORATION AND OTHERS (A COPY OF WHICH MAY BE OBTAINED FROM THE COMPANY) AND BY ACCEPTING ANY INTEREST IN SUCH SHARES, THE PERSON HOLDING SUCH INTEREST SHALL BE DEEMED TO AGREE TO AND SHALL BE BOUND BY ALL THE PROVISIONS OF SAID AGREEMENT.

17.5 Specific Performance. The Parties recognize that irreparable injury will result from a breach of any provision of this Section 17 and that money damages will be inadequate to fully remedy the injury. Accordingly, in the event of a breach or threatened breach of this Section 17, any Party who may be injured (in addition to any other remedies which may be available to that Party) will be entitled to one or more preliminary or permanent orders (i) restraining and enjoining any act which would constitute a breach, or (ii) compelling the performance of any obligation which, if not performed, would constitute a breach.

18. Governing Law; Jurisdiction and Venue. This Agreement shall be governed in all respects by the internal laws of the State of California, without giving effect to principles of conflicts of laws. The Parties submit to the jurisdiction of the Courts of the County of Orange, State of California, or a Federal Court empanelled in the State of California for the resolution of all legal disputes arising under the terms of this Agreement.

19. Entire Agreement. This Agreement and, as applicable, the Purchase Documents, constitute the full and entire understanding and agreement among the parties regarding the transactions contemplated herein and therein. Except as otherwise expressly provided herein and

therein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

20. Notices, etc. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given (i) upon personal delivery to the party to be notified, (ii) three days after deposit in the United States mail, postage prepaid and properly addressed to the party to be notified as set forth on the signature page hereof or at such other address as such party may designate by ten days' advance written notice to the other parties hereto, or (iii) when transmitted if transmitted by telecopy (to be followed by U.S. mail), electronic or digital transmission method. In each case notice shall be sent to (a) if to a New Investor, to the address of such New Investor as set forth in Schedule A attached hereto; (b) if to an Existing Investor, to the address of such Existing Investor as set forth on the signature page to the Prior Agreement; (c) if to a Principal Shareholder, to the address of such Principal Shareholder as set forth on Schedule B attached hereto; and (d) if to the Company, to the address set forth on the signature page hereto; or in all cases, at such other address as a Party may designate by ten (10) days' advance written notice to the other Parties pursuant to the provisions of this Section 20.

21. Counterparts. This Agreement may be executed in any number of counterparts, each of which may be executed by fewer than all of the parties hereto, each of which shall be enforceable against the parties actually executing such counterparts, and all of which together shall constitute one and the same instrument. Signatures to this Agreement may be transmitted by facsimile and such signatures shall be deemed to be originals.

22. Amendment. Subject to Section 15.10 hereof, any provision of this Agreement may be amended, waived, modified, discharged or terminated only with the written consent of the Company and the Holders of a majority in interest of the Registrable Securities. Any amendment or waiver effected in accordance with this paragraph will be binding upon the Company and each holder of any securities subject to this Agreement (including securities into which such securities are convertible) and future holders of all such securities. Any Holder may waive his or her rights or the Company's obligations hereunder without obtaining the consent of any other person. Notwithstanding the foregoing, any purchaser purchasing Series B Preferred pursuant to any of the Purchase Documents after the date hereof, as well as any purchaser purchasing shares of one or more series of Preferred Shares to be designated in the future, may be required by the Company to execute a signature page to this Agreement (after such purchaser has been provided with a copy of this Agreement and an opportunity to review this Agreement) upon which execution such purchaser shall be deemed a party hereto and the Company shall be authorized to unilaterally amend Schedule A hereto to reflect the addition of any such purchaser as a New Investor.

23. Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

24. Severability. If any provision of this Agreement is held to be invalid or unenforceable to any extent in any context, it shall nevertheless be enforced to the fullest extent allowed by law in that and other contexts, and the validity and force of the remainder of this Agreement shall not be affected thereby.

25. Attorneys' Fees. In the event that any dispute among the parties to this Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all reasonable fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all reasonable fees, costs and expenses of appeals.

26. Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

27. Prior Agreement. The Parties who are parties to the Prior Agreement hereby agree that, upon the effectiveness of this Agreement, the Prior Agreement shall be superseded and replaced in its entirety by this Agreement; provided, however, that the effectiveness of this Agreement shall not affect the Existing Preemptive Rights of the Existing Investors as applied to the Series B Preferred.

28. Effective Date of Agreement. This Agreement shall become effective upon the first closing in the Company's offering of its Series B Preferred, subject to the execution of this Agreement by the Company and the holders of a majority of the outstanding shares of Series A Preferred.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Investors Rights Agreement as of the date first set forth above.

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/ Hojabr Alimi
Name: Hojabr Alimi
Title: President & CEO
Address: 1129 No. McDowell Blvd.
Petaluma, CA 94954
Fax No.: 707-283-0551

INVESTORS

By: _____
Print Name: _____
Title: _____

PRINCIPAL SHAREHOLDERS

By: _____
Print Name: _____

BROOKSTREET SECURITIES CORPORATION
(for purposes of Sections 2-12 only)

By: _____
Print Name: _____
Title: _____

HOLDERS OF MANAGING DEALER WARRANTS

(for purposes of Sections 2-12 only)

By: _____
Print Name: _____
Title: _____

[SIGNATURE PAGE TO AMENDED AND RESTATED INVESTORS RIGHTS AGREEMENT]

SCHEDULE A

New Investors

Name	Address and Fax Number

SCHEDULE B

Principal Shareholders

Name	Address and Fax Number
Akihisa Akao	5-26-11 Nakagawa Tsuzuki-Ku Yokohoma, Kanagawa 224-0001 Japan Fax No.: _____
Hojabr Alimi	1129 No. McDowell Blvd. Petaluma, CA 94954 Fax No.: 707-283-0551
Richard Conley	17331 Hillside Drive Sonoma, CA 95476 Fax No.: _____
Greg French	941 Birkdale Court Windsor, CA 95492 Fax No.: _____
Thomas Moore	68 Abbott Road Wellesley Hills, MA 02481 Fax No.: _____

Exhibit 4.7

FORM OF PROMISSORY NOTE

[Note No. X-XXX**]**

$ _____ _____,200___
San Jose, California

The undersigned ("Borrower") promises to pay to the order of VENTURE LENDING & LEASING III, INC., a Maryland corporation ("Lender"), at its office at 2010 North First Street, Suite 310, San Jose, California 95131, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of _____ Dollars ($_____), with Basic Interest thereon (except as otherwise provided herein) from the date hereof until maturity, whether scheduled or accelerated, at a fixed rate per annum equal to **[the Prime Rate on the Business Day Lender prepares the Note plus 5.797%, but in no event less than 9.797%;** (the "Designated Rate") **[**, and a Terminal Payment in the sum of _____**[5.00% of face amount]**____Dollars ($_____) payable on the Maturity Date.**]**

This Note is one of the Notes referred to in, and is entitled to all the benefits of, a Loan and Security Agreement dated as of March___, 2004, between Borrower and Lender (the "Loan Agreement"). Each capitalized term not otherwise defined herein shall have the meaning set forth in the Loan Agreement. The Loan Agreement contains provisions for the acceleration of the maturity of this Note upon the happening of certain stated events.

Principal of and interest on this Note shall be payable as follows:

On the Borrowing Date, Borrower shall pay (i) interest at the Designated Rate on the outstanding principal balance of this Note for the period from the Borrowing Date through **[the last day of the same month]___**; and (ii) a first (1st) amortization installment of principal and Basic Interest at the Designated Rate in the amount of _____, in advance for the month of [**first full month after Borrowing Date**] and (iii) a thirty-third (33rd) amortization installment of principal and Basic Interest at the Designated Rate in the amount of $ _____, in advance for the month of ___**[date of last regular amortization payment]**___.

Commencing on the first day of the second full month after the Borrowing Date, and continuing on the first day of each consecutive month thereafter, principal and Basic Interest at the Designated Rate shall be payable, in advance, in thirty(30) equal consecutive installments of _____ Dollars ($_____) each, with a thirty-first (31st**)** installment equal to the entire unpaid principal balance and accrued Basic Interest at the Designated Rate on _____, 200___. The Terminal Payment and unpaid expenses, fees, interest and principal amount shall be due and payable on ___**[one month later]**___, 200___.]

This Note may be voluntarily prepaid only as permitted under Section 2 of Part 2 of the Supplement to the Loan Agreement.

Any unpaid payments of principal or interest on this Note shall bear interest from their respective maturities, whether scheduled or accelerated, at a rate per annum equal to the Default Rate. Borrower shall pay such interest on demand.

Interest, charges and fees shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrower be obligated to pay interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

If Borrower is late in making any payment under this Note by more than five (5) days, Borrower agrees to pay a "late charge" of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrower acknowledges that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrower to make timely payments. Borrower further agrees that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Note or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____

Name: _____

Its: _____

Exhibit 4.8

FORM OF PROMISSORY NOTE
[Equipment and Soft Cost Loans]

[Note No. X-XXX**]**

$_____ _____, 200___
San Jose, California

Each of the undersigned ("Borrowers") jointly and severally promises to pay to the order of VENTURE LENDING & LEASING IV, INC., a Maryland corporation ("Lender"), at its office at 2010 North First Street, Suite 310, San Jose, California 95131, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of ___Dollars ($___), with Basic Interest thereon (except as otherwise provided herein) from the date hereof until maturity, whether scheduled or accelerated, at a fixed rate per annum equal to **[the Prime Rate on the Business Day Lender prepares the Note plus 0.50%, but in no event less than 8.00%;** (the "Designated Rate"), and a Final Payment in the sum of **[6.581% of face amount]** Dollars ($___) payable on the Maturity Date.**]**

This Note is one of the Notes referred to in, and is entitled to all the benefits of, a Loan and Security Agreement dated as of June 14, 2006, between Borrowers and Lender (the "Loan Agreement"). Each capitalized term not otherwise defined herein shall have the meaning set forth in the Loan Agreement. The Loan Agreement contains provisions for the acceleration of the maturity of this Note upon the happening of certain stated events.

Principal of and interest on this Note shall be payable as follows:

On the Borrowing Date, Borrowers shall pay [*if the Borrowing Date is not the first day of the month:* (i) interest at the rate of 1.00% per month on the outstanding principal balance of this Note for the period from the Borrowing Date through **[the last day of the same month]___,** in the amount of $___; and (ii)] a first (1st) amortization installment of principal and interest at the Designated Rate in the amount of ___, in advance for the month of [**first full month after Borrowing Date**].

Commencing on the first day of the second full month after the Borrowing Date, and continuing on the first day of each consecutive month thereafter, principal and interest at the Designated Rate shall be payable, in advance, in thirty (30) equal consecutive installments of ___Dollars ($___) each, with a thirty-first (31st) installment on ___, 200___equal to the entire unpaid principal balance and accrued interest at the Designated Rate and any unpaid expenses and fees. The Final Payment in the amount of $___shall be due and payable on [**one month later] ,** 200_.]

This Note may be voluntarily prepaid only as permitted under Section 2 of Part 2 of the Supplement to the Loan Agreement.

Any unpaid payments of principal or interest on this Note shall bear interest from their respective maturities, whether scheduled or accelerated, at a rate per annum equal to the Default Rate. Borrowers shall pay such interest on demand.

Interest, charges and fees shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrowers be obligated to pay interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

If Borrowers are late in making any payment under this Note by more than five (5) days, Borrowers agree to pay a "late charge" of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrowers acknowledge that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrowers to make timely payments. Borrowers further agree that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Note or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: _____
Its: _____

OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

By: _____
Name: _____
Its: _____

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.

By: _____
Name: _____
Its: _____

Exhibit 4.9

FORM OF PROMISSORY NOTE
[Growth Capital Loans]

[Note No. X-XXX**]**

$_____ _____, 200___
San Jose, California

Each of the undersigned ("Borrowers") jointly and severally promises to pay to the order of VENTURE LENDING & LEASING IV, INC., a Maryland corporation ("Lender"), at its office at 2010 North First Street, Suite 310, San Jose, California 95131, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of ___Dollars ($___), with Basic Interest thereon (except as otherwise provided herein) from the date hereof until maturity, whether scheduled or accelerated, at a fixed rate per annum equal to **[the Prime Rate on the Business Day Lender prepares the Note plus 0.50%, but in no event less than 8.00%;** (the "Designated Rate"), and a Final Payment in the sum of **[6.059% of face amount]** Dollars ($___) payable on the Maturity Date.**]**

This Note is one of the Notes referred to in, and is entitled to all the benefits of, a Loan and Security Agreement dated as of June 14, 2006, between Borrowers and Lender (the "Loan Agreement"). Each capitalized term not otherwise defined herein shall have the meaning set forth in the Loan Agreement. The Loan Agreement contains provisions for the acceleration of the maturity of this Note upon the happening of certain stated events.

Principal of and interest on this Note shall be payable as follows:

On the Borrowing Date, Borrowers shall pay interest only at the rate of 1.00% per month on the outstanding principal balance of this Note for the period from the Borrowing Date through June 30, 2006**,** in the amount of $___.

Commencing on July 1, 2006, and continuing on August 1, 2006, Borrowers shall make payments in advance of interest only at the rate of 1.00% per month on the principal balance outstanding hereunder, in the amount of $___each.

Commencing on September 1,2006, and continuing on the first day of each consecutive month thereafter, principal and interest at the Designated Rate shall be payable, in advance, in twenty-nine (29) equal consecutive installments of ___Dollars ($___) each, with a thirtieth (30th) installment on ___, 200___,equal to the entire unpaid principal balance and accrued interest at the Designated Rate and any unpaid expenses and fees. The Final Payment in the amount of $___shall be due and payable on **[one month later]** , 200_.]

This Note may be voluntarily prepaid only as permitted under Section 2 of Part 2 of the Supplement to the Loan Agreement.

Any unpaid payments of principal or interest on this Note shall bear interest from their respective maturities, whether scheduled or accelerated, at a rate per annum equal to the Default Rate. Borrowers shall pay such interest on demand.

Interest, charges and fees shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrowers be obligated to pay interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

If Borrowers are late in making any payment under this Note by more than five (5) days, Borrowers agree to pay a "late charge" of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrowers acknowledge that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrowers to make timely payments. Borrowers further agree that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Note or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: _____
Its: _____

OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

By: _____
Name: _____
Its: _____

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.

By: _____
Name: _____
Its: _____

Exhibit 4.10

FORM OF PROMISSORY NOTE
[Working Capital Loans]

[Note No. X-XXX**]**

$_____ _____, 200___
San Jose, California

Each of the undersigned ("Borrowers") jointly and severally promises to pay to the order of VENTURE LENDING & LEASING IV, INC., a Maryland corporation ("Lender"), at its office at 2010 North First Street, Suite 310, San Jose, California 95131, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of ___Dollars ($___), with Basic Interest thereon (except as otherwise provided herein) from the date hereof until maturity, whether scheduled or accelerated, at a fixed rate per annum equal to **[the Prime Rate on the Business Day Lender prepares the Note plus 0.50%, but in no event less than 8.00%;** (the "Designated Rate"), and a Final Payment in the sum of **[6.059% of face amount]** Dollars ($___) payable on the Maturity Date.**]**

This Note is one of the Notes referred to in, and is entitled to all the benefits of, a Loan and Security Agreement dated as of June 14, 2006, between Borrowers and Lender (the "Loan Agreement"). Each capitalized term not otherwise defined herein shall have the meaning set forth in the Loan Agreement. The Loan Agreement contains provisions for the acceleration of the maturity of this Note upon the happening of certain stated events.

Principal of and interest on this Note shall be payable as follows:

On the Borrowing Date, Borrowers shall pay **[***if the Borrowing Date is not the first day of the month:* (i) interest only at the rate of 1.00% per month on the outstanding principal balance of this Note for the period from the Borrowing Date through **[the last day of the same month]___,** in the amount of $___; and (ii)**]** interest only at the rate of 1.00% per month, in the amount of $___, for the month of **[date of first regular interest-only installment]**.

Commencing on the first day of the second full month after the Borrowing Date, and continuing on the first day of the third full month after the Borrowing Date, Borrowers shall make payments in advance of interest only at the rate of 1.00% per month on the principal balance outstanding hereunder, in the amount of $___each.

Commencing on the first day of the fourth full month after the Borrowing Date, and continuing on the first day of each consecutive month thereafter, principal and interest at the Designated Rate shall be payable, in advance, in twenty-nine (29) equal consecutive installments of ___Dollars ($___) each, with a thirtieth (30^{th}) installment on ___, 200___,equal to the entire unpaid principal balance and accrued interest at the Designated Rate and any unpaid expenses and fees. The Final Payment in the amount of $___shall be due and payable on [**one month later]** , 200_.]

This Note may be voluntarily prepaid only as permitted under Section 2 of Part 2 of the Supplement to the Loan Agreement.

Any unpaid payments of principal or interest on this Note shall bear interest from their respective maturities, whether scheduled or accelerated, at a rate per annum equal to the Default Rate. Borrowers shall pay such interest on demand.

Interest, charges and fees shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrowers be obligated to pay interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

If Borrowers are late in making any payment under this Note by more than five (5) days, Borrowers agree to pay a "late charge" of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrowers acknowledge that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrowers to make timely payments. Borrowers further agree that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Note or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: _____
Its: _____

OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

By: _____
Name: _____
Its: _____

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.

By: _____
Name: _____
Its: _____

Exhibit 4.11

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, EXCHANGED, HYPOTHECATED OR TRANSFERRED IN ANY MANNER EXCEPT PURSUANT TO A REGISTRATION OR AN EXEMPTION FROM SUCH REGISTRATION AND IN COMPLIANCE WITH SECTION 4 OF THE AGREEMENT PURSUANT TO WHICH THEY WERE ISSUED.

Warrant Certificate No. «warrant_no»

MANAGING DEALER WARRANTS TO PURCHASE «issued» SHARES OF COMMON STOCK

OCULUS INNOVATIVE SCIENCES, INC.
INCORPORATED UNDER THE LAWS
OF THE STATE OF CALIFORNIA

This certifies that, for value received, «holder», the registered holder hereof or assigns (the "Warrantholder"), is entitled to purchase from OCULUS INNOVATIVE SCIENCES, INC. (the "Company"), at any time prior to: (1) the second anniversary of the completion of an Initial Public Offering by the Company, or (2) a liquidation, merger, acquisition, sale of voting control or sale of substantially all of the assets of the Company in which the shareholders of the Company do not own a majority of the outstanding shares of the surviving corporation, at the purchase price per share of «price» (the "Warrant Price"), the number of Shares of Common Stock of the Company set forth above (the "Shares"). The number of Shares issuable upon exercise of each Warrant evidenced hereby and the Warrant Price shall be subject to adjustment from time to time as set forth in the Managing Dealer Agreement referred to below.

The Warrants evidenced hereby represent the right to purchase an aggregate of up to «issued» Shares, subject to certain adjustments, and are issued under and in accordance with a Managing Dealer Warrant Agreement, dated as of June 18, 2003 (the "Managing Dealer Warrant Agreement"), between the Company and Brookstreet Securities Corporation and are subject to the terms and provisions contained in the Managing Dealer Warrant Agreement, all of which the Warrantholder by acceptance hereof consents. All capitalized terms in this Warrant Certificate, to the extent not otherwise defined herein, shall have the meaning assigned to such terms in the Managing Dealer Warrant Agreement.

The Warrants evidenced hereby may be exercised in whole or in part by presentation of this Warrant Certificate with the Purchase Form attached hereto duly executed (with a signature guarantee as provided thereon) and simultaneous payment of the Warrant Price at the principal office of the Company. Payment of such price shall be made by the Warrantholder in cash, by check, or any combination thereof.

Upon any partial exercise of the Warrants evidenced hereby, there shall be signed and issued to the Warrantholder a new Warrant Certificate in respect of the Shares as to which the Warrants evidenced hereby shall not have been exercised. These Warrants may be exchanged at the office of the Company by surrender of this Warrant Certificate properly endorsed for one or more new Warrants of the same aggregate number of Shares as evidenced by the Warrant or Warrants exchanged. No fractional Shares of Common Stock will be issued upon the exercise of rights to purchase hereunder, but the Company shall pay the cash value of any fraction upon the exercise of one or more Warrants. These Warrants are transferable at the office of the Company in the manner and subject to the limitations set forth in the Managing Dealer Warrant Agreement.

This Warrant Certificate does not entitle any Warrantholder to any of the rights of a stockholder of the Company unless and until the Warrantholder exercises its rights to purchase Shares hereunder.

OCULUS INNOVATIVE SCIENCES, INC.

Dated: «date»

_____

By: _____
Its: _____

PURCHASE FORM

OCULUS INNOVATIVE SCIENCES, INC.
1129 North McDowell Boulevard
Petaluma, CA 94954

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Warrant Certificate for, and to purchase thereunder, _____Shares of Common Stock (the "Shares") provided for therein, and requests that certificates for the Shares be issued in the name of:

_____

(Please Print or Type Name)

_____

_____

(Address, including zip code)

_____

(Social Security No. or Tax I.D. No.)

and, if said number of Shares shall not be all the Shares purchasable hereunder, that a new Warrant Certificate for the balance of the Shares purchasable under the within Warrant Certificate be registered in the name of the undersigned Warrantholder or his Assignee as below indicated and delivered to the address stated below.

Name of Warrantholder
or Assignee: _____

(Please Print)

Address: _____

_____

Signature: _____ Dated: _____

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever, unless these Warrants have been assigned.

Signatures Guaranteed: _____

(Signature must be guaranteed by a bank or trust company having an office or correspondent in the United States or by a member firm of a registered securities exchange or the National Association of Securities Dealers, Inc.)

ASSIGNMENT

(To be signed only upon assignment of Warrants)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto the assignee named below all of the rights of the undersigned represented by the attached Warrant with respect to the number of Shares covered by the Warrant set forth below:

(Name and Address of Assignee Must Be Printed or Typewritten)

Name of Assignee	Social Security No. or Tax ID No.	Address	No. of Shares

and does hereby irrevocably constitute and appoint _____ Attorney to transfer said Warrants on the books of the Company, with full power of substitution in the premises.

Dated: _____ _____

Signature of Registered Holder

Note: The signature on this assignment must correspond with the name as it appears upon the face of the within Warrant Certificate in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: _____

(Signature must be guaranteed by a bank or trust company having an office or correspondent in the United States or by a member firm of a registered securities exchange or the National Association of Securities Dealers, Inc.)

Exhibit 10.2

MICROMED LABORATORIES, INC.

1999 STOCK PLAN

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 hereof.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means MicroMed Laboratories, Inc., a California corporation.

(h) "Consultant" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(i) "Director" means a member of the Board of Directors of the Company.

(j) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax

purposes as a Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(m) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(o) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(p) "Option" means a stock option granted pursuant to the Plan.

(q) "Option Agreement" means a written or electronic agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(r) "Option Exchange Program" means a program whereby outstanding Options are exchanged for Options with a lower exercise price.

(s) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.

(t) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.

(u) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(v) "Plan" means this 1999 Stock Plan.

(w) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 11 below.

(x) "Section 16(b)" means Section 16(b) of the Securities Exchange Act of 1934, as amended.

(y) "Service Provider" means an Employee, Director or Consultant.

(z) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 below.

(aa) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 11 below.

(bb) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be subject to option and sold under the Plan is Three Hundred Eighty Three Thousand Seven Hundred Fifty (383,750) Shares. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine the number of Shares to be covered by each such award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(e) instead of Common Stock;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option has declined since the date the Option was granted;

(viii) to initiate an Option Exchange Program;

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Optionees to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and

(xi) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility.

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

(b) Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000,-such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a Service Provider who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all

classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any other Service Provider, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options maybe granted with a per Share exercise price other than as required above pursuant to a merger or other corporate transaction.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at thee time of grant). Such consideration may consist of (1) cash, (2) check, (3) promissory note, (4) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination-of the foregoing methods of payment. In making its determination -as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration- may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Except in the case of Options granted to Officers, Directors and Consultants, Options shall be exercisable at a rate of no less than 20% per year over five (5) years from the date the Options are granted. Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, such Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement (of at least thirty (30) days) to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If such disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option on the day three months and one day following such termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and

conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options and Stock Purchase Rights. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer. The terms of the offer shall comply in all respects with Section 260.140.42 of Title 10 of the California Code of Regulations. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock purchase agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine, but in no case at a rate of less than 20% per year over five years from the date of purchase.

(c) Other Provisions. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a shareholder and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

12. Adjustments Upon Changes in Capitalization Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock

covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to; the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until fifteen (15) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or, into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully exercisable for a period of fifteen (15) days from the date of such notice,, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of-the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the

Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

13. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Shareholder Approval. The Board shall obtain shareholder approval of any Plan amendment to the -extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect-the Administrator's ability to exercise the powers granted to it hereunder with respect to Options granted under the Plan prior to the date of such termination.

15. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Agreement Between Shareholders. Shares shall not bee issued pursuant to the exercise of an Option until such time that the Optionee has executed and delivered to the Company that certain Agreement Between the Shareholders of MicroMed Laboratories, Inc. and the Corporation and the Optionee's spouse, if any, has executed the Spousal Consent thereto.

(c) Investment Representations. As a condition to the exercise of an Option, the Administrator may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, -in the opinion of counsel for the Company; such a representation is required.

16. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the

Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

18. Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws.

19. Information to Optionees and Purchasers. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

March 24, 2004

«First» «MI» «Last»
«Address»
«City», «State» «Zip»

Subject Notice of Stock Option Grant

Dear «First»:

It is with great pleasure that I write this letter on behalf of the Management of Oculus Innovative Sciences, Inc. to inform you that the Company wishes to offer you a grant of stock options.

The Management of the Company has awarded you an option to purchase «Shares granted» shares of the Company's common stock at «Exercise_price» per share.

Enclosed are two copies of the Stock Option Agreement by which your award is made. Please sign both copies of this Agreement and return one to Jim Schutz. The second copy of the Agreement is for your records.

This award has been made pursuant to the Company's 1999 Stock Plan. Some of the more important aspects of the Plan are as follows:

1. The Company has granted you and other selected employees options to purchase a designated number of shares of the Company's common stock at a specified price (the "Exercise Price'). The Exercise Price was calculated by the Management and Board of Directors of the Company.

2. The vesting period under the Plan is tied to your continued employment with the Company and is specified in Section I of the enclosed Agreement.

3. Under the Plan, all options will expire ten years from the date of the award (Not the date of vesting). In the event your employment terminates due to death or disability, you will have 12 months after termination to exercise your options. If your employment terminates for any other reason, you will have 30 days to exercise your options.

4. Upon vesting, you have the tight to purchase the number of shares that have vested at the exercise price, which appears in Section I of the Agreement.

5. The award of the option granted by the Plan is not a taxable event. However, tax issues involving stock options can be complex. Prior to exercise of your stock options, I strongly advise you to seek tax advice from a qualified tax professional.

6. Participants wishing to exercise their stock options should advise the Finance Group, in writing, by filling out an Exercise Notice ("Exhibit A").

I am enclosing for your information and files a copy of the 1999 Stock Plan pursuant to which your 1999 Option Award is granted, as well as Stock Option Agreement and appropriate Exhibits. In so far as these materials only relate to the 1999 Plan, you should continue to retain any copies of awards or Plans previously sent to you in connection with earlier option awards.

If you have any questions or need additional information about the Plan or your Option Agreement, please do not hesitate to telephone Jim Schutz at 916/337.8003. Again, congratulations and let's continue to work together to build this company into a world-class organization.

Sincerely,

Jim Schutz
General Counsel

Enclosures: Stock Option Agreement and Exhibits and 1999 Plan Document

OCULUS INNOVATIVE SCIENCES, INC.
1999 STOCK PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Oculus Innovative Sciences, Inc. 1999 Stock Plan, a copy of which has been provided to the undersigned with this Option Agreement, shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Optionee:	«First» «Last»
Grant Number:	«Grant_»
Date of Option Grant:	«Date_of_Option_Grant»
Exercise Price per Share:	«Exercise_price»
Number of Option Shares:	«Shares_granted»
Type of Option:	«Type»
Vesting Commencement Date:	«Vesting_Commencement_Date»
Term/Expiration Date:	«TermExpiration_Date»

1. Vesting Schedule. This Option shall be exercisable, in whole or in part, according to the following vesting schedule:

   Twenty percent (20%) of the Shares subject to the Option shall vest on each of the five (5) annual anniversary dates of the Vesting Commencement Date, subject to Optionee's continuing to be a Service Provider on such dates.

2. Termination Period. This Option shall be exercisable for 30 days after Optionee ceases to be a Service Provider. Upon Optionee's death or disability, this Option may be exercised for such longer period as provided in the Plan. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), and subject to the terms and conditions of the Plan,

which is incorporated herein by reference. In the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the $100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.

a. Right to Exercise. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement.

b. Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as Exhibit A (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise comply with Applicable laws and the restrictions set forth in Section 6 of this Option Agreement. Assuming such compliance, for income tax purposes the Shares shall b e considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company a completed Investment Representation Statement in the form attached hereto as Exhibit B. THE STATEMENTS SET FORTH IN EXHIBIT B REPRESENT A GENERAL OVERVIEW OF THE LAWS AND REGULATIONS APPLICABLE TO THE SHARES AS OF DATE OF OPTION GRANT AND ARE NECESSARILY INCOMPLETE. SUCH LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT WITH HIS OR HER OWN PROFESSIONAL ADVISORS REGARDING ANY CHANGES IN SUCH LAWS OR REGULATIONS AND THE SUITABILITY OF HIM OR HER ACQUIRING THE SECURITIES BASED UPON HIS OR HER OWN PARTICULAR CIRCUMSTANCES PRIOR TO EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

4. Lock-Up Period. Optionee hereby agrees that, if so requested by the Company or any representative of the underwriters (the "Managing Underwriter") in connection with any registration of the offering of any securities of the Company under the Securities Act, Optionee shall not sell or otherwise transfer any Shares or other securities of the Company during the 180-

day period (or such other period as may be requested in writing by the Managing Underwriter and agreed to in writing by the Company) (the "Market Standoff Period") following the effective date of a registration statement of the Company filed under the Securities Act. Such restriction shall apply only to the first registration statement of the Company to become effective under the Securities Act that includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

a. cash or check;

b. consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

c. surrender of other Shares which, (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

6. Restrictions on Exercise. This Option may not be exercised:

a. until such time as the Plan has been approved by the shareholders of the Company;

b. until such time that the Optionee has executed and delivered to the Company that certain Agreement Between the Shareholders of Oculus Innovative Sciences, Inc. and the Corporation and the Optionee's spouse, if any, has executed the Spousal Consent thereto, a copy of which is available from the secretary of the Company upon request;

c. until such time that the Optionee has executed and delivered to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit B; and

d. or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any Applicable Law.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option maybe exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

9. Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT HIS OR HER OWN PROFESSIONAL ADVISORS REGARDING ANY CHANGES IN THE TAX LAWS AND REGULATIONS AND THE TAX RAMIFICATIONS OF HIM OR HER EXERCISING THIS OPTION OR DISPOSING OF THE SHARES BASED UPON HIS OR HER OWN PARTICULAR CIRCUMSTANCES BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

a. Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

b. Exercise of ISO Following Disability. If the Optionee ceases to be an Employee as a result of a disability that is not a total and permanent disability as defined in Section 22(e)(3) of the Code, to the extent permitted on the date of termination, the Optionee must exercise an ISO within three months of such termination for the ISO to be qualified as an ISO.

c. Exercise of Nonstatutory Stock Option. There maybe a regular federal income tax liability upon the exercise of a Nonstatutory Stock Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Optionee is an Employee or a former Employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

d. Disposition of Shares. In the case of an NSO, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an ISO are disposed of within one year after exercise or two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (1) the Fair Market Value of the Shares on the date of exercise, or (2) the sale price of the Shares. Any additional gain will be taxed as capital gain, short-term or long-term depending on the period that the ISO Shares were held.

e. Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of

Grant, or (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

10. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

11. No Guarantee of Continued Service. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE:

Signature

Print Name

Residence Street Address

City, State, Zip Code

THE COMPANY:

OCULUS INNOVATIVE SCIENCES, INC.,
a California corporation

By: _____

Title

1129 N. McDowell Blvd.
Petaluma, CA 94954
Attn: President

EXHIBIT "A"

OCULUS INNOVATIVE SCIENCES, INC.

1999 STOCK PLAN

EXERCISE NOTICE

Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
Attention: President

1. Exercise of Option. Effective as of today, ___, 200___, the undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of Oculus Innovative Sciences, Inc. formerly known as MicroMed Laboratories, Inc. (the "Company") under and pursuant to the Oculus Innovative Sciences, Inc. 1999 Stock Plan (the "Plan") and the Stock Option Agreement dated ___, 200___ (the "Option Agreement").

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement.

3. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions. Optionee further acknowledges that in the event the Shares have not been registered under t he Securities Act o f 1933, a s amended, at the time the Option is exercised, the Optionee shall, if required by the Company, concurrently with this Exercise Notice, deliver to the Company a completed Investment Representation Statement in the form attached to the Option Agreement as Exhibit B.

4. Rights as Shareholder. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise o f the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance.

5. Agreement Between Shareholders. Optionee acknowledges that the Shares shall be subject to and governed by that certain Agreement Between the Shareholders of Oculus Innovative Sciences, Inc. and the Corporation. The Agreement Between the Shareholders of Oculus Innovative Sciences, Inc. and the Corporation provides the Company, and then the other Shareholders, among other things, the first right of refusal to purchase the Shares prior to the Shares being

sold or otherwise transferred. The Shares shall not be issued until such time that the Optionee has executed and delivered to the Company the Agreement Between the Shareholders of Oculus Innovative Sciences, Inc. and the Corporation and the Optionee's spouse, if any, has executed the Spousal Consent thereto, a copy of which is available from the secretary of the Company upon request.

6. TAX CONSULTATION. OPTIONEE UNDERSTANDS THAT OPTIONEE MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF OPTIONEE'S PURCHASE OR DISPOSITION OF THE SHARES. OPTIONEE REPRESENTS THAT OPTIONEE HAS CONSULTED WITH ANY TAX CONSULTANTS OPTIONEE DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE OR DISPOSITION OF THE SHARES AND THAT OPTIONEE IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE.

7. Restrictive Legends. Optionee understands and agrees that the Company may cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by federal or state securities laws:

   THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT OR QUALIFICATION UNDER SUCH SECURITIES LAWS OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT THE SALE OR TRANSFER IS PURSUANT TO AN EXEMPTION FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF ANY APPLICABLE SECURITIES LAWS.

   THE SALE, TRANSFER, OR HYPOTHECATION OF THE SECURITIES REPRESENTED HEREBY IS RESTRICTED BY THE PROVISIONS OF AN AGREEMENT AMONG THE COMPANY AND ITS SHAREHOLDERS, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

8. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by Optionee or by the Company forthwith to the Administrator which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law, Severability. This Agreement is governed by the internal substantive laws but not the choice of law rules, of the State of California.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:

OPTIONEE:

_____
Signature

_____
Print Name

_____
Residence Street Address

_____
City, State, Zip Code

Accepted by:

THE COMPANY:

OCULUS INNOVATIVE SCIENCES, INC.,
a California corporation

By: _____

_____
Title

1129 N. McDowell Blvd.
Petaluma, CA 94954
Attn: President

_____, 200__
Date Received

EXHIBIT "B"

OCULUS INNOVATIVE SCIENCES, INC.

INVESTMENT REPRESENTATION STATEMENT

Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
Attention: President

In connection with the purchase of the common stock of Oculus Innovative Sciences, Inc. formerly known as MicroMed Laboratories, Inc. (the "Securities") by the undersigned (the "Optionee") relating to the exercise of certain Stock Options granted to the Optionee by the Company, the undersigned Optionee makes the following representations to and for the benefit of the Company:

a. Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

b. Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption may depend upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption maybe unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered under the Securities Act or such registration is not required in the opinion of counsel satisfactory to the Company and any other legend required under applicable state securities laws.

c. Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will

be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold by persons who are not affiliates (as defined in Rule 144) in reliance on Rule 144, without compliance with paragraphs (c) (d) (e) and (h) of Rule 144 (described below), and by affiliates without compliance with paragraph (d) of Rule 144 (described below).

d. In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in reliance on Rule 144, which requires, among other conditions: (i) the availability of adequate public information with respect to the Company as set forth in paragraph (c) of Rule 144; (ii) subject to certain exceptions for financed transactions, a minimum of one year must elapse between the later of the date of acquisition of the Securities from the Company or from an affiliate of the Company, and any resale of such securities in reliance on Rule 144 for the account of either the acquirer or any subsequent holder of the Securities as set forth in paragraph (d) of Rule 144; (iii) limitations on amounts of securities which may be sold in reliance of Rule 144 as set forth in paragraph (e) of Rule 144; (iv) the securities be sold through a broker in an unsolicited "broker's transaction" within the meaning of section 4(4) of the Securities Act or in transactions directly with a market maker (as said term is defined in section 3(a)(3 8) of the Securities Exchange Act of 1934) as set forth in paragraph (f) of Rule 144; and (v) the timely filing of a Form 144, if applicable, as set forth in paragraph (h) of Rule 144.

e. Optionee understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

f. Optionee further understands that this Investment Representation Statement consists of a general overview of the laws and regulations applicable to the Securities, that such laws and regulations are subject to change and may have changed subsequent to the drafting of this Investment Representation Statement, and that the Optionee should consult with his or her own professional advisors regarding any changes in such laws or regulations and the suitability of him or her acquiring the Securities based upon his or her own particular circumstances prior to exercising the underlying option or disposing of the Securities.

Dated: ___, 200___

Signature

Print Name

Residence Street Address

City, State, Zip Code

Exhibit 10.3

MICROMED LABORATORIES, INC.

2000 STOCK PLAN

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 hereof.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means MicroMed Laboratories, Inc., a California corporation.

(h) "Consultant" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(i) "Director" means a member of the Board of Directors of the Company.

(j) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such lease may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a

Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(m) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(o) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(p) "Option" means a stock option granted pursuant to the Plan.

(q) "Option Agreement" means a written or electronic agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(r) "Option Exchange Program" means a program whereby outstanding Options are exchanged for Options with a lower exercise price.

(s) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.

(t) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.

(u) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(v) "Plan" means this 2000 Stock Plan.

(w) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 11 below.

(x) "Section 16(b)" means Section 16(b) of the Securities Exchange Act of 1934, as amended.

(y) "Service Provider" means an Employee, Director or Consultant.

(z) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 below.

(aa) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 11 below.

(bb) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be subject to option and sold under the Plan is One Hundred Sixteen Thousand Two Hundred Fifty (116,250) Shares. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine the number of Shares to be covered by each such award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion; shall determine;

(vi) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(e) instead of Common Stock;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option has declined since the date the Option was granted;

(viii) to initiate an Option Exchange Program;

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Optionees to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and

(xi) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility.

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

(b) Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuing the Optionee`s relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term often (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a Service Provider who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes

of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any other Service Provider, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options maybe granted with a per Share exercise price other than as required above pursuant to a merger or other corporate transaction.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (1) cash, (2) check, (3) promissory note, (4) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Except in the case of Options granted to Officers, Directors and Consultants, Options shall be exercisable at a rate of no less than 20% per year over five (5) years from the date the Options are granted. Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, such Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement (of at least thirty (30) days) to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered. by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If such disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option on the day three months and one day following such termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option maybe exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as

the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options and Stock Purchase Rights. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer. The terms of the offer shall comply in all respects with Section 260.140.42 of Title 10 of the California Code of Regulations. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock purchase agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine, but in no case at a rate of less than 20% per year over five years from the date of purchase.

(c) Other Provisions. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a shareholder and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

12. Adjustments Upon Changes in Capitalization, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such

outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until fifteen (15) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the

Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

13. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Shareholder Approval. The Board shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Options granted under the Plan prior to the date of such termination.

15. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Agreement Between Shareholders. Shares shall not bee issued pursuant to the exercise of an Option until such time that the Optionee has executed and delivered to the Company that certain Agreement Between the Shareholders of MicroMed Laboratories, Inc. and the Corporation and the Optionee's spouse, if any, has executed the Spousal Consent thereto.

(c) Investment Representations. As a condition to the exercise of an Option, the Administrator may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

16. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the

Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

18. Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws.

19. Information to Optionees and Purchasers. The Company shall provide to .each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

OCULUS INNOVATIVE SCIENCES, INC.
2000 STOCK PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Oculus Innovative Sciences, Inc. 2000 Stock Plan, a copy of which has been provided to the undersigned with this Option Agreement, shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Optionee:	«First » «MI » «Last»
Grant Number:	«Grant_»
Date of Option Grant:	«Date_of_Option_Grant »
Exercise Price per Share:	«Exercise_price »
Number of Option Shares:	«Shares_granted »
Type of Option:	« Type »
Vesting Commencement Date:	«Vesting_Commencement_Date »
Term/Expiration Date:	« TermExpiration Date »

1. Vesting Schedule. This Option shall be exercisable, in whole or in part, according to the following vesting schedule:

Twenty percent (20%) of the Shares subject to the Option shall vest on each of the five (5) annual anniversary dates of the Vesting Commencement Date, subject to Optionee's continuing to be a Service Provider on such dates.

2. Termination Period. This Option shall be exercisable for 30 days after Optionee ceases to be a Service Provider. Upon Optionee's death or disability, this Option may be exercised for such longer period as provided in the Plan. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), and subject to the terms and conditions of the Plan,

which is incorporated herein by reference. In the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the $100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.

a. Right to Exercise. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement.

b. Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as Exhibit A (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise comply with Applicable laws and the restrictions set forth in Section 6 of this Option Agreement. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company a completed Investment Representation Statement in the form attached hereto as Exhibit B. THE STATEMENTS SET FORTH IN EXHIBIT B REPRESENT A GENERAL OVERVIEW OF THE LAWS AND REGULATIONS APPLICABLE TO THE SHARES AS OF DATE OF OPTION GRANT AND ARE NECESSARILY INCOMPLETE. SUCH LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT WITH HIS OR HER OWN PROFESSIONAL ADVISORS REGARDING ANY CHANGES IN SUCH LAWS OR REGULATIONS AND THE SUITABILITY OF HIM OR HER ACQUIRING THE SECURITIES BASED UPON HIS OR HER OWN PARTICULAR CIRCUMSTANCES PRIOR TO EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

4. Lock-Up Period. Optionee hereby agrees that, if so requested by the Company or any representative of the underwriters (the "Managing Underwriter") in connection with any registration of the offering of any securities of the Company under the Securities Act, Optionee shall not sell or otherwise transfer any Shares or other securities of the Company during the 180-

day period (or such other period as may be requested in writing by the Managing Underwriter and agreed to in writing by the Company) (the "Market Standoff Period") following the effective date of a registration statement of the Company filed under the Securities Act. Such restriction shall apply only to the first registration statement of the Company to become effective under the Securities Act that includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

a. cash or check;

b. consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

c. surrender of other Shares which, (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

6. Restrictions on Exercise. This Option may not be exercised:

a. until such time as the Plan has been approved by the shareholders of the Company;

b. until such time that the Optionee has executed and delivered to the Company that certain Agreement Between the Shareholders of Oculus Innovative Sciences, Inc. and the Corporation and the Optionee's spouse, if any, has executed the Spousal Consent thereto, a copy of which is available from the secretary of the Company upon request;

c. until such time that the Optionee has executed and delivered to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit B; and

d. or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any Applicable Law.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

9. Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT HIS OR HER OWN PROFESSIONAL ADVISORS REGARDING ANY CHANGES IN THE TAX LAWS AND REGULATIONS AND THE TAX RAMIFICATIONS OF HIM OR HER EXERCISING THIS OPTION OR DISPOSING OF THE SHARES BASED UPON HIS OR HER OWN PARTICULAR CIRCUMSTANCES BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

a. Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

b. Exercise of ISO Following Disability. If the Optionee ceases to bean Employee as a result of a disability that is not a total and permanent disability as defined in Section 22(e)(3) of the Code, to the extent permitted on the date of termination, the Optionee must exercise an ISO within three months of such termination for the ISO to be qualified as an ISO.

c. Exercise of Nonstatutory Stock Option. There maybe a regular federal income tax liability upon the exercise of a Nonstatutory Stock Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Optionee is an Employee or a former Employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

d. Disposition of Shares. In the case of an NSO, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an ISO are disposed of within one year after exercise or two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (1) the Fair Market Value of the Shares on the date of exercise, or (2) the sale price of the Shares. Any additional gain will be taxed as capital gain, short-term or long-term depending on the period that the ISO Shares were held.

e. Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (l) the date two years after the Date of

Grant, or (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

10. Entire Agreement, Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

11. No Guarantee of Continued Service. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE:	THE COMPANY:
	OCULUS INNOVATIVE SCIENCES, INC., a California corporation
Signature	By:
Print Name	Title

Residence Street Address

1129 N. McDowell Blvd.
Petaluma, CA 94954

Attn: President

City, State, Zip Code

EXHIBIT "A"

OCULUS INNOVATIVE SCIENCES, INC.

2000 STOCK PLAN

EXERCISE NOTICE

Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
Attention: President

1. Exercise of Option. Effective as of today, ___, 200_, the undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase ___ shares of the Common Stock (the "Shares") of Oculus Innovative Sciences, Inc. formerly known as MicroMed Laboratories, Inc. (the "Company") under and pursuant to the Oculus Innovative Sciences, Inc. 2000 Stock Plan (the "Plan") and the Stock Option Agreement dated ___, 200___(the "Option Agreement").

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement.

3. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions. Optionee further acknowledges that in the event the Shares have not been registered under the Securities Act of 1933, a s amended, at the time the Option is exercised, the Optionee shall, if required by the Company, concurrently with this Exercise Notice, deliver to the Company a completed Investment Representation Statement in the form attached to the Option Agreement as Exhibit B.

4. Rights as Shareholder. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance.

5. Agreement Between Shareholders. Optionee acknowledges that the Shares shall be subject to and governed by that certain Agreement Between the Shareholders of Oculus Innovative Sciences, Inc. and the Corporation. The Agreement Between the Shareholders of Oculus Innovative Sciences, Inc. and the Corporation provides the Company, and then the other Shareholders, among other things, the first right of refusal to purchase the Shares prior to the Shares being sold or otherwise transferred. The Shares shall not be issued until such time that the Optionee has executed and delivered to the Company the Agreement Between

the Shareholders of Oculus Innovative Sciences, Inc. and the Corporation and the Optionee's spouse, if any, has executed the Spousal Consent thereto, a copy of which is available from the secretary of the Company upon request.

6. TAX CONSULTATION. OPTIONEE UNDERSTANDS THAT OPTIONEE MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF OPTIONEE'S PURCHASE OR DISPOSITION OF THE SHARES. OPTIONEE REPRESENTS THAT OPTIONEE HAS CONSULTED WITH ANY TAX CONSULTANTS OPTIONEE DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE OR DISPOSITION OF THE SHARES AND THAT OPTIONEE IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE.

7. Restrictive Legends. Optionee understands and agrees that the Company may cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by federal or state securities laws:

   THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT OR QUALIFICATION UNDER SUCH SECURITIES LAWS OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT THE SALE OR TRANSFER IS PURSUANT TO AN EXEMPTION FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF ANY APPLICABLE SECURITIES LAWS.

   THE SALE, TRANSFER, OR HYPOTHECATION OF THE SECURITIES REPRESENTED HEREBY IS RESTRICTED BY THE PROVISIONS OF AN AGREEMENT AMONG THE COMPANY AND ITS SHAREHOLDERS, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

8. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by Optionee or by the Company forthwith to the Administrator which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law; Severability. This Agreement is governed by the internal substantive laws but not the choice of law rules, of the State of California.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:

OPTIONEE:

_____
Signature

_____
Print Name

_____
Residence Street Address

_____
City, State, Zip Code

Accepted by:

THE COMPANY:

OCULUS INNOVATIVE SCIENCES, INC., a California corporation

_____
By:

_____
Title

1129 N. McDowell Blvd.
Petaluma, CA 94954
Attn: President

_____, 200_____
Date Received

EXHIBIT "B"

OCULUS INNOVATIVE SCIENCES, INC.

INVESTMENT REPRESENTATION STATEMENT

Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
Attention: President

In connection with the purchase of the common stock of Oculus Innovative Sciences, Inc. formerly known as MicroMed Laboratories, Inc. (the "Securities") by the undersigned (the "Optionee") relating to the exercise of certain Stock Options granted to the Optionee by the Company, the undersigned Optionee makes the following representations to and for the benefit of the Company:

a. Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

b. Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption may depend upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered under the Securities Act or such registration is not required in the opinion of counsel satisfactory to the Company and any other legend required under applicable state securities laws.

c. Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will

be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold by persons who are not affiliates (as defined in Rule 144) in reliance on Rule 144, without compliance with paragraphs (c) (d) (e) and (h) of Rule 144 (described below), and by affiliates without compliance with paragraph (d) of Rule 144 (described below).

d. In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in reliance on Rule 144, which requires, among other conditions: (i) the availability of adequate public information with respect to the Company as set forth in paragraph (c) of Rule 144; (ii) subject to certain exceptions for financed transactions, a minimum of one year must elapse between the later of the date of acquisition of the Securities from the Company or from an affiliate of the Company, and any resale of such securities in reliance on Rule 144 for the account of either the acquirer or any subsequent holder of the Securities as set forth in paragraph (d) of Rule 144; (iii) limitations on amounts of securities which may be sold in reliance of Rule 144 as set forth in paragraph (e) of Rule 144; (iv) the securities be sold through a broker in an unsolicited "broker's transaction" within the meaning of section 4(4) of the Securities Act or in transactions directly with a market maker (as said term is defined in section 3(a)(38) of the Securities Exchange Act of 1934) as set forth in paragraph (f) of Rule 144; and (v) the timely filing of a Form 144, if applicable, as set forth in paragraph (h) of Rule 144.

e. Optionee understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

f. Optionee further understands that this Investment Representation Statement consists of a general overview of the laws and regulations applicable to the Securities, that such laws and regulations are subject to change and may have changed subsequent to the drafting of this Investment Representation Statement, and that the Optionee should consult with his or her own professional advisors regarding any changes in such laws or regulations and the suitability of him or her acquiring the Securities based upon his or her own particular circumstances prior to exercising the underlying option or disposing of the Securities.

Dated:_____, 200_____

_____

Signature

Print Name

Residence Street Address

City, State, Zip Code

March 24, 2004

«First» «MI» «Last»
«Address»
«City», «State» «Zip»

Subject: Notice of Stock Option Grant

Dear «First»:

It is with great pleasure that I write this letter on behalf of the Management of Oculus Innovative Sciences, Inc. to inform you that the Company wishes to offer you a grant of stock options.

The Management of the Company has awarded you an option to purchase «Shares_granted» shares of the Company's common stock at «Exercise_price» per share.

Enclosed are two copies of the Stock Option Agreement by which your award is made. Please sign both copies of this Agreement and return one to Jim Schutz. The second copy of the Agreement is for your records.

This award has been made pursuant to the Company's 2000 Stock Plan. Some of the more important aspects of the Plan are as follows:

1. The Company has granted you and other selected employees options to purchase a designated number of shares of the Company's common stock at a specified price (the "Exercise Price"). The Exercise Price was calculated by the Management and Board of Directors of the Company.
2. The vesting period under the Plan is tied to your continued employment with the Company and is specified in Section I of the enclosed Agreement.
3. Under the Plan, all options will expire ten years from the date of the award (***Not*** the date of vesting). In the event your employment terminates due to death or disability, you will have 12 months after termination to exercise your options. If your employment terminates for any other reason, you will have 30 days to exercise your options.
4. Upon vesting, you have the right to purchase the number of shares that have vested at the exercise price, which appears in Section 1 of the Agreement.
5. The award of the option granted by the Plan is not a taxable event. However, tax issues involving stock options can be complex. Prior to exercise of your stock options, I strongly advise you to seek tax advice from a qualified tax professional.
6. Participants wishing to exercise their stock options should advise the Finance Group, in writing, by filling out an Exercise Notice ("Exhibit A").

I am enclosing for your information and files a copy of the 2000 Stock Plan pursuant to which your 2000 Option Award is granted, as well as Stock Option Agreement and appropriate Exhibits. In so far as these materials only relate to the 2000 Plan, you should continue to retain any copies of awards or Plans previously sent to you in connection with earlier option awards.

If you have any questions or need additional information about the Plan or your Option Agreement, please do not hesitate to telephone Jim Schutz at 916/337.8003. Again, congratulations and let's continue to work together to build this company into a world-class organization.

Sincerely,

Jim Schutz
General Counsel

Enclosures: Stock Option Agreement and Exhibits and 2000 Plan Document

Exhibit 10.4

OCULUS INNOVATIVE SCIENCES, INC.

2003 STOCK PLAN

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 hereof.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means Oculus Innovative Sciences, Inc.

(h) "Consultant" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(i) "Director" means a member of the Board of Directors of the Company.

(j) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a

Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall b e sufficient to constitute "employment" by the Company.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(m) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(o) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(p) "Option" means a stock option granted pursuant to the Plan.

(q) "Option Agreement" means a written or electronic agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(r) "Option Exchange Program" means a program whereby outstanding Options are exchanged for Options with a lower exercise price.

(s) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.

(t) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.

(u) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(v) "Plan" means this 2003 Stock Plan.

(w) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 11 below.

(x) "Section 16(b)" means Section 16(b) of the Securities Exchange Act of 1934, as amended.

(y) "Service Provider" means an Employee, Director or Consultant.

(z) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 below.

(aa) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 11 below.

(bb) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be subject to option and sold under the Plan is Four Million (4,000,000) Shares. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine the number of Shares to be covered by each such award granted hereunder,

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to determine whether and under what circumstances an Option maybe settled in cash under subsection 9(e) instead of Common Stock;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option has declined since the date the Option was granted;

(viii) to initiate an Option Exchange Program;

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined___All elections by Optionees to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and

(xi) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility.

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

(b) Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a Service Provider who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes

of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any other Service Provider, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price other than as required above pursuant to a merger or other corporate transaction.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (1) cash, (2) check, (3) promissory note, (4) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares ass to which such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise: Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Except in the case of Options granted to Officers, Directors and Consultants, Options shall be exercisable at a rate of no less than 20% per year over five (5) years from the date the Options are granted. Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, such Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement (of at least thirty (30) days) to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Optionee's termination. It on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than. the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If such disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive Stock option and shall be treated for tax purposes as a Nonstatutory Stock Option on the day three months and one day following such termination. If; on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at anytime offer to buyout for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as

the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options and Stock Purchase Rights. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and maybe exercised, during the lifetime of the Optionee, only by the Optionee.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under. the Plan, it shall advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer. The terms of the offer shall comply in all respects with Section 260.140.42 of Title 10 of the California Code of Regulations. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock purchase agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine, but in no case at a rate of less than 20% per year over five years from the date of purchase.

(c) Other Provisions. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a shareholder and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

12. Adjustments Upon Changes in Capitalization. Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such

outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until fifteen (15) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the

Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

13. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Shareholder Approval. The Board shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Options granted under the Plan prior to the date of such termination.

15. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option, the Administrator may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

16. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

18. Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws.

19. Information to Optionees and Purchasers. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

March 24, 2004
<<Firs> «MI> <<Last>
<(Address))
<<City», «State» <<Zip»

Subject: Notice of Stock Option Grant

Dear <(First)>:

It is with great pleasure that I write this letter on behalf of the Management of Oculus Innovative Sciences, Inc. to inform you that the Company wishes to offer you a grant of stock options.

The Management of the Company has awarded you an option to purchase «Shares, granted» shares of the Company's common stock at <Exercise price > per share.

Enclosed are two copies of the Stock Option Agreement by which your award is made. Please sign both copies of this Agreement and return one to Jim Schutz. The second copy of the Agreement is for your records.

This award has been made pursuant to the Company's 2003 Stock Plan. Some of the more important aspects of the Plan are as follows:

1. The Company has granted you and other selected employees options to purchase a designated number of shares of the Company's common stock at a specified price (the "Exercise Price"). The Exercise Price was calculated by the Management and Board of Directors of the Company.
2. The vesting period under the Plan is tied to your continued employment with the Company and is specified in Section I of the enclosed Agreement.
3. Under the Plan, all options will expire ten years from the date of the award (Not the date of vesting). In the event your employment terminates due to death or disability, you will have 12 months after termination to exercise your options. If your employment terminates for any other reason, you will have 30 days to exercise your options.
4. Upon vesting, you have the right to purchase the number of shares that have vested at the exercise price, which appears in Section I of the Agreement.
5. The award of the option granted by the Plan is not a taxable event. However, tax issues involving stock options can be complex. Prior to exercise of your stock options, I strongly advise you to seek tax advice from a qualified tax professional.
6. Participants wishing to exercise their stock options should advise the Finance Group, in writing, by filling out an Exercise Notice ("Exhibit A").

I am enclosing for your information and files a copy of the 2003 Stock Plan pursuant to which your 2003 Option Award is granted, as well as Stock Option Agreement and appropriate Exhibits. In so far as these materials only relate to the 2003 Plan, you should continue to retain any copies of awards or Plans previously sent to you in connection with earlier option awards.

If you have any questions or need additional information about the Plan or your Option Agreement, please do not hesitate to telephone Jim Schutz at 916/337.8003. Again, congratulations and let's continue to work together to build this company into a world-class organization.

Sincerely,

Jim Schutz
General Counsel

Enclosures: Stock Option Agreement and Exhibits and 2003 Plan Document

OCULUS INNOVATIVE SCIENCES, INC.
2003 STOCK PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Oculus Innovative Sciences, Inc. 2003 Stock Plan, a copy of which has been provided to the undersigned with this Option Agreement, shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Optionee:	<<First» <<MI» <<Last»
Grant Number:	<<Grant
Date of Option Grant:	<<Date of Option Grant»
Exercise Price per Share:	<<Exercise price>>
Number of Option Shares:	<<Shares granted»
Type of Option:	<<Type>>
Vesting Commencement Date:	«Vesting Commencement Date»
Term/Expiration Date:	<<TermExpirationDate>>

1. Vesting Schedule. This Option shall be exercisable, in whole or in part, according to the following vesting schedule:

This Option may be exercised, in whole o r i n p art, i n accordance with the following schedule: One-fifth (1/5) of the Option shall vest on the one-year anniversary of the Vesting Commencement Date; and one fifth (1/5) of the remaining total number of Shares of the Option shall vest upon the completion of each year of service as an Employee or Consultant thereafter.

2. Termination Period. This Option shall be exercisable for 30 days after Optionee ceases to be a Service Provider. Upon Optionee's death or disability, this Option may be exercised for such longer period as provided in the Plan. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase the number

of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. In the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the $100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.

a. Right to Exercise. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice o f Grant and with t he applicable provisions of the Plan and this Option Agreement.

b. Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as Exhibit A (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise comply with Applicable laws and the restrictions set forth in Section 6 of this Option Agreement. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company a completed Investment Representation Statement in the form attached hereto as Exhibit B. THE STATEMENTS SET FORTH IN EXHIBIT B REPRESENT A GENERAL OVERVIEW OF THE LAWS AND REGULATIONS APPLICABLE TO THE SHARES AS OF DATE OF OPTION GRANT AND ARE NECESSARILY INCOMPLETE. SUCH LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT WITH HIS OR HER OWN PROFESSIONAL ADVISORS REGARDING ANY CHANGES IN SUCH LAWS OR REGULATIONS AND THE SUITABILITY OF HIM OR HER ACQUIRING THE

SECURITIES BASED UPON HIS OR HER OWN PARTICULAR

CIRCUMSTANCES PRIOR TO EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

4. Lock-Up Period. Optionee hereby agrees that, if so requested by the Company or any representative of the underwriters (the "Managing Underwriter") in connection with any registration of the offering of any securities of the Company under the Securities Act, Optionee shall not sell or otherwise transfer any Shares or other securities of the Company during the 180-day period (or such other period as may be requested in writing by the Managing Underwriter and agreed to in writing by the Company) (the "Market Standoff Period") following the effective date of a registration statement of the Company filed under the Securities Act. Such restriction shall apply only to the first registration statement of the Company to become effective under the Securities Act that includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

c. cash or check;

d. consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

e. surrender of other Shares which, (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

6. Restrictions on Exercise. This Option may not be exercised:

f. until such time as the Plan has been approved by the shareholders of the Company;

g. until such time that the Optionee has executed and delivered to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit B; and

h. or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any Applicable Law.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

9. Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND

REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT HIS OR HER OWN PROFESSIONAL ADVISORS REGARDING ANY CHANGES IN THE TAX LAWS AND REGULATIONS AND THE TAX RAMIFICATIONS OF HIM OR HER EXERCISING THIS OPTION OR DISPOSING OF THE SHARES BASED UPON HIS OR HER OWN PARTICULAR CIRCUMSTANCES BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

a. Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

b. Exercise of ISO Following Disability. If the Optionee ceases to bean Employee as a result of a disability that is not a total and permanent disability as defined in Section 22(e)(3) of the Code, to the extent permitted on the date of termination, the Optionee must exercise an ISO within three months of such termination for the ISO to be qualified as an ISO.

c. Exercise of Nonstatutory Stock Option. There maybe a regular federal income tax liability upon the exercise of a Nonstatutory Stock Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Optionee is an Employee or a former Employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

d. Disposition of Shares. In the case of an NSO, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an ISO are disposed of within one year after exercise or two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (1) the Fair Market Value of the Shares on the date of exercise, or (2) the sale price of the Shares. Any additional gain will be taxed as capital gain, short-term or long-term depending on the period that the ISO Shares were held.

e. Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

10. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

11. No Guarantee of Continued Service. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE:	THE COMPANY:
Signature	OCULUS INNOVATIVE SCIENCES, INC., a California corporation
Print Name	By:
	Title
Residence Street Address	1129 N. McDowell Blvd. Petaluma, CA 94954
City, State, Zip Code	Attn: President

EXHIBIT "A"

OCULUS INNOVATIVE SCIENCES, INC.

2003 STOCK PLAN

EXERCISE NOTICE

Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
Attention: President

1. Exercise of Option. Effective as of today, ___, 200___, the undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase ___ shares of the Common Stock (the "Shares") of Oculus Innovative Sciences, Inc. (the "Company") under and pursuant to the Oculus Innovative Sciences, Inc. 2003 Stock Plan (the "Plan") and the Stock Option Agreement dated , 200 (the "Option Agreement").

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement.

3. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions. Optionee further acknowledges that in the event the Shares have not been registered under t he Securities Act o f 1933, a s amended, at the time the Option is exercised, the Optionee shall, if required by the Company, concurrently with this Exercise Notice, deliver to the Company a completed Investment Representation Statement in the form attached to the Option Agreement as Exhibit B.

4. Rights as Shareholder. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise oft he Option. T he Shares shall be issued to the Optionee as soon as practicable after the Option is exercised. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance.

5. TAX CONSULTATION. OPTIONEE UNDERSTANDS THAT OPTIONEE MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF OPTIONEE'S PURCHASE OR DISPOSITION OF THE SHARES. OPTIONEE REPRESENTS THAT OPTIONEE HAS CONSULTED WITH ANY TAX CONSULTANTS OPTIONEE DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE

OR DISPOSITION OF THE SHARES AND THAT OPTIONEE IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE.

6. Restrictive Legends. Optionee understands and agrees that the Company may cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by federal or state securities laws:

   THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT OR QUALIFICATION UNDER SUCH SECURITIES LAWS OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT THE SALE OR TRANSFER IS PURSUANT TO AN EXEMPTION FROM THE REGISTRATION OR QUALIFICATION REQUIREMENTS OF ANY APPLICABLE SECURITIES LAWS.

7. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

8. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by Optionee or by the Company forthwith to the Administrator which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

9. Governing Law, Severability. This Agreement is governed by the internal substantive laws but not the choice of law rules, of the State of California.

10. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:	Accepted by:
OPTIONEE:	THE COMPANY:
Signature	OCULUS INNOVATIVE SCIENCES, INC., a California corporation
Print Name	By:
	Title
Residence Street Address	1129 N. McDowell Blvd. Petaluma, CA 94954
City, State, Zip Code	Attn: President ___, 200___, Date Received

EXHIBIT "B"

OCULUS INNOVATIVE SCIENCES, INC.

INVESTMENT REPRESENTATION STATEMENT

Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954 Attention: President

In connection with the purchase of the common stock of Oculus Innovative Sciences, Inc. (the "Securities") by the undersigned (the "Optionee") relating to the exercise of certain Stock Options granted to the Optionee by the Company, the undersigned Optionee makes the following representations to and for the benefit of the Company:

a. Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

b. Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption may depend upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. 0ptionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered under the Securities Act or such registration is not required in the opinion of counsel satisfactory to the Company and any other legend required under applicable state securities laws.

c. Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will be exempt

from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold by persons who are not affiliates (as defined in Rule 144) in reliance on Rule 144, without compliance with paragraphs (c) (d) (e) and (h) of Rule 144 (described below), and by affiliates without compliance with paragraph (d) of Rule 144 (described below).

d. In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities maybe resold in reliance on Rule 144, which requires, among other conditions: (i) the availability of adequate public information with respect to the Company as set forth in paragraph (c) of Rule 144; (ii) subject to certain exceptions for financed transactions, a minimum of one year must elapse between the later of the date of acquisition of the Securities from the Company or from an affiliate of the Company, and any resale of such securities in reliance on Rule 144 for the account of either the acquirer or any subsequent holder of the Securities as set forth in paragraph (d) of Rule 144; (iii) limitations on amounts of securities which may be sold in reliance of Rule 144 as set forth in paragraph (e) of Rule 144; (iv) the securities be sold through a broker in an unsolicited “broker’s transaction” within the meaning of section 4(4) of the Securities Act or in transactions directly with a market maker (as said term is defined in section 3(a)(38) of the Securities Exchange Act of 1934) as set forth in paragraph (f) of Rule 144; and (v) the timely filing of a Form 144, if applicable, as set forth in paragraph (h) of Rule 144.

e. Optionee understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

f. Optionee further understands that this Investment Representation Statement consists of a general overview of the laws and regulations applicable to the Securities, that such laws and regulations are subject to change and may have changed subsequent to the drafting of this Investment Representation Statement, and that the Optionee should consult with his or her own professional advisors regarding any changes in such laws or regulations and the suitability of him or her acquiring the Securities based upon his or her own particular circumstances prior to exercising the underlying option or disposing of the Securities.

Dated: ___, 200___

_____
Signature

_____
Print Name

_____
Residence Street Address

_____
City, State, Zip Code

Exhibit 10.5

OCULUS INNOVATIVE SCIENCES, INC.
SUMMARY OF TERMS OF
2004 STOCK PLAN

Set forth below is a summary of certain principal terms and provisions of the Oculus Innovative Sciences, Inc. 2004 Stock Plan (the "**Plan**").

1. **Number of Shares Reserved for Issuance**. An aggregate of Six Million (6,000,000) shares of the Company's Common Stock ("**Common Stock**") has been authorized and reserved for issuance under the Plan.

2. **Types of Options Issuable Under the Plan**. Options granted under the Plan may, in the discretion of the Company's Board of Directors (the "**Board**"), be either "**incentive stock options**" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "**Code**") or "**nonstatutory stock options**" which do not meet the requirements of Section 422 of the Code. Other than as provided in the Plan, there is no limit on the number of shares which may be subject to an option; however, if the aggregate fair market value of the stock (determined as of the time the option is granted) with respect to which incentive stock options exercisable for the first time by any individual during any one calendar year under all of the Company's incentive stock option plans exceeds $100,000, such options representing stock in excess of this annual limitation will be deemed to be nonstatutory stock options.

3. **Administration**. The Plan will be administered by the Board, who may appoint a committee (the "**Committee**") of not less than two (2) members of the Board to administer the Plan on behalf of the Board. The interpretation of the provisions of the Plan and determinations by the Board or the Committee will be final and binding on all who participate in the Plan. Questions concerning the Plan and its administration should be addressed to the Secretary at the Company's principal executive office.

4. **Eligibility**. Any person, who is an employee, consultant or director of the Company may be granted one or more options under the Plan. However, non-employee directors and consultants may only be granted nonstatutory stock options. The Board or the Committee, as appropriate, determines who will be granted options under the Plan (each such person who is granted an option and participates in the Plan, an "**Optionee**") and the number of shares to be subject to each option.

5. **Terms of Options**. The terms of each option granted under the Plan will be determined by the Board of Directors. Each option will be evidenced by a written stock option agreement between the Company and the Optionee (the "**Option Agreement**") and will be subject to the following additional terms and conditions:

(a) **Exercise of Options**. The Board will determine when and under what conditions options granted may be exercised. Options are typically exercisable and vest cumulatively as to one-fifth (1/5) of the shares subject to the option at the end of the first twelve (12) full months after the vesting commencement date, as specified in the Option Agreement (the "**Vesting Commencement Date**"), and as to one-fifth (1/5) of the shares for each twelve (12) full months thereafter or as the Board determines at the time an option is granted. The form of payment for shares to be issued upon the exercise of an option may, in the discretion of the Board or the Committee, consist of cash, check, promissory notes, an exchange of shares of Common Stock held for at least six (6) months or the exchange of shares of Common Stock to be issued upon the exercise of such option in accordance with a broker-dealer sale and remittance procedure authorized by the Board or the Committee thereof then administering the Plan, a combination thereof, or such other consideration as determined by the Board.

An option, or portion thereof, is exercised upon the Company's receipt of written notice of such exercise specifying the number of shares being purchased, accompanied by full payment for the shares being purchased, as provided by the Board or the Committee, as appropriate, together with any other representations or agreements required by the terms of the Plan or the Option Agreement.

(b) **Option Exercise Price**. The purchase price of the shares issued pursuant to the exercise of options granted under the Plan is determined by the Board and is intended to be not less than eighty-five percent (85%), in the case of nonstatutory stock options, and one hundred percent (100%), in the case of incentive stock options, of the fair market value per share of Common Stock. In the case of a stock option granted to an Optionee who, immediately before the grant of such option, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its parents or subsidiaries, the per share purchase price must be at least one hundred ten percent (110%) of the fair market value of Common Stock.

For the purpose of the Plan, if Common Stock is not publicly traded, the per share fair market value of Common Stock issuable under an option will be determined by the Board in its sole discretion, exercised in good faith. If Common Stock is publicly traded, the per share fair market value of Common Stock issuable under an option will be the average of the bid and asked prices of Common Stock on the date of grant as reported in *The Wall Street Journal* or by the NASDAQ System, or if Common Stock is listed on an exchange or on the NASDAQ System, the closing price as of the date of grant, as reported in *The Wall Street Journal.*

(c) **Termination of Employment**. If an Optionee's service or employment by the Company terminates for any reason, other than the Optionee's death or disability, Optionee may exercise his options at any time within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Board or the Committee at the time of granting the option and as set forth in the Option Agreement) after the date of such termination, but only to the extent the options were vested on the date of such termination. If an Optionee should die or cease to be employed by the Company because of disability while employed by the Company, the Optionee's options under the Plan may be exercised at any time within six (6) months after such death or disability, in the case of death, by the Optionee's estate or by a person

who acquired the right to exercise the option by bequest or inheritance, or, in the case of disability, by the Optionee, but in each case only to the extent such options were vested at the date of such termination of employment. The Board may, however, with respect to nonstatutory stock options, prior to the termination of such option, with the consent of the Optionee and subject to certain conditions, extend the time a nonstatutory stock option may be exercised after the Optionee ceases continuous status as an employee. Shares purchased following termination of employment will still be subject to the terms of any agreement (e.g., a Stock Purchase Agreement), the execution of which is a condition to exercise of the option. To the extent any portion of the option is not exercised and not vested at the date of termination, or to the extent any exercisable portion of the option is not exercised within the time permitted, the option shall terminate. Notwithstanding the foregoing, no option may be exercised after the term of the option specified in the stock option agreement.

(d) **Stock Purchase Agreement/Investment Representation Statement**. In connection with the purchase of shares upon the exercise of an option, an Optionee will be required to execute a Stock Purchase Agreement or an Investment Representation Statement.

(e) **Right of First Refusal and Transfer Restrictions**. The shares issued upon exercise of an option shall not be transferable until the expiration of the six-month period following the exercise of such option and, thereafter, will be subject to the right of first refusal by the Company to purchase the shares in the event the Optionee proposes to sell or transfer such shares and the Optionee's right and ability to sell or to transfer the shares without the written consent of the Company will be restricted, as set forth in the Option Agreement or the Stock Purchase Agreement.

(f) **Expiration of Options**. Options granted under the Plan may not have a term greater than ten (10) years from the date of grant; provided, however, that any incentive stock option granted to a shareholder who, immediately before the grant of such option, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company shall expire no more than five (5) years from the date of grant. No option may be exercised by any person after its expiration.

(g) **Nontransferability of Options**. No option granted under the Plan may be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee.

(h) **Other Provisions**. The Option Agreement evidencing the grant of an option may contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Board of Directors.

6. **Stock Subject to the Plan — Adjustments Upon Changes in Capitalization or Merger**. The shares issued upon the exercise of an option may be authorized but unissued or reacquired shares of Common Stock of the Company. The Plan contains appropriate anti-dilution provisions for adjustment of the number of shares subject to options and of the option price in the event of stock splits and certain other events described in the Plan.

In the event of a merger, consolidation or reorganization of the Company with another corporation in which the Company is not the surviving corporation or as a result of which the shares of Common Stock are exchanged for other properties, or substantially all of the asset of the Company are sold, (i) the Board may make provision for assumption of all outstanding options by the successor corporation, or (ii) if the other party to such merger, consolidation, reorganization, share exchange or sale of assets does not assume the options, the outstanding options shall fully vest, each optionee shall have the right to exercise his outstanding option for a period of fifteen (15) days after the date of notice from the Company.

7. **Amendment and Termination of Plan**. The Board of Directors may amend or terminate the Plan at any time without the approval of the shareholders of the Company; provided, however, the Board may not, without the approval of the shareholders of the Company, increase the number of shares subject to the Plan, materially increase the benefits accruing to participants under the Plan, materially change the designation of the class of persons eligible to be granted options, remove the administration of the Plan from the Board (except to a Committee), or extend the term of the Plan beyond ten (10) years. Any amendment or termination of the Plan shall not affect options already granted, and such options shall remain in full force and effect as if the Plan had not been amended or terminated.

The above summary of the Plan is not intended to reflect all the provisions of the Plan which may be of interest to a participant in the Plan and each participant or prospective participant in the Plan is strongly urged to carefully review the Plan in its entirety.

The following text pertaining to securities laws and taxation is provided for your information only, and may not be correct as of the date any option is issued or exercised.

Securities Laws — Restrictions on Transfer

The offer and sale of any security is subject to compliance with state and federal securities laws and regulations. The issuance of the options and the offer and sale of the shares of Common Stock which will be issued pursuant to the exercise of the options will be issued pursuant to an exemption under the California Corporate Securities Law of 1968, as amended, pursuant to Section 25102(o).

Neither the Plan nor the options and shares of Common Stock to be issued thereunder are intended to be registered under the Securities Act of 1933, as amended (the "**Act**"). Rather, such options and Common Stock will be issued in reliance on exemption(s) under the Act. To insure the availability of such exemption(s), each Optionee will be required to make certain "investment representations" to the Company at the time such Optionee exercises the option, including representations covering investment intent and acknowledgements of disclosure by the Company of, and access to, financial and other information concerning the Company. A restrictive legend will be placed on the stock certificate stating that no sale or other disposition of the stock may be made without meeting certain conditions, which include registration of the stock by the Company or receipt by the Company of an opinion by an attorney that an exemption is available

under the Act for a resale of the stock. Each Optionee is to be advised that, because the Company's securities have not been registered under the Act, any shares purchased upon exercise of an option must be held indefinitely unless they are subsequently registered under the Act or an exemption from such registration is available. Each Optionee is also to be advised that the Company is under no obligation to register its Common Stock, and that there is no public market for any of the Company's securities and it is unlikely that any will develop in the foreseeable future.

If the Company should subsequently register some of its stock with the Securities and Exchange Commission, Rule 144, promulgated under the Act, may be applicable. It provides an exemption from registration for limited resale of certain restricted securities acquired in a private placement, if certain conditions are satisfied. These conditions include: (a) the availability of certain public information about the Company; (b) the resale occurring not less than one (1) year after the stock has been purchased and paid for; (c) the sale being made through a broker in an unsolicited "broker's transaction"; and (d) the amount of securities being sold during any three-month period not exceeding certain specified volume limits.

However, in the case of persons who are not affiliates of the Company at the time of sale and have not been affiliates for the prior three (3) months, and who have beneficially owned their stock for at least two (2) years prior to sale, conditions (c) and (d) do not apply under Rule 144 as promulgated at the time the Plan was adopted.

Each Optionee is to be advised that the Company may not be filing reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, or otherwise satisfying the current public information requirements of Rule 144 at the time the Optionee wishes to sell any Common Stock purchased upon exercise of an option; and, if so, the Optionee would be precluded from selling the securities under Rule 144 even if the one year minimum holding period has been satisfied.

Further, in the case of securities to which Rule 144 is not applicable, compliance with Regulation A or some other registration exemption will be required. Even though Rule 144 as adopted is not the exclusive means provided for the public sale of private placement securities, other than through a registered offering, the staff of the Securities and Exchange Commission has taken the position that persons proposing to sell private placement securities other than in a registered offering and other than pursuant to Rule 144 will have to meet a substantial burden of proof to establish that an exemption from registration is available for such offers or sales, and that such persons and brokers and other persons who participate in such a transaction do so at their own risk.

Tax Information

The federal income tax consequences of employee stock options are very complex and subject to change from time to time. The following discussion is only a brief summary of the general rules currently in effect which are applicable to employee stock options. A taxpayer's particular situation may be such that some variation of the general rules may apply. This summary does not cover the state, local or foreign income tax consequences of the grant or exercise of employee stock options under the Plan or the disposition of shares acquired upon exercise of such options, including, without limitation, the ramifications or applicability of federal and state estate taxes, inheritance taxes or death taxes. For precise advice as to specific transactions, Optionees should consult their own tax advisor.

Incentive Stock Options

If an option granted under the Plan is an incentive stock option and the Optionee is an employee of the company throughout the option period until at least 3 months before exercise of the option, the Optionee will not recognize any income for purposes of the regular federal income tax upon either the grant or the exercise of the option, and the Company will not be allowed a deduction for federal income tax purposes in connection with such events. Upon a sale or other disposition of the shares acquired by the Optionee upon exercise of the option, the income tax treatment to the Optionee and the Company will depend primarily upon whether the Optionee has met certain holding period requirements at the time of the sale or other disposition of the shares. In addition, as discussed below, the exercise of an incentive stock option may subject the Optionee to federal alternative minimum tax liability in the year of exercise.

If an Optionee exercises an incentive stock option and does not dispose of the shares received within two (2) years of the date of the grant of such option and within one (1) year after the purchase of such shares by such Optionee, whichever ends later, any gain realized upon disposition will be characterized as long-term capital gain and any loss will be long-term capital loss if the shares constitute a capital asset in the hands of the Optionee. In either such case, the Company will not be entitled to any federal income tax deduction in connection with such disposition.

If the option is exercised by the estate of an Optionee, there is no required holding period or employment requirement and the income recognized by the estate upon the subsequent disposal of such shares acquired upon exercise of an option will be long or short-term capital gain as the case may be, and the Company will not be entitled to any deduction for federal income tax purposes at any time in connection with such option.

If the Optionee disposes of the shares either within two (2) years after the date the option is granted or within one (1) year after the transfer of the shares to such Optionee upon exercise of the option, such disposition will be treated as a "disqualifying disposition," and an amount equal to the lesser of (1) the fair market value of the shares on the date of exercise less the purchase price or (2) the amount realized from the disposition less the purchase price, will be taxed as ordinary income in the taxable year in which the disposition occurs. Any such ordinary income will increase the Optionee's tax basis for purposes of determining gain or loss on the sale or

exchange of such shares. The excess, if any, of the amount realized over the fair market value of the shares at the time of the exercise of the option will be treated as short-term or long-term capital gain, as the case may be, and any loss realized upon the disposition will be treated as a capital loss. An Optionee will be generally considered to have disposed of shares if Optionee sells, exchanges, makes a gift of or transfers legal title to such shares (except by pledge, in certain non-taxable exchanges, a transfer in insolvency proceedings or upon death or transfers incident to a divorce). If the amount realized is less than the purchase price, generally the Optionee will not recognize any income in connection with such disqualifying disposition.

The exercise of an incentive stock option may subject an Optionee to alternative minimum tax liability in the year of exercise because the excess of the fair market value of the shares at the time an incentive stock option is exercised over the option price of the shares is an adjustment in determining an Optionee's alternative minimum taxable income for such year. Consequently, an Optionee may be obligated to pay alternative minimum tax in the year Optionee exercises an incentive stock option. The alternative minimum tax (imposed to the extent it exceeds the taxpayer's regular tax) is 26-28% of an individual taxpayer's alternative minimum taxable income. Alternative minimum taxable income is determined by adjusting regular taxable income for certain items, increasing that income by certain tax preference items and reducing this amount by the applicable exemption amount ($45,000 in the case of a joint return, subject to reduction under certain circumstances). If a disqualifying disposition of the stock acquired upon exercise of an incentive stock option occurs in the same calendar year as exercise of the incentive stock option, an individual would be required to recognize alternative minimum taxable income with respect to incentive stock in the year of exercise as well as ordinary income in the same calendar year. Usually, this results in no alternative minimum tax being recognized in connection with a disqualifying disposition that occurs in the same calendar year as the exercise. In the case of a disqualifying disposition which occurs after the year of exercise, an individual would be required to recognize alternative minimum taxable income in the year of exercise and ordinary income in the year of such disqualifying disposition in an amount determined under the rules described above. The timing of the inclusion of alternative minimum taxable income in connection with the exercise of an incentive stock option may depend on other factors such as whether the shares purchased upon exercise of the option are subject to a substantial risk of forfeiture. In addition, an Optionee's alternative minimum tax liability is affected by the availability of a basis adjustment and other complex rules. If a taxpayer incurs alternative minimum tax, a credit may become available which may be used against regular income tax liability in later years. Optionees should consult their tax advisors concerning the applicability of the alternative minimum tax to their own circumstances.

DUE TO THE COMPLEXITY AND UNCERTAINTY OF IRS POSITIONS AND INDIVIDUAL CONSIDERATIONS ASSOCIATED WITH EXERCISING INCENTIVE STOCK OPTIONS, THE COMPANY STRONGLY ENCOURAGES EACH OPTIONEE TO CONSULT THEIR OWN TAX ADVISORS CONCERNING, AMONG OTHER MATTERS, THE APPLICABILITY OF THE ALTERNATIVE MINIMUM TAX AND ADVISABILITY OF FILING A SECTION 83(b) ELECTION AS IT APPLIES TO SUCH OPTIONEE'S OWN CIRCUMSTANCES.

The terms of an incentive stock option agreement may allow an Optionee to pay the option price using shares of Common Stock having a fair market value equal to the price of the shares being purchased. If an Optionee exercises an option and makes payment using shares of Common Stock of the Company, neither the Company nor the Optionee should recognize any gain or loss at the time of the exercise unless the shares used to purchase the incentive shares were previously acquired through the exercise of an incentive stock option or other statutory option and the applicable holding period requirements for favorable tax treatment have not been met at the time of the transfer. For example, a transfer of shares acquired by an Optionee through a prior exercise of an incentive stock option will be treated as a disqualifying disposition of such shares if the holding period requirements applicable to incentive stock options are not met at the time such shares are used to exercise an option, in which case the Optionee would recognize ordinary income equal to the excess of the fair market value of the shares when they were received over the option price paid therefor. However, the favorable tax treatment accorded to the incentive stock received will not be affected.

If an Optionee uses previously acquired shares of the Common Stock (other than shares received upon the exercise of an incentive stock option with respect to which the applicable holding period requirements for favorable tax treatment have not been met) to pay the option price, the shares received which have a fair market value equal to the fair market value of the previously acquired shares exchanged will retain the basis and the holding period of the shares exchanged for long-term capital gain purposes. The balance of the shares received by the Optionee will have a basis of zero and a holding period which commences on the date such shares are transferred to the Optionee. If any of the shares subject to the above-described basis allocation are transferred in a disqualifying disposition, the shares with the lowest basis will be treated as being transferred first.

In general, there will be no federal tax consequences to the Company upon the grant, exercise or termination of an incentive stock option. However, (i) the Optionee may have alternative minimum tax liability with respect to the exercise and (ii) in the event an Optionee sells or disposes of stock received upon the exercise of an incentive stock option prior to satisfying the two-year and one-year holding periods described above, the Company will be entitled to a deduction for federal income tax purposes in an amount equal to the ordinary income, if any, recognized by the Optionee upon disposition of the shares, provided the Company has satisfied its withholding obligations, if any, under the Code.

Nonstatutory Stock Options

Nonstatutory stock options granted under the Plan do not qualify as “incentive stock options” and, accordingly, do not qualify for any special federal tax benefits to Optionee. If an option granted under the Plan is treated as a nonstatutory stock option, the Optionee will not recognize any income at the time an Optionee is granted a nonstatutory option. However, upon exercise of the Option, Optionee will generally recognize ordinary income for federal tax purposes measured by the excess, if any, of the then fair market value of the shares over the option price, except as otherwise provided below. The income recognized by Optionee will be subject to income tax withholding by the Company out of the current earnings payable to the

Optionee. If such earnings are insufficient to pay the withholding tax, the Optionee will be required to make a direct payment to the Company to cover the withholding tax liability. The Company may, in its sole discretion, accept shares of the Company's stock in payment of an Optionee's withholding tax liability.

The terms of a nonstatutory stock option agreement may allow the Optionee to pay the option price using shares of Common Stock having an aggregate fair market value equal to the aggregate option price of the shares being purchased. If an Optionee uses shares of Common Stock to pay the option price due upon the exercise of a nonstatutory stock option, then the Optionee will not recognize any taxable income to the extent that the shares of Common Stock received upon the exercise of such option have a fair market value at the date of exercise equal to the fair market value on such date of the shares of Common Stock delivered in payment of the option price. For federal income tax purposes, these newly acquired shares will have the same basis and holding period as the shares exchanged. The additional shares of Common Stock received upon the exercise of the option will constitute ordinary income to the Optionee for the year of exercise in an amount equal to the fair market value of such shares at the date of exercise. These additional shares will have a basis equal to such fair market value and their holding period will commence on the date such shares are transferred to the Optionee.

Upon a sale of any shares acquired pursuant to the exercise of a nonstatutory stock option, the difference between the sale price and the Optionee's basis in the shares will be treated as a long-term or short-term capital gain or loss, as the case may be. The Optionee's tax basis for determination of gain or loss upon any subsequent disposition of shares acquired upon the exercise of a nonstatutory stock option will be the amount paid for such shares plus any ordinary income recognized as a result of the exercise of such option.

In general, there will be no federal income tax consequences to the Company upon the grant or termination of a nonstatutory stock option or a sale or disposition of the shares acquired upon the exercise of a nonstatutory stock option. However, upon the exercise of a nonstatutory stock option, the Company will be entitled to a deduction for federal income tax purposes equal to the amount of ordinary income that an Optionee is required to recognize as a result of the exercise of a nonstatutory option, provided the Company has satisfied its withholding obligations under the Code.

The foregoing discussion is only a summary of certain federal income tax consequences to Optionees and the Company in connection with the options and shares issuable under the Plan and does not purport to be complete. Reference should be made to the applicable provisions of the Code and the Income Tax Regulations promulgated thereunder. This summary also does not reflect provisions of the income tax laws of any state or foreign country. Each participant in the Plan should consult with his or her own tax advisor concerning the federal (and any local, state or foreign) income tax consequences of his or her participation in the Plan and of becoming a shareholder in the Company through the exercise of an option granted under the Plan.

Description of Common Stock

Each holder of Common Stock is entitled to one (1) vote for each share of Common Stock held by the shareholder on all matters to be voted on by shareholders. Further, in any election of directors, each shareholder is entitled to cumulate such shareholder's votes if the candidate's or candidates' name(s) have been placed in nomination prior to voting and such shareholder gives notice of intention to cumulate votes, giving one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares held by such shareholder, or distributing such number of votes among as many candidates as the shareholder shall deem fit. Holders of Common Stock have no preemptive rights or other rights to subscribe for additional shares. There are no conversion rights, redemption rights or sinking fund provisions with respect to shares of Common Stock. All outstanding shares of Common Stock are, and those issuable upon exercise of the options granted concurrently herewith will be, when issued, fully paid and are not subject to further call or assessment by the Company.

Holders of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor, and to share pro rata in any distribution to holders of Common Stock.

Dated: June ___, 2004

[End of Document]

OCULUS INNOVATIVE SCIENCES, INC.

2004 STOCK PLAN

Maximum Aggregate Number of Shares: 6,000,000

1. **Purposes of this Plan**. The purposes of this 2004 Stock Plan are to attract and retain the best available personnel, to provide an additional incentive to the Employees of the Company and its Subsidiaries, to promote the success of the Company's business and to enable the Employees to share in the growth and prosperity of the Company by providing them with an opportunity to purchase stock in the Company.

Options granted hereunder may be either Incentive Stock Options or Nonstatutory Stock Options, at the discretion of the Board and as reflected in the terms of the written stock option agreement.

2. **Definitions**. As used herein, the following definitions shall apply:

(a) "**Board**" shall mean the Board of Directors of the Company.

(b) "**Code**" shall mean the Internal Revenue Code of the 1986, as amended.

(c) "**Common Stock**" shall mean the Common Stock of the Company.

(d) "**Company**" shall mean Oculus Innovative Sciences, Inc., a California corporation.

(e) "**Committee**" shall mean the Committee appointed by the Board in accordance with Section 4 of this Plan, if one is appointed.

(f) **"Continuous Employment"** or **"Continuous Status as an Employee"** shall mean the absence of any interruption or termination of employment or service as an Employee by or to the Company or any Parent or Subsidiary of the Company which now exists or is hereafter organized or acquired by or acquires the Company. Continuous Employment shall not be considered interrupted in the case of sick leave, military leave or any other bona fide leave of absence approved by the Board (if such leave meets the requirements of the regulations promulgated under sections 421 and 422 of the Code) or in the event of transfers between locations of the Company or between the Company, its Parent, any of its Subsidiaries or its successors.

(g) "**Employee**" shall mean any person, including officers and directors, employed by the Company, its Parent, any of its Subsidiaries or its successors; or, for purposes of eligibility for Nonstatutory Stock Options, any person employed by the Company, including officers and directors, or any consultant to, or director of, the Company or any Parent or Subsidiary of the Company, whether or not such consultant or director is an employee of such entities.

(h) "**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended, or any successor legislation.

(i) "**Incentive Stock Option**" shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(j) "**Non-Employee Director**" shall mean a director who is a "Non-Employee Director," as such term is defined under Rule 16b-3(b)(3)(i) promulgated pursuant to the Exchange Act and any applicable releases and opinions or the Securities and Exchange Commission.

(k) "**Nonstatutory Stock Option**" shall mean an Option which is not an Incentive Stock Option.

(l) "**Option**" shall mean a stock option granted pursuant to this Plan.

(m) "**Option Agreement**" shall mean a written agreement in such form or forms as the Board (subject to the terms and conditions of this Plan) may from time to time approve, evidencing an Option.

(n) "**Optioned Stock**" shall mean the Common Stock subject to an Option.

(o) "**Optionee**" shall mean an Employee who is granted an Option.

(p) "**Outside Director**" shall have the meaning as set forth in the regulations promulgated under section 162(m) of the Code.

(q) "**Parent**" shall mean a "parent corporation," whether now or hereafter existing, as defined in Sections 424(e) and (g) of the Code.

(r) "**Plan**" shall mean this 2004 Stock Plan.

(s) "**Registration Date**" shall mean the effective date of the first registration statement which is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company's securities.

(t) "**Securities Act**" shall mean the Securities Act of 1933, as amended, or any successor legislation.

(u) "**Share**" or "**Shares**" shall mean the Common Stock, as adjusted in accordance with Section 11 of this Plan.

(v) "**Stock Purchase Agreement**" shall mean an agreement in such form or forms as the Board (subject to the terms and conditions of this Plan) may from time to time

approve, which is to be executed as a condition of purchasing Optioned Stock upon the exercise of an Option.

(w) "**Subsidiary**" shall mean a subsidiary corporation, whether now or hereafter existing, as defined in Sections 424(f) and (g) of the Code.

3. **Stock Subject to this Plan**. Subject to the provisions of Section 11 of this Plan, the maximum aggregate number of Shares which may be optioned and sold under this Plan is listed above as "Maximum Aggregate Number of Shares". The Shares may be authorized but unissued or reacquired Shares.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless this Plan shall have been terminated, return to this Plan and become available for other Options under this Plan. In the event that an Optionee shall exercise an Option by tendering Shares owned by such Optionee pursuant to Section 7(c)(iv) hereof as payment of consideration in the exercise of the Option, only the net number of additional Shares issued in excess of the number of Shares surrendered shall count against the number of Shares reserved for issuance under the Plan.

The Company intends that as long as it is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, and is not an investment company registered or required to be registered under the Investment Company Act of 1940, as amended, all offers and sales of Options and Common Stock issuable upon exercise of any Option shall be exempt from registration under the provisions of Section 5 of the Securities Act, and this Plan shall be administered in such a manner so as to preserve such exemption. The Company intends for this Plan to constitute a written compensatory benefit plan within the meaning of Rule 701(b) of 17 CFR Section 230.701 ("**Rule 701**") promulgated by the Securities and Exchange Commission pursuant to the Securities Act. Unless otherwise designated by the Committee at the time an Option is granted, all options granted under this Plan by the Company, and the issuance of any Shares upon exercise thereof, are intended to be granted in reliance on Rule 701.

4. **Administration of this Plan**.

(a) **Procedure**. This Plan shall be administered by the Board. The Board may appoint a Committee consisting of two (2) or more Non-Employee Directors or Outside Directors (or such greater number as is required to qualify for the exemption from the provisions of Section 16(b) of the Exchange Act provided by Rule 16b-3 promulgated pursuant to the Exchange Act or section 162(m) of the Code) to administer this Plan on behalf of the Board, subject to such terms and conditions as the Board may prescribe. Once appointed, the Committee shall continue to serve until otherwise directed by the Board. From time to time, the Board may increase the size of the Committee and appoint additional members of the Board thereto, remove members (with or without cause) and appoint new members of the Board in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and, thereafter, directly administer this Plan. Members of the Board or Committee who are either eligible for Options or have been granted Options may vote on any matters affecting the administration of this Plan or the grant of Options pursuant to this Plan, except that no such

member shall act upon the granting of an Option to such person nor shall any such member's presence at a meeting of the Board of Directors establish the existence of a quorum at any meeting of the Board or the Committee during which action is taken with respect to the granting of an Option to such member.

(b) **Procedure After Registration Date**. Notwithstanding the provisions of Section 4(a) above, after the Registration Date this Plan shall be administered either by: (i) the full Board, provided that at all times each member of the Board is a Non-Employee Director; or (ii) a Committee which at all times consists solely of Board members who are Non-Employee Directors or Outside Directors. After the Registration Date, the Board shall take all action necessary to administer this Plan in accordance with the then-effective provisions of Rule 16b-3 promulgated under the Exchange Act and section 162(m) of the Code, provided that any amendment to this Plan required for compliance with such provisions shall be made in accordance with Section 13 of this Plan.

(c) **Powers of the Board and/or Committee**. Subject to the provisions of this Plan, the Committee or the Board, as appropriate, shall have the authority, in its discretion: (i) to grant Incentive Stock Options and Nonstatutory Stock Options; (ii) to determine, upon review of relevant information and in accordance with Section 7 of this Plan, the fair market value per Share; (iii) to determine the exercise price of the Options, which exercise price and type of consideration shall be determined in accordance with Section 7 of this Plan; (iv) to determine the Employees to whom, and the time or times at which, Options shall be granted, and the number of Shares to be subject to each Option; (v) to prescribe, amend and rescind rules and regulations relating to this Plan; (vi) to determine the terms and provisions of each Option Agreement and each Stock Purchase Agreement (each of which need not be identical with the terms of other Option Agreements and Stock Purchase Agreements) and, with the consent of the holder thereof, to modify or amend each Option Agreement and Stock Purchase Agreement; (vii) to determine whether any other agreement will be required to be executed by any Employee as a condition to the exercise of an Option, and to determine the terms and provisions of any such agreement (which need not be identical with the terms of any other such agreement) and, with the consent of the Optionee, to amend any such agreement; (viii) to interpret this Plan, the Option Agreements, the Stock Purchase Agreements or any agreement entered into with respect to the grant or exercise of Options; (ix) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option previously granted by the Board or to take such other actions as may be necessary or appropriate with respect to the Company's rights pursuant to Options or agreements relating to the grant or exercise thereof; and (x) to make such other determinations and establish such other procedures as it deems necessary or advisable for the administration of this Plan.

(d) **Effect of the Board's or Committee's Decision**. All decisions, determinations and interpretations of the Board or the Committee shall be final and binding on all Optionees and any other holders of Options.

5. **Eligibility**. Options may be granted only to Employees. An Employee who has been granted an Option may, if such Employee is otherwise eligible, be granted additional Options.

6. **Term of Plan**. This Plan shall become effective upon the later to occur of its adoption by the Board or its approval by vote of the requisite number of the outstanding shares of the Company's capital stock entitled to vote on the adoption of this Plan. This Plan shall continue in effect for a term of ten (10) years after the earlier to occur of its adoption by the Board or its approval by vote of the requisite number of the outstanding shares of the Company's capital stock entitled to vote thereon, unless sooner terminated in accordance with the terms and provisions of this Plan.

7. **Option Price and Consideration**.

(a) **Exercise Price**. The exercise price per Share for the Shares to be issued pursuant to the exercise of an Option shall be such price as is determined by the Board; provided, however, that such price shall in no event be less than eighty-five percent (85%) with respect to Nonstatutory Stock Options, and one hundred percent (100%) with respect to Incentive Stock Options, of the fair market value per Share on the date of grant. In the case of an Option granted to an Employee who, at the time the Option is granted, owns stock (as determined under Section 424(d) of the Code) constituting more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its Parent or Subsidiaries, the exercise price per Share shall be no less than one hundred ten percent (110%) of the fair market value per Share on the date of grant.

(b) **Fair Market Value**. The fair market value per Share on the date of grant shall be determined by the Board in its sole discretion, exercised in good faith; provided, however, that where there is a public market for the Common Stock, the fair market value per Share shall be the average of the closing bid and asked prices of the Common Stock on the date of grant, as reported in *The Wall Street Journal* (or, if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotations ("**NASDAQ**") System), or, in the event the Common Stock is listed on a stock exchange or on the NASDAQ System, the fair market value per Share shall be the closing price on the exchange or on the NASDAQ System as of the date of grant of the Option, as reported in *The Wall Street Journal*.

(c) **Payment of Consideration**. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Board at the time of grant of an Option and may consist entirely of cash, check, promissory notes, Shares held by the Optionee for the requisite period necessary to avoid a charge to the Company's earnings for financial reporting purposes which have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, or any combination of such methods of payment. Subject to subparagraphs (i) through (iv) hereto, utilization of Shares as the method of payment may be completed by the tender of Shares then held by the Optionee for the requisite period necessary to avoid a charge to the Company's earnings for financial reporting purposes. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration is deemed to be such as may be reasonably expected to benefit the Company.

(i) If the consideration for the exercise of an Option is a promissory note, it shall be a full recourse promissory note executed by the Optionee, bearing interest at a rate which shall be sufficient to preclude the imputation of interest under the applicable provisions of the Code. Until such time as the promissory note has been paid in full, the Company may retain the Shares purchased upon exercise of the Option in escrow as security for payment of the promissory note.

(ii) If the consideration for the exercise of an Option is the surrender of previously acquired and owned Shares, the Optionee will be required to make representations and warranties satisfactory to the Company regarding his title to the Shares used to effect the purchase, including, without limitation, representations and warranties that the Optionee has good and marketable title to such Shares free and clear of any and all liens, encumbrances, charges, equities, claims, security interests, options or restrictions and has full power to deliver such Shares without obtaining the consent or approval of any person or governmental authority other than those which have already given consent or approval in a form satisfactory to the Company. The value of the Shares used to effect the purchase shall be the fair market value of those Shares as determined by the Board in its sole discretion, exercised in good faith.

(iii) If the consideration for the exercise of an Option is to be paid through a broker-dealer sale and remittance procedure, the Optionee shall provide (1) irrevocable written instructions to a designated brokerage firm to effect the immediate sale of the purchased Shares and to remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate option price payable for the purchased Shares plus all applicable Federal and State income and employment taxes required to be withheld by the Company in connection with such purchase and (2) written instructions to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

(iv) If an Optionee is permitted to exercise an Option by delivering Shares held by the Optionee for the requisite period necessary to avoid a charge to the Company's earnings for financial reporting purposes, the option agreement covering such Option may include provisions authorizing the Optionee to exercise the Option, in whole or in part, by: (1) delivering whole Shares previously owned by such Optionee (whether or not acquired through the prior exercise of a stock option) having a fair market value equal to the option price; and/or (2) directing the Company to withhold from the Shares that would otherwise be issued upon exercise of the Option that number of whole Shares having a fair market value equal to the option price. Shares of the Company's Common Stock so delivered or withheld shall be valued at their fair market value on the date of exercise of the Option, as determined by the Committee and/or the Board, as appropriate. Any balance of the exercise price shall be paid in cash or by check or a promissory note, each in accordance with the terms of this Section 7.

8. **Options**.

(a) **Terms and Provisions of Options**. As provided in Section 4 of this Plan and subject to any limitations specified herein, the Board and/or Committee shall have the authority to determine the terms and provisions of any Option granted under this Plan or any

agreement required to be executed in connection with the grant or exercise of an Option. Each Option granted pursuant to this Plan shall be evidenced by an Option Agreement. Options granted pursuant to this Plan are conditioned upon the Company obtaining any required permit or order from appropriate governmental agencies authorizing the Company to issue such Options and Shares issuable upon exercise thereof.

(b) **Term of Option**. The term of each Option may be up to ten (10) years from the date of grant thereof as determined by the Board upon the grant of the Option and specified in the Option Agreement, except that the term of an Incentive Stock Option granted to an Employee who, at the time the Option is granted, owns stock comprising more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its Parent or Subsidiaries, shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

(c) **Exercise of Option**.

(i) **Procedure for Exercise; Rights as a Shareholder**. Any Option shall be exercisable at such times, in such installments and under such conditions as may be determined by the Board and specified in the Option Agreement, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of this Plan.

An Option may be exercised in accordance with the provisions of this Plan as to all or any portion of the Shares then exercisable under an Option, from time to time during the term of the Option. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company at its principal business office in accordance with the terms of the Option Agreement by the person entitled to exercise the Option and, except when the broker-dealer sale and remittance procedure described in Section 7(c)(iii) hereto is used, full payment for the Shares with respect to which the Option is exercised has been received by the Company, accompanied by an executed Stock Purchase Agreement and any other agreements required by the terms of this Plan and/or the Option Agreement. Full payment may consist of such consideration and method of payment allowable under Section 7 of this Plan. Until the Option is properly exercised in accordance with the terms of this paragraph, no right to vote or receive dividends or any other rights as a stockholder exist with respect to the Optioned Stock. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Option is exercised, except as provided in Section 11 of this Plan.

As soon as practicable after any proper exercise of an Option in accordance with the provisions of this Plan, the Company shall, without transfer or issue tax to the Optionee, deliver to the Optionee at the principal executive office of the Company or such other place as shall be mutually agreed upon between the Company and the Optionee, a certificate or certificates representing the Shares for which the Option shall have been exercised. The time of issuance and delivery of the certificate(s) representing the Shares for which the Option shall have been exercised may be postponed by the Company for such period as may be required by the

Company, with reasonable diligence, to comply with any applicable listing requirements of any national or regional securities exchange or any law or regulation applicable to the issuance or delivery of such Shares. No Option may be exercised unless this Plan has been duly approved by the shareholders of the Company in accordance with applicable law. Notwithstanding anything to the contrary herein, the terms of a Stock Purchase Agreement required to be executed and delivered in connection with the exercise of an Option may require the certificate or certificates representing the Shares purchased upon exercise of an Option to be delivered and deposited with the Company as security for the Optionee's faithful performance of the terms of his Stock Purchase Agreement.

Subject to Section 3 hereof, exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of this Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) **Termination of Status as an Employee**. If an Optionee ceases to serve as an Employee for any reason other than death or disability and thereby terminates his Continuous Status as an Employee, such Optionee shall have the right to exercise the Option at any time within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Board at the time of granting the Option), following the date such Optionee ceases his Continuous Status as an Employee of the Company to the extent that such Optionee was entitled to exercise the Option at the date of such termination pursuant to the terms of the Option Agreement; provided, however, that no Option shall be exercisable after the expiration of the term set forth in the Option Agreement. To the extent that such Optionee was not entitled to exercise the Option at the date of such termination pursuant to the terms of the Option Agreement, or if such Optionee does not exercise such Option (which such Optionee was entitled to exercise) within the time specified herein, the Option shall terminate.

(iii) **Death or Disability of Optionee**. If an Optionee ceases to serve as an Employee due to death or disability and thereby terminates his Continuous Status as an Employee, the Option may be exercised at any time within six (6) months following the date of death or termination of employment due to disability, in the case of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, or, in the case of disability, by the Optionee, but in any case only to the extent the Optionee was entitled to exercise the Option at the date of his termination of employment by death or disability pursuant to the terms of the Option Agreement; provided, however, that no Option shall be exercisable after the expiration of the Option term set forth in the Option Agreement. To the extent that such Optionee was not entitled to exercise such Option at the date of his termination of employment by death or disability pursuant to the terms of the Option Agreement, or if such Option is not exercised (to the extent it could be exercised) within the time specified herein, the Option shall terminate.

(iv) **Extension of Time to Exercise**. Notwithstanding anything to the contrary in this Section 8, the Board may at any time and from time to time prior to the termination of a Nonstatutory Stock Option, with the consent of the Optionee, extend the period of time during which the Optionee may exercise his Nonstatutory Stock Option following the date the Optionee ceases such Optionee's Continuous Status as an Employee; provided, however,

that (1) the maximum period of time during which a Nonstatutory Stock Option shall be exercisable following such termination date shall not exceed an aggregate of six (6) months, (2) the Nonstatutory Stock Option shall not become exercisable after the expiration of the term of such Option as set forth in the Option Agreement as a result of such extension, and (3) notwithstanding any extension of time during which the Nonstatutory Stock Option may be exercised, such Option, unless otherwise amended by the Board, shall only be exercisable to the extent to which the Optionee was entitled to exercise it on the date Optionee ceased Continuous Status as an Employee. To the extent that such Optionee was not entitled to exercise the Option at the date of such termination, or if such Optionee does not exercise an Option which Optionee was entitled to exercise within the time specified herein, the Option shall terminate.

9. **Limit on Value of Optioned Stock**. No Incentive Stock Option may be granted to an Employee if, as a result of such grant, the aggregate fair market value (determined at the time an Incentive Stock Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by an Optionee during any calendar year under all incentive stock option plans of the Company, its Parents or its Subsidiaries, if any, exceeds One Hundred Thousand Dollars ($100,000). After the Registration Date, the maximum number of Shares that may be awarded to an Optionee during any calendar year shall not exceed 500,000.

10. **Nontransferability of Options**. Options granted under this Plan may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner, either voluntarily or involuntarily by operation of law, other than by will or by the laws of descent or distribution, and may be exercised during the lifetime of the Optionee only by such Optionee.

11. **Adjustments Upon Changes in Capitalization or Merger**.

(a) Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares which have been authorized for issuance under this Plan but as to which no Options have yet been granted or which have been returned to this Plan upon cancellation or expiration of an Option, as well as the exercise or purchase price per Share covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, combination or reclassification of the Common Stock, or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company (other than stock bonuses to Employees, including, without limitation, officers and directors); provided, however, that the conversion of any convertible securities of the Company shall not be deemed to have been effected without the receipt of consideration. Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to this Plan or an Option.

(b) Except as otherwise provided in an individual Option Agreement, in the event of the merger, consolidation or reorganization of the Company with or into another

corporation as a result of which the Company is not the surviving corporation or as a result of which the outstanding Shares are exchanged for or converted into cash or property or securities not of the Company, or upon the sale of substantially all of the assets of the Company (each a "**Reorganization**"), (i) the Board may make provision for the assumption of all outstanding Options by the successor corporation or a Parent or a Subsidiary thereof, or (ii) if the other company does not assume the Option, the Option shall, subject to the consummation of the Reorganization, fully vest and become fully exercisable as to all of the Optioned Stock. If an Option becomes fully vested and exercisable in connection with a Reorganization in lieu of being assumed, the Company shall notify the Optionee in writing or electronically that the Option shall become fully exercisable, subject to the consummation of the Reorganization, for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period.

(c) For the purposes of this Section 11, the Option shall be considered assumed if, following the consummation of the Reorganization, the Option confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option immediately prior to the Reorganization, the consideration (whether stock, cash, or other securities or property) received in the Reorganization by holders of Common Stock for each share held on the effective date of the Reorganization; provided, however, that if the consideration received in the Reorganization is not solely common stock of the successor corporation or its Parent, the Board may, with the consent of the successor corporation or its Parent, as applicable, provide for the consideration to be received upon the exercise of the Option, for each share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent, as applicable, equal in fair market value to the per Share consideration received by holders of Common Stock in the Reorganization.

(d) No fractional shares of Common Stock shall be issuable on account of any action described in this Section, and the aggregate number of shares into which Shares then covered by the Option, when changed as the result of such action, shall be reduced to the largest number of whole shares resulting from such action, unless the Board, in its sole discretion, shall determine to issue scrip certificates in respect to any fractional shares, which scrip certificates, in such event, shall be in a form and have such terms and conditions as the Board in its discretion shall prescribe.

12. **Time of Granting Options**. The date of grant of an Option shall be the date on which the Board makes the determination granting such Option; provided, however, that if the Board determines that such grant shall be as of some future date, the date of grant shall be such future date. Notice of the determination shall be given to each Employee to whom an Option is so granted within a reasonable time after the date of such grant.

13. **Amendment and Termination of this Plan**.

(a) **Amendment and Termination**. The Board may amend or terminate this Plan from time to time in such respects as the Board may deem advisable and shall make any amendments which may be required so that Options intended to be Incentive Stock Options shall at all times continue to be Incentive Stock Options for the purpose of the Code, except that,

without approval of the holders of a majority of the outstanding shares of the Company's capital stock, no such revision or amendment shall:

(i) Increase the number of Shares subject to this Plan, other than in connection with an adjustment under Section 11 of this Plan;

(ii) Materially change the designation of the class of Employees eligible to be granted Options;

(iii) Remove the administration of this Plan from the Board (other than to the Committee);

(iv) Materially increase the benefits accruing to participants under this Plan; or

(v) Extend the term of this Plan.

(b) **Effect of Amendment or Termination**. Except as otherwise provided in Section 11, any amendment or termination of this Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Company, which agreement must be in writing and signed by the Optionee and the Company.

14. **Conditions Upon Issuance of Shares**.

(a) Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, applicable state securities laws, the rules and regulations promulgated thereunder, and the requirement of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Option, the Board may require the person exercising such Option to execute an agreement with, and/or may require the person exercising such Option to make any representation and warranty to, the Company as may in the judgment of counsel to the Company be required under applicable law or regulation, including but not limited to a representation and warranty that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is appropriate under any of the aforementioned relevant provisions of law.

15. **Reservation of Shares**. The Company, during the term of this Plan, at all times shall reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of this Plan.

The Company, during the term of this Plan, shall use diligent efforts to seek to obtain from appropriate regulatory agencies any requisite authorization in order to issue and sell such number of Shares as shall be sufficient to satisfy the requirements of this Plan. The inability of the Company to obtain the requisite authorization(s) deemed by the Company's counsel to be necessary for the lawful issuance and sale of any Shares hereunder, or the inability of the Company to confirm to its satisfaction that any issuance and sale of any Shares hereunder will meet applicable legal requirements, shall relieve the Company of any liability in respect to the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16. **Stock Option and Stock Purchase Agreements**. Options shall be evidenced by written stock option agreements in such form or forms as the Board shall approve from time to time. Upon the exercise of an Option, the Optionee shall sign and deliver to the Company a Stock Purchase Agreement (if required to be executed and delivered to the Company by an Optionee as a condition to the exercise of an Option) in such form or forms as the Board shall approve from time to time.

17. **Shareholder Approval**. Continuance of this Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date this Plan is adopted by the Board. If such shareholder approval is obtained at a duly held shareholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company entitled to vote thereon. All Options granted prior to shareholder approval of this Plan are subject to such approval, and if such approval is not obtained within twelve (12) months before or after the date this Plan is adopted by the Board all such Options shall expire and shall be of no further force or effect.

18. **Taxes, Fees, Expenses and Withholding of Taxes**.

(a) The Company shall pay all original issue and transfer taxes (but not income taxes, if any) with respect to the grant of Options and/or the issue and transfer of Shares pursuant to the exercise thereof, and all other fees and expenses necessarily incurred by the Company in connection therewith, and will from time to time use diligent efforts to comply with all laws and regulations which, in the opinion of counsel for the Company, shall be applicable thereto.

(b) The grant of Options hereunder and the issuance of Shares pursuant to the exercise thereof is conditioned upon the Company's reservation of the right to withhold, in accordance with any applicable law, from any compensation payable to the Optionee any taxes required to be withheld by federal, state or local law as a result of the grant or exercise of such Option or the sale of the Shares issued upon exercise thereof. To the extent that compensation or other amounts, if any, payable to the Optionee are insufficient to pay any taxes required to be so withheld, the Company may, in its sole discretion, require the Optionee, as a condition of the exercise of an Option, to pay in cash to the Company an amount sufficient to cover such tax liability or otherwise to make adequate provision for the Company's satisfaction of its withholding obligations under federal and state law.

(c) The Board or the Committee may, in its discretion and upon such terms and conditions as it may deem appropriate (including the applicable safe-harbor provisions of SEC Rule 16b-3 and interpretations thereof by the staff of the Securities and Exchange Commission) provide any or all holders of outstanding option grants under this Plan with the election to have the Company withhold, from the Shares otherwise issuable upon the exercise of such options, one or more of such Shares with an aggregate fair market value equal to the minimum Federal and State income and withholding taxes ("**Taxes**") incurred in connection with the acquisition of such Shares. In lieu of such direct withholding, one or more Optionees may also be granted the right to deliver shares of Common Stock to the Company in satisfaction of such Taxes. The withheld or delivered shares shall be valued at the Fair Market Value on the applicable determination date for such Taxes or such other date required by the applicable safe-harbor provisions of SEC Rule 16b-3.

19. **Liability of Company**. The Company, its Parent or any Subsidiary which is in existence or hereafter comes into existence shall not be liable to an Optionee or other person if it is determined for any reason by the Internal Revenue Service or any court having jurisdiction that any Options intended to be Incentive Stock Options granted hereunder do not qualify as incentive stock options within the meaning of Section 422 of the Code.

20. **Information to Optionee**. The Company shall, upon request, provide without charge to each Optionee during the period the Option is outstanding a balance sheet and income statement of the Company. In the event that the Company provides annual reports or periodic reports to its shareholders during the period in which an Optionee's Option is outstanding, the Company shall, upon request, provide to each Optionee a copy of each such report.

21. **Notices**. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail, as first class, registered or certified mail, with postage and fees prepaid and addressed (i) if to the Company, at its principal place of business to the attention of the Secretary of the Company, or (ii) if to the Optionee, at the address set forth on the signature page of the Optionee's Option Agreement, or at such other address as either party may from time to time designate in writing to the other. It shall be the obligation of each Optionee and each transferee holding Shares purchased upon exercise of an Option to provide the Secretary of the Company, by letter mailed as provided hereinabove, with written notice of a change in mailing address.

22. **No Enlargement of Employee Rights**. This Plan is purely voluntary on the part of the Company, and the continuance of this Plan shall not be deemed to constitute a contract between the Company and any Employee, or to be consideration for or a condition of the employment or service of any Employee. Nothing contained in this Plan shall be deemed to give any Employee the right to be retained in the employ or service of the Company, its Parent, Subsidiary or a successor corporation, or to interfere with the right of the Company or any such corporations to discharge or retire any Employee at any time with or without cause and with or without notice. No Employee shall have any right to or interest in Options authorized hereunder prior to the grant thereof to such Employee, and upon such grant such Employee shall have only such rights and interests as are expressly provided herein, subject, however, to all applicable

provisions of the Company's Articles of Incorporation, as the same may be amended from time to time.

23. **Legends on Certificates**.

(a) **Federal Law**. Unless an appropriate registration statement is filed pursuant to the Securities Act of 1933 with respect to the Shares issuable under this Plan, each certificate representing such Shares shall be endorsed thereon with legends substantially as follows:

(1) THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

(2) THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT BETWEEN THE COMPANY AND THE SHAREHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(b) **Additional Legends**. Each document or certificate representing the Options or Shares issuable under this Plan shall also contain legends as may be required under applicable blue sky laws or by any Stock Purchase Agreement or other agreement the execution of which is a condition to the exercise of an Option under this Plan.

24. **Availability of Plan**. A copy of this Plan shall be delivered to the Secretary of the Company and shall be shown to any eligible person making reasonable inquiry concerning it.

25. **Compliance with Exchange Act Rule 16b-3**. With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3, promulgated pursuant to the Exchange Act, or its successors. To the extent any provision of this Plan or action by the Board or any Committee fails so to comply, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Board or any Committee.

26. **Invalid Provisions**. In the event that any provision of this Plan is found to be invalid or otherwise unenforceable under any applicable law, such invalidity or unenforceability shall not be construed as rendering any other provisions contained herein as invalid or

unenforceable, and all such other provisions shall be given full force and effect to the same extent as though the invalid or unenforceable provision was not contained herein.

27. **Applicable Law**. This Plan shall be governed by and construed in accordance with the laws of the State of California.

[End of Document]

OCULUS INNOVATIVE SCIENCES, INC.

NONSTATUTORY STOCK OPTION AGREEMENT

(Standard Form)

Optionee: _____ Grant Date: _____

Vesting Commencement Date: _____

Shares: _____

Exercise Price: _____

Oculus Innovative Sciences, Inc., a California corporation (the "**Company**"), hereby grants to the optionee named above (the "**Optionee**") an option (the "**Option**") to purchase the amount of shares of Common Stock set forth above (the "**Shares**") of the Company, at the Exercise Price set forth above and on the terms set forth herein, and in all respects subject to the terms and provisions of the Company's 2004 Stock Plan (the "**Plan**") applicable to nonstatutory stock options, which terms and provisions hereby are incorporated by reference herein. Unless the context herein otherwise requires, the terms defined in the Plan shall have the same meanings herein.

1. **Nature of the Option**. The Option granted pursuant to this agreement (the "**Agreement**") is intended to be a nonstatutory stock option and is not intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise to qualify for any special tax benefits to Optionee.

2. **Date of Grant; Term of Option**. The Option is granted as of the Grant Date set forth above, and it may not be exercised later than ten (10) years from such date.

3. **Option Exercise Price**. The exercise price for the Option is the Exercise Price per Share set forth above, which price is intended to be not less than eighty-five percent (85%) of the fair market value thereof on the date the Option was granted (or not less than one hundred ten percent (110%) of the fair market value thereof on the date the Option was granted, if the Optionee owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its parents or subsidiaries immediately before the grant of such Option).

4. **Exercise of Option**. The Option shall be exercisable during its term only in accordance with the terms and provisions of the Plan and the Option as follows:

(a) **Right to Exercise**. The Option shall vest and be exercisable, cumulatively, during its term as to one-fifth (1/5) of the Shares at the end of the first twelve (12) full months of Continuous Status as an Employee of the Company following the Vesting Commencement Date (as set forth above) and thereafter as to one-fifth (1/5) of the Shares at the end of each successive one-year period of Continuous Status as an Employee of the Company after such initial twelve month period until the Shares are fully vested.

(b) **Method of Exercise**. The Option shall be exercisable by written notice which shall state the election to exercise the Option, the number of Shares in respect to which the Option is being exercised and such other representations and agreements as to Optionee's investment intent with respect to such Shares as may be required by the Company hereunder or pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company or such other person as may be designated by the Company. The written notice shall be accompanied by payment of the purchase price and, at the Company's option, either (i) an executed investment representation statement acceptable to the Company (the "**Investment Representation Statement**") or (ii) an executed stock purchase agreement acceptable to the Company (the "**Stock Purchase Agreement**"). Payment of the purchase price shall be made by check or such other consideration and method of payment authorized by the Board pursuant to the Plan. The certificate or certificates for the Shares as to which the Option shall be exercised shall be registered in the name of Optionee and shall carry the legends set forth in the Plan, the Stock Purchase Agreement or the Investment Representation Statement, as applicable, and/or as required under applicable law.

(c) **Restrictions on Exercise**. The Option may not be exercised if the issuance of the Shares upon such exercise would constitute a violation of any applicable federal or state securities laws or other laws or regulations. As a condition to the exercise of the Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. **Investment Representations**. In connection with the acquisition of the Option, Optionee represents and warrants as follows:

(a) **Investment Intent**. Optionee is acquiring the Option, and upon exercise of the Option, Optionee will be acquiring the Shares for investment for Optionee's own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof.

(b) **Protection of Interests**. Optionee, by reason of Optionee's business or financial experience, has the capacity to evaluate the merits and risks of purchasing Common Stock of the Company and to make an informed investment decision with respect thereto and to protect Optionee's interests in connection with the acquisition of the Option and the Shares.

6. **Termination of Status as an Employee**. If Optionee ceases to serve as an Employee for any reason other than death or disability and thereby terminates Optionee's

Continuous Status as an Employee, Optionee shall have the right to exercise the Option (or any portion thereof not yet exercised) at any time within thirty (30) days after the date of such termination up to the amount that Optionee was entitled to exercise as determined on the date of such termination. If Optionee ceases to serve as an Employee due to death or disability, the Option may be exercised at any time within six (6) months after the date of death or termination of employment due to disability, in the case of death, by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, or in the case of disability, by Optionee, but in any case only up to the amount that Optionee was entitled to exercise at the date of such termination as determined on the date of such termination due to death or disability. To the extent of any portion of the Option not vested and not exercisable at the date of termination, or to the extent any exercisable portion of the Option is not exercised within the time specified herein, the Option shall terminate. Notwithstanding the foregoing, the Option shall not be exercisable after the expiration of the term set forth in Section 2 hereof.

7. **Withholding Tax Liability**. The Company reserves the right to withhold, in accordance with any applicable laws, from any compensation or other consideration payable to the Optionee any taxes required to be withheld by federal, state or local law as a result of the grant or exercise of the Option or the sale or other disposition of the Shares issued upon exercise of the Option, and if such compensation or consideration is insufficient, the Company may require Optionee to pay to the Company an amount sufficient to cover such withholding tax liability.

8. **Nontransferability of Option**. The Option may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner either voluntarily or involuntarily by operation of law or otherwise, other than by will or by the laws of descent or distribution, and may be exercised during the lifetime of Optionee only by such Optionee. Subject to the foregoing and the terms of the Plan, the terms of the Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

9. **Continuation of Employment**. Neither the Option or the Plan nor any Option granted thereunder shall confer upon any Optionee any right to continue in the employment of the Company, its parent, subsidiary or a successor corporation or limit in any respect the right of the Company or any such corporations to discharge the Optionee at any time, with or without cause and with or without notice.

10. **Limitations on Transfer**. In addition to any other limitation on transfer created by applicable securities laws, Optionee will not sell, transfer, assign, encumber or otherwise dispose of (including, without limitation by operation of law) any of Optionee's right, title or interest in and to all or any portion of the Shares except as provided in this Section and in any event not prior to the expiration of the six-month period following the issuance of the Shares pursuant to the exercise of this Option:

(a) **Right of First Refusal**. In the event Optionee desires (or is required) to sell or transfer in any manner all or a portion of the Shares, the Optionee shall first offer such Shares for sale to the Company (or its assignee) at the same price (which price shall be no less

than the fair market value of such Shares as of the date of such proposed transfer), and upon the same terms (or reasonably similar terms) as those on which the Optionee is disposing of said Shares ("**Right of First Refusal**"). Optionee shall offer such Shares to the Company by delivering a written notice (the "**Notice**") to the Company stating (i) Optionee's bona fide intention to sell or otherwise transfer such Shares, (ii) the number of such Shares to be sold or otherwise transferred, (iii) the price for which Optionee proposes to sell such Shares and all additional terms and conditions, if any, of the sale or transfer, and (iv) the name of the proposed buyer or transferee. Optionee shall attach to the Notice a copy of the written offer, if any, of the sale or transfer. In the event of a transfer not involving a sale of such Shares for a specific sum of money, or if, in the sole judgment of the Company's Board of Directors, the proposed transfer does not involve a price for the Shares negotiated by the Optionee and Optionee's proposed transferee in a bona fide "arm's length transaction," the price of the Shares shall be determined by the Company's Board of Directors in the manner specified in Section 10(c) below.

Within thirty (30) days after the Company's receipt of the Notice (the "**Acceptance Period**"), the Company (or its assignee) may elect to purchase all of the Shares (or, with the consent of the Optionee, a portion thereof) to which the Notice refers, at the price per Share (or at the fair market value of such Shares determined pursuant to Section 10(c) hereof in the case of a transfer other than a bona fide arms-length transaction) and on the same terms and conditions (or terms and conditions as similar as reasonably possible) as set forth in the Notice. If the Company (or its assignee) elects to purchase such Shares hereunder, it shall notify Optionee in writing during the Acceptance Period of its intention to purchase all of such Shares (or, with the consent of Optionee, a portion thereof) and either (i) set a date and location for the closing of the transaction on or prior to the last day of the Acceptance Period, or at such later date as the parties may otherwise agree, at which time the Company (or its assignee) shall tender payment for the Shares or (ii) close the transaction by including payment for the Shares with the Company's notice to Optionee. At such closing, the certificates representing the Shares so purchased shall be delivered to the Company and canceled or, in the case of payment by the Company by mail, such certificates shall be deemed to be canceled upon the date of such mailing of the Company's payment and, thereafter, shall be promptly returned by Optionee to the Company by certified or registered mail. Optionee hereby authorizes and directs the Secretary or transfer agent of the Company to transfer the Shares as to which the Right of First Refusal has been exercised from Optionee to the Company (or its assignee). Optionee further authorizes the Company to refuse, or to cause its transfer agent to refuse, to transfer or record any Shares to be transferred in violation of this Agreement. If the Company (or its assignee) does not elect to purchase the Shares to which the Notice refers, Optionee may sell or otherwise transfer the Shares to the third party named in the Notice at the price and on the terms and conditions specified in the Notice or at a higher price, provided that such sale or transfer is consummated within sixty (60) days from either (i) the lapse of the Acceptance Period or (ii) the date of the Company's written notice advising Optionee that it does not intend to purchase the Shares hereunder, whichever occurs first in time and provided, further, that any such sale or transfer is in accordance with all of the terms and conditions set forth in this Agreement. In the event the Shares are not disposed of by the Optionee within said 60-day period, such Shares shall once again be subject to the Right of First Refusal herein provided.

(b) **Involuntary Transfer**. In the event of any transfer by operation of law or other involuntary transfer (the "**Involuntary Transfer**") of all or a portion of the Shares, the Company shall have an option to purchase all of the Shares transferred (the " **Involuntary Transfer Option**"). Upon such transfer, the Optionee and person acquiring the Shares shall promptly notify in writing the Secretary of the Company of such transfer. The Company (or its assignee) shall notify Optionee and the person acquiring the Shares as to whether the Company (or its assignee) wishes to purchase the Shares pursuant to the Involuntary Transfer Option within thirty (30) days after receipt by the Company of the written notice of the involuntary transfer of the Shares. If the Company (or its assignee) elects to purchase said Shares hereunder, it shall set a date for the closing of the transaction at a place specified by the Company (or its assignee) not later than thirty (30) days after receipt by the Company of the written notice of the involuntary transfer of the Shares, or at such later date as the parties may otherwise agree. At such closing, the Company (or its assignee) shall tender payment for the Shares and the certificates representing the Shares so purchased shall be canceled. Optionee hereby authorizes and directs the Secretary or transfer agent of the Company to transfer the Shares as to which the Involuntary Transfer Option has been exercised from the Optionee to the Company (or its assignee). Optionee further authorizes the Company to refuse, or to cause its transfer agent to refuse, to transfer or record any Shares to be transferred in violation of this Agreement.

(c) **Determination of Price**. With respect to Shares to be transferred pursuant to the Right of First Refusal where the price is not determined as a result of a bona fide arms-length transaction by the Optionee under Section 10(a) or the Involuntary Transfer Option, the price per share shall be a price set by the Board of Directors of the Company that will reflect the then current fair market value of the Shares, as determined by the Board of Directors in good faith after giving consideration to the factors set forth in Section 260.140.50 of Title 10 of the California Code of Regulations or, upon the request of the Optionee, by an independent appraiser acceptable to both the Company and the Optionee; provided, that the Optionee shall be required to bear one-half of the cost of such independent appraisal.

(d) **Intra-family Transfers**. Notwithstanding anything to the contrary contained herein, Optionee shall have the right, at any time and from time to time during Optionee's lifetime or upon Optionee's death, to transfer all or any portion of Optionee's Shares (the "**Transferred Family Shares**") to Optionee's spouse, any of Optionee's issue, ancestors or descendants, or a trust for the sole benefit of Optionee, Optionee's spouse, any of Optionee's issue, ancestors or descendants (any such individual or trust is hereinafter referred to as an "**Intra-family Transferee**"), provided that the Intra-family Transferee receiving the Transferred Family Shares executes a consent to be bound by the terms of this Agreement with respect to the Transferred Family Shares. The Transferred Family Shares shall be and remain subject to all of the terms and conditions of this Agreement as were applicable to such Shares immediately prior to their transfer pursuant to this Section 10(d); without limiting the foregoing, the obligations hereunder arising out of the possession or ownership of such Transferred Family Shares shall be binding upon the respective Intra-family Transferees. For purposes of exercising any rights under this Agreement, the Company's right to purchase the Shares of Optionee shall extend to any Shares owned by an Intra-family Transferee.

(e) **Restriction on Alienation**. Any sale, transfer, encumbrance, or other disposition or purported sale, transfer, encumbrance or disposition of any of the Shares by Optionee, whether voluntarily, by operation of law or otherwise, shall be null and void unless the terms, conditions and provisions of this Agreement are strictly complied with. Optionee further authorizes the Company to refuse, or cause its Transfer Agent to refuse, to transfer or record any Shares to be transferred in violation of this Agreement.

(f) **Assignment by Company**. The Company's Right of First Refusal and Involuntary Transfer Option, at the sole discretion of the Company, may be assigned in whole or in part to any shareholder or shareholders of the Company.

(g) **Obligations Binding Upon Transferees**. All transferees of Shares or any interest therein will receive and hold such Shares or interests subject to the provisions of this Agreement, including the Company's Right of First Refusal and Involuntary Transfer Option. Any sale or transfer of the Shares shall be void unless the provisions of this Agreement are met.

(h) **Termination of Rights**. The Right of First Refusal and Involuntary Transfer Option granted the Company by this Section 10 shall terminate at such time as a public market exists for the Company's Common Stock (or any other stock issued to purchasers in exchange for the Shares purchased under this Agreement). For the purpose of this Agreement, a "public market" shall be deemed to exist if the Common Stock is listed on a national securities exchange (as that term is used in the Securities Exchange Act of 1934, as amended), or the Common Stock is traded on the over-the-counter market and prices are published on business days in a recognized financial journal.

(i) **Indebtedness**. Any payment by the Company for purchase of Shares from Optionee may be made by cancellation of any indebtedness owed to Company by Optionee.

(j) **Legends**. All certificates representing any Shares of the Company purchased upon exercise of the Options shall have endorsed thereon the following legends, or substantially similar legends, in addition to any legends required by state securities laws, unless in the opinion of counsel such legends are no longer necessary:

(1) THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

(2) THE SECURITIES REPRESENTED BY THIS CERTIFICATE

MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT BETWEEN THE COMPANY AND THE SHAREHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(k) **Market Standoff Agreement**. The Optionee, if requested by the Company and an underwriter of Common Stock (or other securities) of the Company, agrees not to sell or otherwise transfer or dispose of any Common Stock (or other securities) of the Company held by Optionee during the period not to exceed one hundred and eighty (180) days as requested by the managing underwriter following the effective date of a registration statement of the Company filed under the Securities Act (as hereafter defined), provided that all officers and directors of the Company are required to enter into similar agreements. Such agreement shall be in writing in a form satisfactory to the Company and such underwriter. The Company may impose stop-transfer instructions with respect to the shares (or other securities) subject to the foregoing restriction until the end of such period.

11. **The Plan**. The Option is subject to, and the Company and Optionee agree to be bound by, all of the terms and conditions of the Plan as such Plan may be amended from time to time in accordance with the terms thereof, provided that no such amendment shall deprive Optionee, without Optionee's consent, of the Option or any rights hereunder. Pursuant to the Plan, the Board of Directors of the Company is authorized to adopt rules and regulations not inconsistent with the Plan as it shall deem appropriate and proper. A copy of the Plan in its present form is available for inspection during business hours by Optionee or the persons entitled to exercise the Option at the Company's principal office.

12. **Entire Agreement; Amendment**. This Agreement and the Plan (together with any related Investment Representation Statement or Stock Purchase Agreement executed in connection herewith) contain (or will contain) the entire understanding between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous written or oral negotiations and agreements between them regarding the subject matter hereof. This Agreement may be amended only in writing signed by each of the parties hereto.

OCULUS INNOVATIVE
SCIENCES, INC.

_____

Signature

_____

Printed Name and Title

Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that Optionee has read and is familiar with the terms and provisions thereof, and hereby accepts the Option subject to all of the terms and provisions thereof. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board of Directors or the Committee upon any questions arising under the Plan.

OPTIONEE

Date: _____

_____
Signature

_____
Printed Name

Address: _____

_____

_____

_____

OCULUS INNOVATIVE SCIENCES, INC.

INCENTIVE STOCK OPTION AGREEMENT

(Standard Form)

Optionee: _____ Grant Date: _____

Vesting Commencement Date: _____

Shares: _____

Exercise Price: _____

Oculus Innovative Sciences, Inc., a California corporation (the "**Company**"), hereby grants to the optionee named above (the "**Optionee**") an option (the "**Option**") to purchase the amount of shares of Common Stock set forth above (the "**Shares**") of the Company, at the Exercise Price set forth above and on the terms set forth herein, and in all respects subject to the terms and provisions of the Company's 2004 Stock Plan (the "**Plan**") applicable to incentive stock options, which terms and provisions hereby are incorporated by reference herein. Unless the context herein otherwise requires, the terms defined in the Plan shall have the same meanings herein.

1. **Nature of the Option**. The Option granted pursuant to this agreement (the "**Agreement**") is intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "**Code**").

2. **Date of Grant; Term of Option.** The Option is granted as of the Grant Date set forth above, and it may not be exercised later than ten (10) years from such date; provided however, that an Option granted to a shareholder who, immediately before such grant, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, its parents or subsidiaries immediately before the grant of such Option, may not be exercised later than five (5) years from such date.

3. **Option Exercise Price**. The exercise price for the Option is the Exercise Price per Share set forth above, which price is intended to be not less than one hundred percent (100%) of the fair market value thereof on the date the Option was granted (or not less than one hundred ten percent (110%) of the fair market value thereof on the date the Option was granted, if the Optionee owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its parents or subsidiaries immediately before the grant of such Option).

4. **Exercise of Option**. The Option shall be exercisable during its term only in accordance with the terms and provisions of the Plan and the Option as follows:

(a) **Right to Exercise**. The Option shall vest and be exercisable, cumulatively, during its term as to one-fifth (1/5) of the Shares at the end of the first twelve (12) full months of Continuous Status as an Employee of the Company following the Vesting Commencement Date (as set forth above) and thereafter as to one-fifth (1/5) of the Shares at the end of each successive one-year period of Continuous Status as an Employee of the Company after such initial twelve-month period until the Shares are fully vested.

(b **Method of Exercise**. The Option shall be exercisable by written notice which shall state the election to exercise the Option, the number of Shares in respect to which the Option is being exercised and such other representations and agreements as to Optionee's investment intent with respect to such Shares as may be required by the Company hereunder or pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company or such other person as may be designated by the Company. The written notice shall be accompanied by payment of the purchase price and, at the Company's option, either (i) an executed investment representation statement acceptable to the Company (the "**Investment Representation Statement**") or (ii) an executed stock purchase agreement acceptable to the Company (the "**Stock Purchase Agreement**"). Payment of the purchase price shall be made by check or such other consideration and method of payment authorized by the Board pursuant to the Plan. The certificate or certificates for the Shares as to which the Option shall be exercised shall be registered in the name of Optionee and shall carry the legends set forth in the Plan, the Stock Purchase Agreement or the Investment Representation Statement, as applicable, and/or as required under applicable law.

(c) **Restrictions on Exercise**. The Option may not be exercised if the issuance of the Shares upon such exercise would constitute a violation of any applicable federal or state securities laws or other laws or regulations. As a condition to the exercise of the Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. **Investment Representations**. In connection with the acquisition of the Option, Optionee represents and warrants as follows:

(a) **Investment Intent**. Optionee is acquiring the Option, and upon exercise of the Option, Optionee will be acquiring the Shares for investment for Optionee's own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof.

(b) **Protection of Interests**. Optionee, by reason of Optionee's business or financial experience, has the capacity to evaluate the merits and risks of purchasing Common Stock of the Company and to make an informed investment decision with respect thereto and to protect Optionee's interests in connection with the acquisition of the Option and the Shares.

6. **Termination of Status as an Employee**. If Optionee ceases to serve as an Employee for any reason other than death or disability and thereby terminates Optionee's Continuous Status as an Employee, Optionee shall have the right to exercise the Option (or any portion thereof not yet exercised) at any time within thirty (30) days after the date of such termination up to the amount that Optionee was entitled to exercise as determined on the date of such termination. If Optionee ceases to serve as an Employee due to death or disability, the Option may be exercised at any time within six (6) months after the date of death or termination of employment due to disability, in the case of death, by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, or in the case of disability, by Optionee, but in any case only up to the amount that Optionee was entitled to exercise at the date of such termination as determined on the date of such termination due to death or disability. To the extent of any portion of the Option not vested and not exercisable at the date of termination, or to the extent any exercisable portion of the Option is not exercised within the time specified herein, the Option shall terminate. Notwithstanding the foregoing, the Option shall not be exercisable after the expiration of the term set forth in Section 2 hereof.

7. **Withholding Tax Liability**. The Company reserves the right to withhold, in accordance with any applicable laws, from any compensation or other consideration payable to the Optionee any taxes required to be withheld by federal, state or local law as a result of the grant or exercise of the Option or the sale or other disposition of the Shares issued upon exercise of the Option, and if such compensation or consideration is insufficient, the Company may require Optionee to pay to the Company an amount sufficient to cover such withholding tax liability. The Optionee agrees to notify the Company immediately in the event of any disqualifying disposition (within the meaning of Section 421(b) of the Code) of the Shares acquired upon exercise of an incentive stock option.

8. **Nontransferability of Option**. The Option may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner either voluntarily or involuntarily by operation of law or otherwise, other than by will or by the laws of descent or distribution, and may be exercised during the lifetime of Optionee only by such Optionee. Subject to the foregoing and the terms of the Plan, the terms of the Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

9. **Continuation of Employment**. Neither the Option or the Plan nor any Option granted thereunder shall confer upon any Optionee any right to continue in the employment of the Company, its parent, subsidiary or a successor corporation or limit in any respect the right of the Company or any such corporations to discharge the Optionee at any time, with or without cause and with or without notice.

10. **Limitations on Transfer**. In addition to any other limitation on transfer created by applicable securities laws, Optionee will not sell, transfer, assign, encumber or otherwise dispose of (including, without limitation by operation of law) any of Optionee's right, title or interest in and to all or any portion of the Shares except as provided in this Section and in any event not prior to the expiration of the six-month period following the issuance of the Shares pursuant to the exercise of this Option:

(a) **Right of First Refusal**. In the event Optionee desires (or is required) to sell or transfer in any manner all or a portion of the Shares, the Optionee shall first offer such Shares for sale to the Company (or its assignee) at the same price (which price shall be no less than the fair market value of such Shares as of the date of such proposed transfer), and upon the same terms (or reasonably similar terms) as those on which the Optionee is disposing of said Shares ("**Right of First Refusal**"). Optionee shall offer such Shares to the Company by delivering a written notice (the "**Notice**") to the Company stating (i) Optionee's bona fide intention to sell or otherwise transfer such Shares, (ii) the number of such Shares to be sold or otherwise transferred, (iii) the price for which Optionee proposes to sell such Shares and all additional terms and conditions, if any, of the sale or transfer, and (iv) the name of the proposed buyer or transferee. Optionee shall attach to the Notice a copy of the written offer, if any, of the sale or transfer. In the event of a transfer not involving a sale of such Shares for a specific sum of money, or if, in the sole judgment of the Company's Board of Directors, the proposed transfer does not involve a price for the Shares negotiated by the Optionee and Optionee's proposed transferee in a bona fide "arm's length transaction," the price of the Shares shall be determined by the Company's Board of Directors in the manner specified in Section 10(c) below.

Within thirty (30) days after the Company's receipt of the Notice (the "**Acceptance Period**"), the Company (or its assignee) may elect to purchase all of the Shares (or, with the consent of the Optionee, a portion thereof) to which the Notice refers, at the price per Share (or at the fair market value of such Shares determined pursuant to Section 10(c) hereof in the case of a transfer other than a bona fide arms-length transaction) and on the same terms and conditions (or terms and conditions as similar as reasonably possible) as set forth in the Notice. If the Company (or its assignee) elects to purchase such Shares hereunder, it shall notify Optionee in writing during the Acceptance Period of its intention to purchase all of such Shares (or, with the consent of Optionee, a portion thereof) and either (i) set a date and location for the closing of the transaction on or prior to the last day of the Acceptance Period, or at such later date as the parties may otherwise agree, at which time the Company (or its assignee) shall tender payment for the Shares or (ii) close the transaction by including payment for the Shares with the Company's notice to Optionee. At such closing, the certificates representing the Shares so purchased shall be delivered to the Company and canceled or, in the case of payment by the Company by mail, such certificates shall be deemed to be canceled upon the date of such mailing of the Company's payment and, thereafter, shall be promptly returned by Optionee to the Company by certified or registered mail. Optionee hereby authorizes and directs the Secretary or transfer agent of the Company to transfer the Shares as to which the Right of First Refusal has been exercised from Optionee to the Company (or its assignee). Optionee further authorizes the Company to refuse, or to cause its transfer agent to refuse, to transfer or record any Shares to be transferred in violation of this Agreement. If the Company (or its assignee) does not elect to purchase the Shares to which the Notice refers, Optionee may sell or otherwise transfer the Shares to the third party named in the Notice at the price and on the terms and conditions specified in the Notice or at a higher price, provided that such sale or transfer is consummated within sixty (60) days from either (i) the lapse of the Acceptance Period or (ii) the date of the Company's written notice advising Optionee that it does not intend to purchase the Shares hereunder, whichever occurs first in time and provided, further, that any such sale or transfer is in accordance with all of the terms and conditions set forth in this Agreement. In the event the Shares are not disposed of by the Optionee within said 60-day period, such Shares shall once

again be subject to the Right of First Refusal herein provided.

(b) **Involuntary Transfer**. In the event of any transfer by operation of law or other involuntary transfer (the "**Involuntary Transfer**") of all or a portion of the Shares, the Company shall have an option to purchase all of the Shares transferred (the " **Involuntary Transfer Option**"). Upon such transfer, the Optionee and person acquiring the Shares shall promptly notify in writing the Secretary of the Company of such transfer. The Company (or its assignee) shall notify Optionee and the person acquiring the Shares as to whether the Company (or its assignee) wishes to purchase the Shares pursuant to the Involuntary Transfer Option within thirty (30) days after receipt by the Company of the written notice of the involuntary transfer of the Shares. If the Company (or its assignee) elects to purchase said Shares hereunder, it shall set a date for the closing of the transaction at a place specified by the Company (or its assignee) not later than thirty (30) days after receipt by the Company of the written notice of the involuntary transfer of the Shares, or at such later date as the parties may otherwise agree. At such closing, the Company (or its assignee) shall tender payment for the Shares and the certificates representing the Shares so purchased shall be canceled. Optionee hereby authorizes and directs the Secretary or transfer agent of the Company to transfer the Shares as to which the Involuntary Transfer Option has been exercised from the Optionee to the Company (or its assignee). Optionee further authorizes the Company to refuse, or to cause its transfer agent to refuse, to transfer or record any Shares to be transferred in violation of this Agreement.

(c) **Determination of Price**. With respect to Shares to be transferred pursuant to the Right of First Refusal where the price is not determined as a result of a bona fide arms-length transaction by the Optionee under Section 10(a) or the Involuntary Transfer Option, the price per share shall be a price set by the Board of Directors of the Company that will reflect the then current fair market value of the Shares, as determined by the Board of Directors in good faith after giving consideration to the factors set forth in Section 260.140.50 of Title 10 of the California Code of Regulations or, upon the request of the Optionee, by an independent appraiser acceptable to both the Company and the Optionee; provided, that the Optionee shall be required to bear one-half of the cost of such independent appraisal.

(d) **Intra-family Transfers**. Notwithstanding anything to the contrary contained herein, Optionee shall have the right, at any time and from time to time during Optionee's lifetime or upon Optionee's death, to transfer all or any portion of Optionee's Shares (the "**Transferred Family Shares**") to Optionee's spouse, any of Optionee's issue, ancestors or descendants, or a trust for the sole benefit of Optionee, Optionee's spouse, any of Optionee's issue, ancestors or descendants (any such individual or trust is hereinafter referred to as an "**Intra-family Transferee**"), provided that the Intra-family Transferee receiving the Transferred Family Shares executes a consent to be bound by the terms of this Agreement with respect to the Transferred Family Shares. The Transferred Family Shares shall be and remain subject to all of the terms and conditions of this Agreement as were applicable to such Shares immediately prior to their transfer pursuant to this Section 10(d); without limiting the foregoing, the obligations hereunder arising out of the possession or ownership of such Transferred Family Shares shall be binding upon the respective Intra-family Transferees. For purposes of exercising any rights under this Agreement, the Company's right to purchase the Shares of Optionee shall extend to any Shares owned by an Intra-family Transferee.

(e **Restriction on Alienation**. Any sale, transfer, encumbrance, or other disposition or purported sale, transfer, encumbrance or disposition of any of the Shares by Optionee, whether voluntarily, by operation of law or otherwise, shall be null and void unless the terms, conditions and provisions of this Agreement are strictly complied with. Optionee further authorizes the Company to refuse, or cause its Transfer Agent to refuse, to transfer or record any Shares to be transferred in violation of this Agreement.

(f) **Assignment by Company**. The Company's Right of First Refusal and Involuntary Transfer Option, at the sole discretion of the Company, may be assigned in whole or in part to any shareholder or shareholders of the Company.

(g) **Obligations Binding Upon Transferees**. All transferees of Shares or any interest therein will receive and hold such Shares or interests subject to the provisions of this Agreement, including the Company's Right of First Refusal and Involuntary Transfer Option. Any sale or transfer of the Shares shall be void unless the provisions of this Agreement are met.

(h) **Termination of Rights**. The Right of First Refusal and Involuntary Transfer Option granted the Company by this Section 10 shall terminate at such time as a public market exists for the Company's Common Stock (or any other stock issued to purchasers in exchange for the Shares purchased under this Agreement). For the purpose of this Agreement, a "public market" shall be deemed to exist if the Common Stock is listed on a national securities exchange (as that term is used in the Securities Exchange Act of 1934, as amended), or the Common Stock is traded on the over-the-counter market and prices are published on business days in a recognized financial journal.

(i) **Indebtedness**. Any payment by the Company for purchase of Shares from Optionee may be made by cancellation of any indebtedness owed to Company by Optionee.

(j) **Legends**. All certificates representing any Shares of the Company purchased upon exercise of the Options shall have endorsed thereon the following legends, or substantially similar legends, in addition to any legends required by state securities laws, unless in the opinion of counsel such legends are no longer necessary:

(1) THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

(2) THE SECURITIES REPRESENTED BY THIS CERTIFICATE

MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT BETWEEN THE COMPANY AND THE SHAREHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(k) **Market Standoff Agreement**. The Optionee, if requested by the Company and an underwriter of Common Stock (or other securities) of the Company, agrees not to sell or otherwise transfer or dispose of any Common Stock (or other securities) of the Company held by Optionee during the period not to exceed one hundred and eighty (180) days as requested by the managing underwriter following the effective date of a registration statement of the Company filed under the Securities Act (as hereafter defined), provided that all officers and directors of the Company are required to enter into similar agreements. Such agreement shall be in writing in a form satisfactory to the Company and such underwriter. The Company may impose stop-transfer instructions with respect to the shares (or other securities) subject to the foregoing restriction until the end of such period.

11. **The Plan**. The Option is subject to, and the Company and Optionee agree to be bound by, all of the terms and conditions of the Plan as such Plan may be amended from time to time in accordance with the terms thereof, provided that no such amendment shall deprive Optionee, without Optionee's consent, of the Option or any rights hereunder. Pursuant to the Plan, the Board of Directors of the Company is authorized to adopt rules and regulations not inconsistent with the Plan as it shall deem appropriate and proper. A copy of the Plan in its present form is available for inspection during business hours by Optionee or the persons entitled to exercise the Option at the Company's principal office.

12. **Entire Agreement; Amendment**. This Agreement and the Plan (together with any related Investment Representation Statement or Stock Purchase Agreement executed in connection herewith) contain (or will contain) the entire understanding between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous written or oral negotiations and agreements between them regarding the subject matter hereof. This Agreement may be amended only in writing signed by each of the parties hereto.

OCULUS INNOVATIVE
SCIENCES, INC.

_____
Signature

_____
Printed Name and Title

Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that Optionee has read and is familiar with the terms and provisions thereof, and hereby accepts the Option subject to all of the terms and provisions thereof. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board of Directors or the Committee upon any questions arising under the Plan.

OPTIONEE

Date: _____

_____
Signature

_____
Printed Name

Address: _____

_____

_____

_____

Exhibit 10.7

LEASE

between

RNM LAKEVILLE, L.P.,
a California Limited Partnership

as LANDLORD

and

MICROMED LABORATORIES, INC.
a California corporation

as TENANT

October 26, 1999

LEASE

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LEASE

RNM LAKEVILLE, L.P., a California Limited Partnership (with its successors called "Landlord"), and MICROMED LABORATORIES, INC., a California corporation (with its successors called "Tenant"), agree as follows as of October 26, 1999.

1. SUMMARY AND DEFINITIONS: The following definitions and those in Exhibit A apply in this Lease:

1.1. Premises:

(a) The space in the Building at 1129 North McDowell Blvd., Petaluma, California, depicted as Premises on Exhibit B. The Rentable Area of the Premises is estimated to total 8,340 square feet of Rentable Area. The Rentable Areas set forth in this Lease shall be conclusive on Landlord and Tenant.

(b) Notwithstanding the foregoing, until the first day of the seventh (7th) calendar month following the Commencement Date (the "First Expansion Date"), Tenant shall lease, and the term "Premises" shall include, only the approximately 4,000 square feet of Rentable Area designated as Area A on Exhibit B (the "Initial Premises"). Commencing no later than the First Expansion Date, Tenant shall lease, and the term "Premises" shall also include, the First Expansion Premises of approximately 2,000 square feet of Rentable Area designated as Area B on Exhibit B. Commencing no later than on the first day of the thirteenth (13th) calendar month following the Commencement Date (the "Second Expansion Date"), Tenant shall lease, and the term "Premises" shall include, the entire 8,340 square feet of Rentable Area designated on Exhibit B. Notwithstanding the above, Tenant, at its option, may accelerate the First Expansion Date and/or Second Expansion Date by delivering written notice thereof to Landlord not less than sixty (60) days prior to the requested accelerated Expansion Date. On each Expansion Date, Base Rent, Tenant's Share and other terms affected by the Rentable Area of the Premises shall be adjusted to account for changes in the Rentable Area of the Premises leased by Tenant.

1.2. Term:

(a) The Term shall commence on February 14, 2000 (the "Commencement Date")

(b) The Term shall end on the last day of the seventy-second calendar month after the Commencement Date (the "Termination Date"). The Termination Date shall not be in any way extended or advanced unless pursuant to the provisions herein.

1.3. Base Rent and Tenant's Share: Base Rent and Tenant's Share per month during the Term shall be as follows:

Months	Base Rent	Tenant's Share
1 through day before First Expansion Date	$3,400.00	6.83%

Months	Base Rent	Tenant's Share
First Expansion Date through day before Second Expansion Date	$5,100.00	10.25%
Second Expansion Date through month 24	$7,089.00	14.24%
25-36	$7,373.00	
37-48	$7,668.00	
49-60	$7,975.00	
61-72	$8,294.00	

1.4. Use: The Premises shall be used and occupied only for the purpose of general office use, microbiology laboratories, toxicology and chemical testing, research, development, and related manufacturing, and other uses incidental thereto

1.5. Security Deposit: $7,089.00.

1.6. Brokers: Mark Levin of Meridian Commercial, Inc. as Tenant's and Landlord's representative.

1.7. Exhibits: Exhibits A, B, C, D, E, F and G.

2. DEMISE. For the Term, Landlord leases the Premises to Tenant and Tenant leases the same from Landlord, all upon and subject to the terms, covenants and conditions of this Lease. Except as provided herein, Tenant will not enter the Premises until they are tendered by Landlord.

3. CONDITION AND ACCEPTANCE OF PREMISES. Prior to the Commencement Date, Landlord shall replace and repair all damaged ceiling tiles and removed exposed wiring within the Premises Except for the foregoing, Tenant is accepting the Premises AS-IS. By taking possession of the Premises, Tenant shall conclusively evidence that (subject only to matters noted in any punchlist which Tenant may concurrently deliver to Landlord) the Premises are fully completed and are suitable for Tenant's purposes, that the Building, the Common Areas, and the Premises are in good and satisfactory condition to the knowledge of Tenant, and that Tenant waives any defect therein which is or may be known by Tenant or discoverable by Tenant upon reasonable inspection.

4. RENT. All amounts due hereunder from Tenant to Landlord, whether designated as Base Rent, Additional Rent, late charges, interest or otherwise, shall be deemed "rent" hereunder. From the Commencement Date, Tenant will pay Landlord, without prior notice, demand, offset or deduction, the following rent:

4.1. Base Rent. Subject to the provisions of Paragraph 25.10, Tenant will pay the Base Rent (prorated for any partial month) in advance on the first day of each month during the term hereof, except that rent for the first thirty (30) days shall be conditionally abated pursuant to the terms of Paragraph 30.

4.2. Additional Rent. Tenant shall pay Tenant's Share of Operating Expenses and Real Property Taxes. The terms "Tenant's Share", "Operating Expenses" and "Real Property Taxes" are defined in Exhibit A. For partial years, Operating Expenses and Real Property Taxes will be calculated on a full-year basis, and then prorated. Tenant shall pay monthly installments of Additional Rent on the first day of each month, in amounts specified in good faith by Landlord from time to time, which, by the end of each calendar year (or by the Termination Date, if earlier), will total Landlord's estimate of Additional Rent paid for such year. As soon as is reasonably practicable after the end of each calendar year during which Tenant paid Additional Rent based on Landlord's estimates as provided above, Landlord will furnish Tenant a statement of Operating Expenses and Real Property Taxes for such year. Any amounts owing for that year shall, within thirty (30) days, be paid by Tenant to Landlord. Any amounts overpaid shall, at Landlord's option, be credited against the next installment(s) of estimated Additional Rent due from Tenant, or be refunded to Tenant. The parties' obligations with respect to payment or refund of any deficiency or overpayment shall survive termination or expiration of this Lease.

5. SECURITY DEPOSIT. To secure its performance of its obligations under this Lease, Tenant, upon execution of this Lease, will pay Landlord the Security Deposit. At any time the Base Rent payable hereunder increases, Tenant shall increase the Security Deposit by an amount equal to the monthly increase in Base Rent. Landlord may commingle the Security Deposit with other funds. If Tenant defaults with respect to any provisions of this Lease, including but not limited to the provisions relating to the payment of Rent, Additional Rent and any of the monetary sums due herewith, Landlord may use, apply or retain all or any part of this Security Deposit for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of said deposit is so used or applied, Tenant shall, within ten (10) days after written demand therefore, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount, and Tenant's failure to do so shall be a material breach of this Lease. Tenant shall forthwith on demand restore the Security Deposit to its full original amount. If Tenant is not in default at the termination of this Lease, Landlord will return any remaining Security Deposit, without interest upon receipt of Tenant's forwarding address, or as provided by law, whichever is later. Tenant shall not assign or encumber the Security Deposit or attempt to do so, and Landlord shall not be bound by any such assignment or encumbrance. Regardless of any Assignment, Landlord may return the Security Deposit to the original Tenant.

6. UTILITIES; SERVICES. Tenant shall contract for, and pay for, janitorial services for the Premises using such janitorial contractor as Landlord shall approve, which approval shall not be unreasonably withheld. If separately metered or provided, Tenant shall pay prior to delinquency for all water, gas, light, heat, power, electricity, telephone, janitorial service, trash pick-up, sewer charges, and all other services supplied to or consumed on the Premises, and all taxes and surcharges thereon. If such utilities or services are not separately metered or provided, Tenant shall pay Tenant's Share of such

charges. Tenant shall pay to Landlord Tenant's Share of the cost of all utilities and services supplied in connection with the operation of the Common Areas.

7. **USE OF PREMISES**. Tenant will use and occupy the Premises only for the purpose set forth in Paragraph 1.4 and no other, using and maintaining the Premises in a careful, sanitary and proper manner. Tenant shall be solely responsible for obtaining such use permits and other governmental authorization as may be necessary for Tenant's proposed use, and Tenant agrees that obtaining such approvals and authorizations shall not be a condition to the effectiveness of this Lease. Tenant will pay for any damage to any part of the Premises or Building caused by any negligence or willful act by Tenant or Tenant's employees, agents, contractors or invitees. Tenant will comply with the Building's Rules and Regulations and the CC&Rs and will not cause anywhere in the Building, or permit in the Premises, (i) any activity or thing contrary to applicable law, ordinance, regulation, restrictive covenant, or insurance regulation whether now in force or hereafter in force; or which is in any way extra-hazardous or could jeopardize the coverage of normal insurance policies or increase their cost; (ii) waste or nuisance, or any activity causing odors perceptible outside the Premises; (iii) cooking or heating food, except for incidental use, solely for Tenant's employees, of microwave ovens and beverage-brewing devices, provided that the foregoing do not use a flame and are approved by Underwriters Laboratories for residential use; (iv) overloading the floors or the structural or mechanical systems of the Building; or (v) obstruct or interfere with the rights of other tenants or users of the Building. Tenant shall not erect or place any item in or upon the Common Areas. Tenant shall store its waste either inside the Premises or in its own dumpsters located within outside trash enclosures. Tenant shall not store, place or maintain any garbage, trash, rubbish, other refuse or Tenant's personal property in any area of the Common Area or exterior of the Premises at any time. Tenant at its sole expense shall be responsible to maintain and keep the designated trash enclosures free of garbage, trash, rubbish, other refuse or personal property. Tenant shall at Tenant's sole cost and expense faithfully observe and promptly comply with all local, state and federal laws, statutes, ordinances and governmental resolutions, orders, rules, regulations and requirements (including, by way of example, building codes, Title 24, and the Americans With Disabilities Act of 1990) and with the requirements of any board of fire underwriters (or other similar body now or hereafter constituted) whether now in force or which may hereafter be in force with respect to Tenant's use, occupancy, modification or possession of the Premises, Tenant's business conducted in the Premises or the design, equipment condition, use or occupancy of the Premises. Tenant shall also comply with the CC&Rs and any other covenant, condition or restriction affecting the Building. Without limiting the generality of the provisions of this Paragraph 7, as between Landlord and Tenant, Tenant shall make all alterations to the Premises, whether major or minor, reasonably necessary to comply at any time with the requirements referred to in this Paragraph 7.

8. **BROKERS**. Landlord and Tenant warrant that they have had no dealing with any finder, broker or agent other than the Broker in connection with this Lease. Tenant will indemnify, defend and hold Landlord harmless from and against any and all costs, expenses or liability for commissions or other compensation or charges claimed by any finder, broker or agent other than the Broker based on dealings with Tenant with respect

to this Lease. Landlord will indemnify, defend and hold Tenant harmless from and against any and all costs, expenses or liability for commissions or other compensation or charges claimed by any finder, broker or agent other than the Broker based on dealings with Landlord with respect to this Lease. Landlord shall pay the Broker a commission with respect to this Lease pursuant to a separate agreement.

9. TENANT'S TAXES. In addition to Tenant's obligations to pay Real Property Taxes as set forth in Section 4.2, Tenant shall be liable for and shall pay, before delinquency, all taxes levied or assessed against or attributable to any personal property or trade fixtures in the Premises. If any such taxes or value are included in Landlord's taxes, Landlord may pay them regardless of their validity (under proper protest, if requested by Tenant), and Tenant upon demand will repay Landlord.

10. ALTERATIONS, REPAIRS AND MAINTENANCE.

10.1. Repairs and Maintenance.

(a) Landlord shall, as an Operating Expense (except as excluded herein), repair and maintain the exterior roof, exterior walls, foundations and structural portions of the Building and the improvements within the Common Areas and the building standard plumbing, heating, ventilating, air conditioning, and electrical systems serving the Building, and any sidewalks, landscaping (including but not limited to irrigation systems and backflow prevention devices), driveways, parking lots, fences and signs located within the Common Area, unless any such maintenance and repairs are caused in part or in whole by the act, neglect or omission of any duty by Tenant or Tenant's employees, agents, contractors or invitees, in which case Tenant shall pay to Landlord, as Additional Rent, the entire cost of such maintenance and repairs. Landlord shall not, however, be obligated to paint the interior surface of exterior walls, ceiling or doors, nor shall Landlord be required to maintain, repair or replace windows, doors, skylights or plate glass. Landlord shall have no obligation to make repairs under this Paragraph 10.1(a) until a reasonable time after receipt of written notice of the need for such repairs. Landlord shall replace, maintain, repair or patch the roof membrane as an Operating Expense, and Tenant shall pay Tenant's Share of the cost thereof, pursuant to Paragraph 4.2 above. Tenant expressly waives the benefits of any statute (including, without limitation, the provisions of subsection 1 of Section 1932, Section 1941 and Section 1942 of the California Civil Code and any similar law, statute or ordinance now or hereafter in effect) which would otherwise afford Tenant the right to make repairs at Landlord's expense (or to deduct the cost of such repairs from rent due hereunder) or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

(b) In all other regards, Tenant, at Tenant's sole cost and expense, shall keep, maintain and preserve the Premises in first class condition and repair and shall, promptly make all non-structural repairs and replacements to the Premises and every part thereof, including but not limited to floors, ceilings, windows, doors, skylights, interior walls, and the interior surfaces of the exterior walls, plumbing, heating, air conditioning and ventilating equipment, telecommunications equipment and intrabuilding

network cabling, electrical and lighting facilities and equipment including circuit breakers and exterior lighting attached to the Premises if and to the extent such items serve the Premises. In the event Tenant fails to perform Tenant's obligations under this Paragraph, Landlord shall give Tenant notice to do such acts as Landlord deems are reasonably required to so maintain the Premises. If Tenant, within ten (10) days after notice from Landlord, fails to commence to do the work and diligently prosecute it to completion, then Landlord shall have the right (but not the obligation) to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Any amount so expensed by Landlord shall be paid by Tenant promptly after demand as Additional Rent. Landlord shall have no liability to Tenant for any damage, inconvenience or interference with the use of the Premises by Tenant as a result of performing any such work and other communications equipment and lines. Landlord hereby grants to Tenant the nonexclusive right of access through designated portions of the Building for the purpose of installation and maintenance of lines to the Premises.

10.2. Alterations.

(a) Tenant will not make or permit alterations, improvements or additions (including fixtures) in or to the Premises including any alterations or improvements constructed or installed by Tenant prior to the Commencement Date (collectively "Alterations") without Landlord's prior, written consent. Tenant's request for such consent shall be in writing, accompanied by proposed detailed plans and specifications. Any approval by Landlord or Landlord's architects or engineers of any drawings, plans or specifications prepared on behalf of Tenant shall not in any way bind Landlord or constitute a representation or warranty by Landlord as to the adequacy or sufficiency of such drawings, plans or specifications, or the improvement to which they relate, but such approval shall merely evidence the consent of Landlord to Tenant's drawings, plans or specifications. Landlord may require Tenant to provide Landlord, at Tenant's cost and expense, a payment and performance bond in an amount equal to the estimated cost of such Alterations, to insure Landlord against any liability for any mechanic's and materialmen's liens and to insure completion of the work. Alterations will be performed, if Landlord elects, by Landlord or a contractor designated by Landlord, at Tenant's cost and expense. Tenant may engage its own contractors to perform remodel work upon written approval by Landlord. Promptly upon its receipt of written request from Landlord, Tenant shall provide Landlord with certificates of insurance evidencing that Tenant's contractors performing the Alterations work are covered by liability insurance, with carriers and in amounts reasonably acceptable to Landlord, and with Landlord named as an additional insured. Tenant shall promptly upon execution of any construction contract relating to Alterations deliver to Landlord a fully executed copy of such contract. In such event, Landlord shall charge a five percent (5%) administration fee on all construction costs. Any and all plans must be submitted to Landlord for approval and building permits must be obtained prior to commencement of any construction remodeling. All alterations, additions and improvements constructed by Tenant shall remain the property of Tenant during the Lease Term but shall not be damaged, altered, or removed from the Premises. Subject to Paragraph 23, at the expiration or sooner termination of the Lease Term, all alterations, additions, or improvements shall be surrendered to Landlord as a part of the realty and shall then

become Landlord's property. Tenant will promptly notify Landlord of the value thereof for insurance and tax purposes. Tenant will hold Landlord forever harmless against any and all claims, expenses (including taxes) and liabilities of every kind which may arise out of or in any way be connected with any work performed by or on behalf of Tenant.

(b) Tenant shall give Landlord not less than ten (10) days notice prior to the commencement of any work in the Premises by or on behalf of Tenant, and Landlord shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. All Alterations, repairs and replacements by Tenant shall be made, constructed and installed in accordance with all applicable laws, rules and ordinances (and Tenant shall perform all work necessary to comply fully with all laws, ordinances and regulations necessitated by the Alterations, whether structural or nonstructural, within or without the Premises) and the requirements of any insurance carrier, and shall be of a quality and class at least equal to the original work, performed in a good and workmanlike manner with grades of materials approved by Landlord. Tenant will give Landlord opportunity to supervise all work. Tenant shall provide Landlord with permit drawings, as-built sepia drawings, job cards and temporary certificates of occupancy for all Alterations promptly upon their completion. Should Tenant make any Alterations without Landlord's prior written approval, or in violation of such approval or the requirements of this Paragraph 10.2, Landlord may, at any time during the Term, either remove any part or all of the same on Tenant's behalf and at Tenants expense, or require that Tenant do so.

(c) If during the term of this Lease, any alteration, addition or change of any sort, whether structural or otherwise to all or any portion of the Premises or Building is required by law (including, but not limited to, alterations required by the Americans with Disabilities Act of 1990 or any amendments thereto or any regulations prorogated thereunder (collectively the "ADA") because of (i) Tenant's use or occupancy of the Premises or change of use or occupancy of the Premises, (ii) Tenant's application for any permit or governmental approval, (iii) Tenant's construction or installation of any leasehold improvements or trade fixtures, (iv) any violation by Tenant of any Law (including any requirement of the ADA), (v) any special use of the Premises or any part thereof by Tenant or any subtenant or assignee of Tenant (including, but not limited to any use for a facility which constitutes, or if open to the public would generally constitute a "place of public accommodation" under the ADA requirements), or (vi) any special needs of the employees of Tenant or any assignee or subtenant of Tenant, then Tenant shall promptly make the same at its sole cost and expense. Within ten (10) days after receipt, Tenant shall notify Landlord in writing and provide Landlord with copies of (i) any notices alleging any violation of any Law relating to the Premises or Tenant's occupancy or use of the Premises, including any notices alleging violation of the Premises or the ADA to any portion of the Building or the Premises; (ii) any claims made or threatened in writing regarding non-compliance with the ADA or any Law relating to the Building or the Premises; or (iii) any governmental or regulatory actions or investigations instituted or threatened regarding non-compliance with the ADA or any Law relating to any portion of the Building or the Premises.

11. **LIENS**. Tenant shall not permit any lien on any part of the Premises, Building or the Common Areas allegedly resulting from any work or materials furnished or obligations incurred by or for Tenant. Tenant shall discharge any such lien of record immediately upon its filing. Neither this Lease, nor any request or consent of Landlord to the labor, materials or obligations, is a consent to such a lien. Landlord may keep posted on the Premises any notices it deems necessary for protection from such liens. Landlord may cause such liens to be released by any means it deems proper, including payment, at Tenant's expense and without affecting Landlord's rights.

12. **ENTRY**. Landlord may enter any part of the Premises at all reasonable hours (or in any emergency or suspected emergency, at any hour), to (a) inspect, test, clean, or make repairs, alterations and additions to the Building or the Premises as Landlord believes appropriate, or (b) provide any service which Landlord is now or hereafter obligated to furnish to tenants of the Building, or (c) show the Premises to prospective lenders, purchasers or tenants and, if they are vacated, to prepare them for preoccupancy. Tenant hereby waives any claim for abatement of rent or for damages for inconvenience to or interference, loss of occupancy or quiet enjoyment caused by Landlord's entry. Landlord shall at all times have keys to all doors to or in the Premises.

13. **INDEMNIFICATION AND EXCULPATION.**

(a) Subject to 13(b), Tenant will indemnify, defend and hold and save Landlord and its employees, officers, directors, shareholders, partners and agents (each an "lndemnitee") harmless from all fines, suits, losses, costs, expenses, liabilities, claims, demands, actions, damages and judgments ("Liabilities") suffered by, recovered from or asserted against the Indemnitee, of every kind and character, resulting from (i) the operation, condition, maintenance, use or occupancy of the Premises, (ii) any bodily injury, death or property damage occurring in or about the Premises, (iii) any act, omission or neglect of Tenant or its Agents, or (iv) any breach or default in the performance in a timely manner of any obligation on Tenant's part to be performed under this Lease. Tenant, as a material part of the consideration to Landlord, hereby assumes all. risk of damage to property or injury to persons, in, upon or about the Premises arising from any cause and Tenant hereby waives all claims in respect thereof against Landlord.

(b) Landlord will indemnify, defend and hold and save Tenant and its related Indemnitees harmless from and against all Liabilities suffered by, recovered from or asserted against Tenant and its related Indemnitees, of every kind and character, resulting from any injury or damage to person or property within the Building but only to the extent caused by the gross negligence or intentional misconduct of Landlord or its employees, agents, contractors or invitees (not including other tenants of the Building).

(c) If any such proceeding is brought, the indemnifying party will retain counsel reasonably satisfactory to the indemnified party to defend the indemnified party at the indemnifying party's sole cost and expense. All such costs and expenses, including attorneys' fees and court costs, shall be a demand obligation owing by the indemnifying party to the indemnified party. The indemnifying party's obligations under this Paragraph 13 shall survive the termination or expiration of this Lease.

14. **INSURANCE**. Tenant, during the term and any other period of occupancy, will, at its expense, maintain insurance reasonably satisfactory to Landlord, but in no event less than:

(a) General Liability insurance with combined single limits not less than $3,000,000.00, for personal injury or death and property damage occurring in or about or related to the use of the Premises or Tenant's (or its agents, employees or representatives) use of the Building and Common Areas. Such comprehensive general liability insurance shall be extended to include a "blanket contractual liability" endorsement insuring Tenant's performance of Tenant's obligation to indemnify Landlord contained in Section 13 and all of the other broadened liability features normally contained in an extended liability endorsement, including, provided Tenant uses Hazardous Materials pursuant to Paragraph 29 without limitation, "Pollution Liability".

(b) "All Risk" insurance for the full replacement cost of all Tenant's property on the Premises and all fixtures and leasehold improvements in the Premises. Unless this Lease is terminated upon damage or destruction, the proceeds of such insurance will be used to restore the foregoing.

(c) Worker's Compensation (as required by state law), and Employer's Liability insurance in the amount of not less than $500,000.00.

(d) Business Interruption insurance to protect against any interruption or disturbance to Tenant's business conducted in the Premises for at least six (6) months.

All policies required hereunder will be issued by carriers rated A-VII or better by Best's Key Rating Guide and licensed to do business in the State of California. The policies shall name Landlord, Landlord's managing agent and any other person or entity that Landlord may designate from time to time as additional insureds, with primary coverage non-contributing to and not in excess of any insurance Landlord may carry, and shall provide that coverage cannot be cancelled or materially changed except upon thirty (30) days prior written notice to Landlord. At least thirty (30) days prior to expiration of such policies, and promptly upon any other request by Landlord, Tenant shall furnish Landlord with copies of policies, or certificates of insurance, evidencing maintenance and renewal of the required coverage. In the event Tenant does not maintain said insurance, Landlord may, in its sole discretion and without waiving any other remedies hereunder, procure said insurance and Tenant shall pay to Landlord as Additional Rent the cost of said insurance plus a ten percent (10%) administrative fee. If Landlord's lender, insurance advisor or counsel reasonably determines at any time that the amount of such coverage is not adequate, Tenant shall increase such coverage to such amount as Landlord's lender, insurance advisor or counsel reasonably deems adequate. The limit of such insurance shall not limit the liability of Tenant.

During the Term, Landlord shall insure the Building (excluding any property which Tenant is obligated to insure) against damage with All-Risk insurance (including earthquake as commercially available) and public liability insurance, all in such amounts and with such deductibles as Landlord considers appropriate. Landlord may, but shall

not be obligated to, obtain and carry any other form or forms of insurance as it or its Mortgagees may determine advisable. Tenant has no right to receive any proceeds from any insurance policies carried by Landlord. Notwithstanding anything in the foregoing to the contrary, however, Landlord may self-insure.

If the acts or omissions of Tenant or Tenant's employees, agents, contractors or invitees, whether or not Landlord has consented to the same, increase the cost of Landlord's insurance, Tenant will pay the full cost of any such increase as additional rent.

15. **NO SUBROGATION**. The parties shall use their best commercial efforts to obtain property insurance policies affecting the Premises which include a clause or endorsement denying the insurer any rights of subrogation against the other party. Landlord and Tenant waive any rights or recovery against the other for any actually insured injury or loss and any injury or loss required to be insured against hereunder to the extent permitted by the foregoing policies.

16. **DAMAGE OR DESTRUCTION**. If the Premises or any part thereof are damaged by fire or other casualty, Tenant will promptly notify Landlord.

16.1. **Cancellation of Lease; Restoration of Building**. If the Building or the Premises are damaged by fire or other casualty to the extent that substantial alteration or reconstruction is required in Landlord's sole opinion, Landlord may terminate this Lease by notifying Tenant within sixty (60) days after the later of the date the damage occurs, or the date Landlord is so notified by any holder ("Mortgagee") of a mortgage or deed of trust (blanket or otherwise) covering any part of the Building ("Mortgage"), in which event the rent under this Lease will be abated as of the date of the fire or other casualty. In the event Landlord elects to terminate this Lease, Tenant shall have the right within ten (10) days of receipt of the required notice to notify Landlord, in which event this Lease shall continue in full force and effect, and Tenant shall proceed to make such repairs as soon as reasonably possible (or Landlord may elect, in its sole discretion, to require Tenant to pay to Landlord within ten (10) days following written request therefor, or furnish evidence reasonably satisfactory to Landlord of Tenant's ability to fund, that portion of the cost of such repair or restoration which is not covered by insurance proceeds, in which event Landlord shall proceed to make such repairs). If Tenant does not give such notice within the ten (10) day period, this Lease shall be cancelled and terminated as of the date of the occurrence of such damage. All insurance proceeds available from the fire and property damage insurance carried by Landlord pursuant to Paragraph 14 shall be paid to and become the property of Landlord. If this Lease is not terminated, then within seventy-five (75) days after the fire or other casualty, or such greater period as may be reasonably necessary, Landlord will commence to repair and restore the Premises and any portion of the Building required for access to the Premises, and will diligently complete the same, but Landlord is not required (a) to expend more for such repair of the Premises than the net insurance proceeds (after any payment required under any Mortgage) reasonably allocable to the Premises, or (b) to rebuild, repair or replace any of Tenant's furniture, furnishings, fixtures or equipment removable by Tenant under the provisions of this Lease or which Tenant has insured or is required to insure under the provisions of this Lease. Notwithstanding the above, if the damage to

the Building or Premises was caused by the fault, omission or negligence of Tenant, its agents, employees, contractors or invitees, such damage shall be repaired by and at the expense of Tenant under the direction and supervision of Landlord, and there shall be not abatement of rent.

16.2. Casualty Loss During Last Year of Lease. If the Premises are damaged by fire or other casualty during the last twelve (12) months of the Term, whether or not the damage requires substantial repair and reconstruction, Landlord may cancel this Lease as of the date of the fire or casualty by notice to Tenant within thirty (30) days thereafter, provided, however, that if any unexercised option to extend the Term is in then full force and effect, then Tenant may exercise such option within the ten (10) days after receipt of such cancellation and this Lease shall continue in effect for the remainder of the extended Term, subject to all the other provisions hereof.

16.3. Abatement of Rent. Landlord will allow Tenant a fair diminution of rent while and to the extent the Premises are unfit for occupancy due to fire or other casualty. Except as expressly provided to the contrary in this Lease, this Lease will not terminate, and Tenant will not be entitled to damages or to any abatement of rent or other charges, as a result of a fire or other casualty, repair or restoration Tenant hereby waives the provisions of California Civil Code Sections 1932(2) and 1933(4) which permit termination of a lease upon destruction of Premises, and any other present or future statute that may so permit.

17. CONDEMNATION. If all or substantially all of the Building or of the Premises is taken for any public or quasi-public use under any governmental law, ordinance or regulation or by right of eminent domain or is sold to the condemning authority in lieu of condemnation, then this Lease will terminate when physical possession is taken by the condemning authority. If a lesser but material portion of the Building is thus taken or sold (whether or not the Premises are affected thereby), Landlord may terminate this Lease by notice to Tenant within sixty (60) days after the taking or sale, in which event this Lease will terminate when physical possession of the applicable portion of the Building or the Premises is taken by the condemning authority. If the Lease is not terminated, rent payable will be reduced by the amount allocable to any portion of the Premises so taken or sold, and Landlord, at its sole expense, will restore the affected portion of the Building to substantially its former condition as far as commercially feasible, but not beyond the work done by Landlord in originally constructing the affected portion of the Building and installing tenant improvements in the Premises. However, Landlord need not spend more for such restoration of the Premises than the Premises' allocable share of the net compensation or damages received by Landlord for the part of the Building taken. Landlord shall be entitled to receive all of the compensation awarded upon a taking of any part or all of the Building or Premises, including any award for any unexpired term of this Lease. Tenant may seek an award in separate proceedings for its personal property, trade fixtures and moving expenses.

In the event of such taking or sale of the Premises or any part thereof for temporary use of not more than one (1) year, this Lease shall remain unaffected and rent shall not abate, and Tenant shall be entitled to such portion or portions of any award

made for such use with respect to the period of the taking which is within the Term, provided that, if such taking shall remain in force at the expiration or earlier termination of this Lease, Tenant shall then pay to Landlord a sum equal to the reasonable cost of performing Tenant's obligations with respect to surrender of the Premises.

To the extent that it is inconsistent with the provisions of this Paragraph 17, each party hereto hereby waives the provisions of Section 1265.130 of the California Code of Civil Procedure allowing either party to petition a court to terminate this Lease in the event of a partial taking of the Premises.

18. DEFAULTS AND REMEDIES.

18.1. Events of Default. The occurrence of one or more of the following events shall constitute a material default and breach hereunder by Tenant

18.1.1 Tenant fails to make a payment within five (5) days after it is due hereunder; or

18.1.2 Tenant fails to comply with any other obligation under this Lease and does not cure such failure as soon as reasonably practicable and in any event within twenty (20) days after written notice; or

18.1.3 Tenant attempts any Assignment (as defined in Paragraph 19) except as expressly permitted pursuant to Paragraph 19; or

18.1.4 Tenant or any Guarantor becomes insolvent, makes a transfer in fraud of creditors or an assignment for the benefit of creditors, admits in writing its inability to pay its debts as they become due, or files a petition under any Section or Chapter of the United States Bankruptcy Code or any similar law or statute; or an order for relief is entered with respect to Tenant or any Guarantor in any bankruptcy, reorganization or insolvency proceedings; or a pleading seeking such an order is not discharged or denied within sixty (60) days after its filing; or the taking of any action at the corporate or partnership level by Tenant to authorize any of the foregoing actions on behalf of Tenant; or a receiver or trustee is appointed for all or substantially all assets of Tenant or any guarantor or of the Premises or any of Tenant's property located thereon in any proceedings brought by Tenant or Guarantor, or any receiver or trustee is appointed in any proceeding brought against Tenant or Guarantor and not discharged within sixty (60) days after appointment or Tenant or Guarantor does not contest such appointment; or any part of Tenant's estate under this Lease is taken by process of law in any action against Tenant (but in the event the at any provision of this Paragraph 18.1.4 is contrary to any applicable law, such provision shall be of no force or effect); or

18.1.5 Tenant fails to move into or take possession of the Premises within fifteen (15) days after the Commencement Date, or abandons or vacates any substantial portion thereof, or fails for a period of ten (10) consecutive business days to conduct its business therefrom (unless the Premises are untenantable), or removes or attempts to remove substantially all of its removable property; or

18.1.6 Three (3) times within any twelve-month period, Tenant fails to fulfill an obligation under this Lease, even if Tenant thereafter cures such failure within the time provided.

Any notice specified above shall serve as, and not be in addition to, any notice required under California Code of Civil Procedure Section 1161 or otherwise regarding unlawful detainer actions.

18.2. Remedies. On an event of default, Landlord may terminate this Lease by notice to Tenant, or continue this Lease in full force and effect, and/or perform Tenant's obligations on Tenant's behalf and at Tenants expense.

18.2.1 If and when this Lease is so terminated, all rights of Tenant and those claiming under it will terminate. In such event, Landlord may immediately recover from Tenant:

(a) The worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the unamortized principal balance of any suspended rent, moving allowance, Tenant's Allowance, Broker's commission, legal and other professional fees and other costs incurred by Landlord in connection with the entering into of this Lease, using an amortization schedule equal to the initial term of this Lease (or the Extension Term, if any Extension Option has been exercised) and a discount rate of the Prime Rate plus 4% per annum, plus (A) expenses for cleaning, repairing or restoring the Premises; (B) expenses for altering, remodeling or otherwise improving the Premises for the purpose of reletting, including installation of leasehold improvements (whether such installation be funded by a reduction of rent, direct payment or allowance to the succeeding lessee, or otherwise); (C) real estate broker's fees, advertising costs and other expenses of reletting the Premises; (D) costs of carrying the Premises such as taxes and insurance premiums thereon, utilities and security precautions; (E) expenses in retaking possession of the Premises; and (F) attorneys' fees and court costs.

As used in Subsections (a) and (b) above, the "worth at the time of award" is computed by allowing interest at the Prime Rate, plus four percent (4%) per annum (or at the maximum rate permitted by law, whichever is less). As used in Subsection (c) above, the "worth at the time of award" is computed by discounting such amount at the discount

rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Until Tenant confirms in writing that this Lease is terminated, Landlord's failure to relet the Premises shall not constitute a failure to mitigate damages.

18.2.2 Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's breach, even if Tenant has abandoned the Premises, and enforce all of Landlord's rights and remedies under this Lease, including the right to recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations). Until this Lease is terminated as provided above, Landlord may (but shall not be obligated to) sublet all or any portion of the Premises not occupied by Tenant (and, on expiration or termination of any such sublease, may re-sublet) for all or part of the remainder of the Term, on Tenant's behalf and for Tenant's account, on whatever terms and conditions Landlord in Landlord's sole but good faith discretion deems advisable. Tenant agrees that such subletting by Landlord on Tenant's behalf shall not be deemed to constitute termination of Tenant's right to possession within the meaning of California Civil Code Section 1951.4. Against the rents and sums due from Tenant to Landlord during the remainder of the Term, credit will be given Tenant in the net amount of rent received from the new tenant after deduction by Landlord for (a) the costs incurred by Landlord in reletting the Premises (including, without limitation, repair and remodeling costs, brokerage fees, legal fees and the like), and (b) all accrued sums, plus interest and late charges if in arrears, under the terms of this Lease.

18.2.3 Upon an event of default or when Tenant is no longer entitled to possession, Landlord may enter the Premises and dispose of Tenant's property as herein provided, and may perform Tenant's obligations hereunder on Tenant's behalf. Tenant will reimburse Landlord on demand for Landlord's attorneys' fees and other expenses in doing so. This Paragraph 18.2.3 shall survive expiration or termination of this Lease.

18.3. Continuing Liability. No repossession, re-entering or reletting of the Premises or any part thereof by Landlord shall relieve Tenant or any Guarantor of its liabilities and obligations under this Lease except to the extent Landlord has mitigated damages as a result of reletting. Nothing in this Paragraph 18-3 shall reduce or eliminate Landlord's duty to mitigate its damages as required by law.

18.4. Remedies Cumulative. All rights and remedies of Landlord under this Lease will be non-exclusive of and in addition to any other remedies available to Landlord at law or in equity.

18.5. No Waiver. Landlord's failure to insist on strict compliance with any terms hereof or to exercise any right or remedy, does not waive the same. Waiver of any agreement regarding any breach does not affect any subsequent or other breach, unless so stated. A receipt by Landlord of any rent with knowledge of the breach of any covenant or agreement contained in this Lease shall not be a waiver of the breach, and no waiver by Landlord of any violation or provision of this Lease shall be effective unless expressed in writing and signed by Landlord. Payment by Tenant or receipt by Landlord of a lesser amount than due under this Lease may be applied to such of Tenant's obligations as

Landlord elects. No endorsement or statement on any check, and no accompanying letter, shall make the same an accord and satisfaction, and Landlord may accept any check or payment without prejudice to Landlord's right to recover the balance of the rent or pursue any other remedy provided in this Lease.

19. ENCUMBRANCES, ASSIGNMENT AND SUBLETTING. Except upon Landlord's written consent, which shall not be unreasonably withheld or delayed, Tenant may not assign, transfer, or encumber this Lease or any estate or interest herein, or permit the same to occur, or sublet or grant any right of occupancy for any part of the Premises, or permit such occupancy by any other parties other than Tenant and Tenant's employees, or modify or terminate any agreement providing for any of the foregoing (the foregoing collectively referred to as "Transfer," and the other party thereto the "Transferee"). Any prohibited Transfer is voidable by Landlord.

19.1. Conditions of Transfer. Landlord's consent to a Transfer may, without limitation, be conditioned on Landlord's determination whether (a) the Transferee will conduct business of a quality equal to that of Tenant, consistent with the character of the Building and its occupants, and consistent with any exclusives or other rights held by or contemplated for other occupants, and (b) the Transferee's financial responsibility shall equal or exceed that of Tenant and that which is then required by Landlord, whichever is greater. Consent by Landlord to any Transfer shall not be a waiver of Landlord's rights as to any subsequent Transfers. Any approved Transfer shall be expressly subject to the terms and conditions of this Lease. If Tenant's obligations under this Lease have been guaranteed by third parties (herein called "Guarantors"), then Landlord's consent to the Transfer may be conditioned upon Landlord's receipt of the written consent of each Guarantor to such Transfer and the terms thereof. In the event of any Transfer, each transferor and all Guarantors will remain fully responsible and liable for all of Tenant's obligations under this Lease, and the Transferee will automatically be jointly and severally liable to the extent of the transferred portion of the Premises. Upon an event of default, as hereinafter defined, while a Transfer is in effect, Landlord may collect directly from the Transferee all sums becoming due to Tenant under the Transfer and apply this amount against any sums due Landlord by Tenant, and Tenant authorizes and directs any Transferee to make payments directly to Landlord upon notice from Landlord. No direct collection by Landlord from any Transferee shall constitute a novation or release of Tenant ___any Guarantor, a consent to the Transfer or a waiver of the covenant prohibiting Transfers. Landlord ___Tenant's agent, may endorse any check, draft or other instrument payable to Tenant for sums due under a Transfer, and apply the proceeds in accordance with this Lease; this agency is coupled with an interest and is irrevocable.

19.2. Request to Assign or Sublet; Cancellation. With any request for consent to a Transfer, Tenant will submit a copy of the proposed Transfer document to Landlord and notify Landlord of the proposed effective date of the Transfer, the name of the proposed Transferee (accompanied by evidence of the nature, character, and financial condition of the Transferee and its business), and all terms and conditions (including rental) of or relating to the Transfer. Notwithstanding anything to the contrary in this Paragraph 19, within thirty (30) days of such request (or any time, if Tenant enters into any Transfer without obtaining the consent of Landlord), Landlord, by notice to Tenant,

may terminate this Lease (and, in the case of a sublease of less than all of the Premises, Landlord may terminate this Lease in its entirely or may terminate this Lease as to all or any portion of the Premises proposed to be sublet), as of the proposed effective date of the Transfer as if that were the original Termination Date (or immediately, if Tenant enters into the Transfer without obtaining the consent of Landlord). If Landlord so elects to terminate, Landlord shall have the right to relet the Premises (or the portion of the Premises as to which this Lease is terminated pursuant to Landlord's election as a result of a partial sublease) or any portion thereof to anyone (including the proposed Transferee) on any terms, and Tenant shall not be entitled to any portion of any profit Landlord may realize as a result of any such reletting. If this Lease is terminated as to a portion of the Premises as a result of the foregoing, then Base Rent, Tenant's Share of Operating Expenses, Tenant's parking rights (if any), and any other provisions hereof based upon the rentable area of the Premises shall be reduced by the amount allocable to such portion of the Premises so terminated.

19.3. Excess Rent. If the consideration Tenant receives for any Transfer exceeds the rent payable under this Lease for the same period and portion of the Premises and Tenant's subleasing expenses such as broker's commissions, advertising costs and tenant improvements, then the excess shall be immediately due and payable by Tenant to Landlord as Additional Rent under this Lease.

19.4. Transfers to Related Entities. "Transfer" within the meaning of this Paragraph 19 shall not include any sublease or assignment of all or a portion of the Premises to any person, corporation or partnership which controls, is controlled by or is under common control with Tenant, if such affiliated entity assumes Tenant's obligations hereunder. For purposes of this Paragraph 19.4, "control" shall mean ownership of at least 50% of all classes of stock of a corporation, all memberships in a limited liability company or all classes of partners in a partnership. Tenant shall notify Landlord of any such transfer to a related entity prior to its consummation.

20. SUBORDINATION. This Lease and all rights of Tenant under this Lease are subordinate to any of the following, and any modifications thereof, which may now or hereafter affect any portion of the Building: any Mortgage, or any ground or underlying lease covering any part of the Building, provided that the Mortgage holder or ground lessor shall agree that Tenant's peaceable possession of the Premises will not be disturbed on account of such subordination so long as Tenant is not in default and performs all obligations hereunder. On sale by foreclosure of a Mortgage or sale in lieu of foreclosure, Tenant will attorn to the purchaser if requested by such purchaser, and recognize the purchaser as the Landlord under this Lease. These provisions are self-operative and no further instrument is required to effect them; however, upon demand from time to time, Tenant shall execute, acknowledge and deliver to Landlord any instruments necessary or proper to evidence such subordination and/or attornment or, if Landlord so elects, to render any of the foregoing subordinate to this Lease or to any or all rights of Tenant hereunder. Tenant further waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event of any such foreclosure proceeding or sale, and agrees that this

Lease shall not be affected in any way whatsoever by any such proceeding or sale unless the Mortgagee, or the purchaser, shall declare otherwise.

21. **ESTOPPEL CERTIFICATE**. Upon Landlord's written request from time to time, Tenant will execute and deliver to Landlord, within ten (10) days after Tenant's receipt of Landlord's written request, certificates, an example of which is attached hereto as Exhibit D, certifying: (i) the date of commencement of this Lease; (ii) the fact that this Lease is unmodified (except as the certificate specifies) and in full force and effect; (iii) the date to which the sums payable under this Lease have been paid: (iv) that there are no current defaults under this Lease by either Landlord or Tenant except as specified; and (v) such other matters as Landlord requests. This certification may be relied upon by any actual or prospective Mortgagee or purchaser of all or part of the Building or any interest therein or in Landlord. Failure to so execute and deliver said certificate will be conclusive upon Tenant (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) that there are no uncured defaults in Landlord's performance, and (iii) that no more than one (1) month's rental has been paid in advance; and Tenant irrevocably authorizes Landlord, as Tenant's attorney-in-fact and in Tenant's name, to so execute and deliver said certificate.

22. **SIGNS**. Tenant shall be permitted to post a sign (i) on the parapet above its entrance way and (ii) on the existing sign monument outside the Building of such size as it comparable to its relative space in the Building compared to other tenants, all at Tenant's sole cost and expense, and subject to compliance with the CC&Rs, all applicable Laws and Landlord's prior, written consent, which shall not be unreasonably withheld. Tenant shall not place, maintain, or permit on any other exterior door, wall, or window of the Premises, or the Building, any other sign, awning, canopy, marquee, or other advertising without the prior written consent of Landlord in Landlord's sole discretion. If Landlord consents to any sign, awning, canopy, marquee, decoration, or advertising matter, Tenant shall maintain it in good appearance and repair at all times during this Lease. If at the end of the Term, any of the items mentioned in this Section are not removed from the Premises by Tenant, that item may, without damage or liability, be removed and disposed of by Landlord at Tenant's expense.

23. **SURRENDER OF PREMISES**. As soon as its right to possession ends, Tenant will surrender the Premises to Landlord with all originally painted interior walls washed, or re-painted if marked or damaged and other interior walls and doors cleaned and repaired or replaced, all carpets cleaned and in good condition, the HVAC equipment inspected, serviced and repaired by a reputable and licensed service firm and all floors cleaned and waxed and otherwise in as good repair and condition as when Tenant first occupied, except for reasonable wear and tear, and for damage or destruction by fire or other casualty for which Tenant is not otherwise responsible. Tenant will concurrently deliver to Landlord all keys to the Premises, and restore any locks which it has changed to the system which existed at the commencement of the Term. If possession is not immediately surrendered by Tenant, Landlord may enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof.

23.1. Leasehold Improvements and Fixtures. At the expiration or termination of the Term, Landlord may require the removal of any or all Alterations, personal property and equipment from the Premises, and the restoration of the Premises to its condition as when Tenant first occupied, except for reasonable wear and tear, at Tenant's expense. Unless Landlord requires their removal pursuant to this Lease, all Alterations made to the Premises shall remain upon and be surrendered with the Premises at the expiration or termination of the Term. All personal property and equipment on or about the Premises, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises or the Building, shall be removed from the Premises by Tenant (if it is not in default) at the expiration or termination of the Term. All removals by Tenant will be accomplished in a good and workmanlike manner so as not to damage any portion of the Premises or Building, and Tenant will promptly repair and restore all damage done. If Tenant does not so remove any property which it has the right or duty to remove, Landlord may immediately either claim it as abandoned property, or remove, store and dispose of it in any manner Landlord may choose, at Tenant's cost and without liability to Tenant or any other party. Notwithstanding the foregoing, Landlord acknowledges that Tenant will replace the carpet in several rooms with commercial grade linoleum or similar flooring material and agrees that it will not require Tenant to replace the carpet in those rooms so long as the flooring material is in good condition, reasonable wear and tear excepted.

23.2. Holding Over. If Tenant does not surrender the Premises as required and holds over after its right to possession ends, Tenant shall become a tenant at sufferance only, at a monthly rental rate equal to one hundred fifty percent (150%) of the total rent payable in the last prior full month, or the then existing fair market rental, whichever is greater, without renewal, extension or expansion rights, and otherwise subject to the terms, covenants and conditions herein specified, so far as applicable. Nothing other than a fully executed written agreement of the parties creates any other relationship. Tenant is liable for Landlord's loss, costs and damage from such holding over, including, without limitation, those from Landlord's delay in delivering possession to other parties. These provisions are in addition to other rights of Landlord hereunder and as provided by law.

24. PROFESSIONAL FEES. Landlord shall be entitled to reasonable attorneys' fees and all other costs and expenses incurred in the preparation and service of notices of default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such default. In any dispute between the parties (whether or not litigated) arising hereunder or out of Tenant's use or occupancy of the Premises, the prevailing party's reasonable costs and expenses (including fees of attorneys and experts) will be paid or reimbursed by the unsuccessful party.

25. GENERAL PROVISIONS.

25.1. Mortgagee Protection. Tenant shall not sue Landlord for damages or exercise any right to terminate until (a) it gives written notice to any Mortgagee whose name and address have been furnished to Tenant, and (b) a reasonable time for remedying the act or omission giving rise to such suit has elapsed following the giving of the notice, without the same being remedied. During that time, Landlord shall not be

considered in default, and Landlord and/or any Mortgagee and/or their employees, agents or contractors may enter the Premises and do therein whatever may be necessary to remedy the act or omission.

25.2. Transfer of Landlord's Interest. Landlord may transfer, assign or convey any or all of its interest in the Building or its rights under this Lease. Upon transfer of its rights under this Lease, Landlord is freed and relieved of all obligations under this Lease, the transferee shall be deemed to have assumed those obligations, and Tenant will look solely to the successor to Landlord. This Lease shall inure to the benefit of and bind all parties hereto and their respective successors and assigns.

25.3. Waiver. Tenant waives any right it may now or hereafter have (i) to redeem the Premises or to have a continuance of this Lease after termination of the Lease, Tenant's right of occupancy or the Term (ii) for exemption of property from liability for debt or for distress for rent, (iii) relating to notice or delay in levy of execution in case of eviction for nonpayment of rent. The parties agree that in any litigation under this Lease for the relationship it creates, the judge, rather than the jury, shall determine any matters of fact relating to Transfers, bankruptcy or similar matters or to the structural or mechanical systems of the Building.

25.4. Identification of Tenant. If there is more than one party constituting Tenant or any Guarantor, their obligations are joint and several, and Landlord may proceed against any one or more of them before proceeding against the others, nor shall any party constituting Tenant or Guarantor be released for any reason whatsoever, including, without limitation, any amendment of this Lease, any forbearance by Landlord or waiver of any of Landlord's rights, the failure to give any party constituting Tenant or Guarantor any notices, or the release of any party liable for the payment of Tenant's obligations. If there is more than one party constituting Tenant, any of them acts for all others in every regard with respect to this Lease (including but not limited to any renewal, extension, expiration, termination or modification).

25.5. Interpretation of Lease. Tenant acquires no rights by implication from this Lease, and is -not a beneficiary of any past, current or future agreements between Landlord and third parties. Surrender or cancellation of this Lease shall not work a merger, and shall, at Landlord's option, assign to it all subleases or subtenancies. The delivery of keys to Landlord or Landlord's Managing Agent is not a termination of this Lease or a surrender of the Premises. Headings in this Lease are for convenience only, and do not affect the meaning of the text. Unless context indicates otherwise, words of any gender or grammatical number include all genders and numbers. Where context conflicts with the definition of any term, context will control, but only for that use and related uses. If any provision of this Lease or any application thereof is invalid, void or illegal, no other provision or application shall be affected. Time is of the essence of every provision of this Lease. California law governs this Lease. Neither party may record this Lease or a copy or memorandum thereof Submission of this Lease to Tenant is not an offer and Tenant will have no rights hereunder until each party executes a counterpart and delivers it to the other party.

25.6. Limitation on Liability. Landlord's rights hereunder are solely for Landlord's benefit, and Landlord has no duty to exercise them for the benefit of Tenant or others. Any liability of Landlord to Tenant under this Lease, or arising from the relationship under it, is limited to the lesser of (i) the value of the equity interest of Landlord in the Building or (ii) twenty percent (20%) of the value of the Building, and Landlord and Landlord's employees, officers, directors, shareholders, partners and agents shall not be personally liable for any deficiency; but this does not limit or deny any remedies which do not involve personal liability. Tenant shall not, however, name Landlord's employees, officers, directors, shareholders, partners and agents as a defendant in any action seeking to impose personal liability on any one or more of them. If Tenant proposes any action which requires Landlord's consent and such consent is impermissibly withheld, denied or delayed, Tenant may seek an injunction or specific performance but shall not be entitled to damages therefor.

25.7. Financial Statements. Tenant represents, warrants and covenants that financial statements heretofore or hereafter furnished to Landlord, in connection with this Lease, are accurate and are not materially misleading. At any time during the Term, Tenant shall, upon ten (10) days prior written notice, provide Landlord with a current financial statement and financial statements of the two (2) years prior to the current financial statement year, and prepared in accordance with generally accepted accounting principles and, if such is Tenant's normal practice, audited by an independent certified public accountant.

25.8. Quiet Enjoyment. If Tenant pays all sums and performs all its other obligations under this Lease, Tenant shall and may peaceably and quietly have, hold and enjoy the Premises, subject to this Lease and to rights to which the Lease is subordinate. Tenant acknowledges that it may be subject to inconveniences typical of projects under development such as construction, maintenance and repair in other areas of the Building, and further acknowledges that the Building is subject to sight, sound and over flight by general aviation aircraft.

25.9. Payments and Notices. Any notice or document shall be considered received when personally delivered by mail, messenger, overnight courier or otherwise to, or whether actually received or not, on the third day after deposit in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed to the parties hereto at the respective addresses set forth on the signature page of this Lease, or to Tenant at the Premises, or at such other address as they may specify from time to time by written notice delivered in accordance with this Paragraph 25.9, except that if such day is not a business day, the notice or document will be considered delivered on the next business day. All payments required to be made by Tenant to Landlord are to be paid, without prior demand except as may be specified and without any setoff, deduction or counterclaim whatsoever, in legal tender of the United States of America at the address set forth on the invoice or, if no invoice is submitted or no address is set forth, at the address for the Landlord set forth on this Lease or at any other address as Landlord may specify from time to time by written notice in accordance with this Paragraph 25.9.

25.10. Late Payments. If any amounts due hereunder from Tenant are not received by Landlord within five (5) days after said amounts are due, Tenant shall also pay to Landlord a late charge of five percent (5%) of all such past due amounts for which the parties agree is a fair and reasonable estimate of the extra costs (including, without limitation, processing and accounting charges) Landlord will incur by reason of the late payment. Acceptance of any late charge shall not constitute a waiver of Tenant's default with respect to such overdue amount, or prevent Landlord from exercising any of its other rights and remedies. Any amounts overdue from Tenant hereunder shall accrue interest from the date due at the Prime Rate plus four percent (4%) per annum. If Tenant is late in the payment of Base Rent for two (2) consecutive months, Landlord may require Tenant to pay Base Rent in advance on a quarterly basis. If any check or other payment device is returned due to insufficient funds or any other reason, Landlord may require all future payments to be made by money order or cashier's check.

25.11. Rules and Regulations. Tenant shall comply with the Rules and Regulations (as changed from time to time as therein provided) attached hereto as Exhibit E.

25.12. Rights Reserved by Landlord. In addition to other rights retained or reserved, Landlord reserves the following rights, exercisable without notice and without liability to Tenant and without effecting an eviction, constructive or actual, or in any way diminishing Tenant's obligations: (a) to change the name or street address of the Building; (b) to install and maintain, modify or remove any signs on the exterior and interior of the Building; (c) to designate and approve, prior to installation, all types of interior and exterior window treatments and to control all internal lighting that may be visible from the exterior of the Building; (d) the exclusive right to designate, limit, restrict and control any business and any service in or to the Building or its tenants; (e) to keep, and to use in appropriate instances, keys to all doors within and into the Premises (no locks shall be changed or added without the prior, written consent of Landlord). (f) to decorate and make repairs, alterations or additions, whether structural or otherwise, in and about any part of the Building and to enter the Premises for these purposes and, during such work, to temporarily close doors, entryways, public space and corridors in the Building, to interrupt or temporarily suspend Building services and facilities and to change the arrangement and location of entrances or passageways, windows, doors and doorways, corridors, elevators, stairs, toilets, or other public parts of the Building; (g) to approve the weight, size and location of safes and other heavy equipment and articles in and about the Premises and the Building, and to require all such items and furniture to be moved into and out of the Building and Premises only at times and in such manner as Landlord directs (movement of Tenant's property is entirely at the risk and responsibility of Tenant, and Landlord reserves the right to require permits before allowing any property to be moved into or out of the Building); (h) to have access for Landlord and other tenants of the Building to any mail receptacles located in the Building according to the rules of the United States Postal Service; (i) to close any part of the Common Areas to the extent necessary in Landlord's opinion to prevent the accrual of any prescriptive rights, to temporarily close any part of the Common Areas to repair and maintain them or for any other reasonable purpose, or to change the nature of the Common Areas, including without limitation changes in the location, size, shape, and number of

driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, and walkways; and (j) to take all reasonable measures Landlord considers advisable for the security of the Building and its occupants.

25.13. Responsibility for Others. Where either party waives rights against the other party, it also waives the same rights against the other party's employees, officers, directors, shareholders, partners, agents, contractors and invitees. The waiver shall be considered a waiver on behalf of the party making it, of all that party's employees, officers, directors, shareholders, partners and agents, and of anyone claiming under any of them, including insurers and creditors. Wherever in this Lease Tenant agrees not to do a particular thing, Tenant also agrees not to permit its employees, agents, contractors or invitees to do so.

25.14. Landlord's Costs. Where Tenant is required to pay or reimburse Landlord for the costs of any item, the cost shall be the reasonable and customary charge established by Landlord from time to time, including a reasonable allocation of Landlord's overhead, administrative and related costs associated with the ownership and operation of the Building. Failure to pay any reimbursable cost shall be treated as a failure to pay rent. In connection with any request by Tenant for the consent of Landlord to an Alteration, Transfer or other act proposed by Tenant under this Lease, Tenant shall pay Landlord's reasonable costs and expenses incurred in connection therewith, including attorneys', architects', engineers' and other consultants' fees.

25.15. Invoices. Tenant will promptly notify Landlord of any dispute it may have regarding Landlord's invoices. If Tenant does not notify Landlord within thirty (30) days after receiving the invoice, it shall be conclusively deemed to have agreed to the invoice and all underlying acts.

25.16. Force Majeure. When a period of time is herein prescribed for action to be taken by Landlord, Landlord shall not be liable or responsible for, and there is excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions or any other cause of any kind whatsoever which are beyond the control of Landlord. Subject to the preceding sentence, time is of the essence of every part of this Lease.

25.17. Lender Modification. Tenant agrees to make such reasonable modifications to this Lease as may reasonably be required in connection with the obtaining of normal financing or refinancing of the Building.

25.18. Negotiated Transaction. The parties mutually acknowledge that this Lease has been negotiated at arm's length. The provisions of this Lease shall be deemed to have been drafted by all of the parties and this Lease shall not be interpreted or constructed against any party solely by virtue of the fact that such party or its counsel was responsible for its preparation.

25.19. Confidentiality. Tenant hereby agrees not to disclose the terms of this Lease (specifically including, without limitation, the rent or rental rate to be paid by Tenant hereunder and/or any tenant improvement allowance to be furnished by Landlord to Tenant) to any existing or prospective tenant of the Building or other third party; provided, however, Tenant may disclose the terms of this Lease to its accountant, bookkeeper or tax advisor or any employee of Tenant who has a need to know such information for a legitimate business purpose, or if Tenant is otherwise required to disclose such confidential information as permitted hereunder of the requirements of this Paragraph and shall require each such person to comply with such confidentiality requirements. In the event Tenant or any person to whom it discloses such confidential information fails in any respect to comply with its obligations under this Paragraph, Tenant shall be liable to Landlord for breach of this Paragraph 25.19, and Landlord may bring an action against Tenant for damages as a result of such breach. In addition, nothing stated herein shall preclude or prohibit Landlord from seeking an injunction to prevent disclosure of such confidential information or an order compelling specific protection of such confidential information. The provisions of this Paragraph 25.19 shall survive the termination of this Lease.

THIS LEASE CONTAINS ALL AGREEMENTS OF THE PARTIES CONCERNING THIS SUBJECT MATTER, SUPERSEDING ANY SUCH PRIOR AGREEMENTS, REPRESENTATIONS OR WARRANTIES, AND MAY BE AMENDED OR MODIFIED ONLY BY A WRITTEN AGREEMENT SIGNED BY BOTH PARTIES.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first above written.

LANDLORD'S ADDRESS

c/o RNM Properties
135 Main Street, Suite 1140
San Francisco, CA 94105

Attention: John R. McNulty

TENANT'S ADDRESS

_____

_____

_____

Attention: _____

Tenant and the person executing this Lease on Tenant's behalf represent and warrant that they are duly authorized and empowered so to execute and deliver this Lease, and that this Lease is binding upon Tenant in accordance with its terms.

LANDLORD

RNM LAKEVILLE, L.P., a California Limited Partnership

By RNM PETALUMA, INC., a California corporation, its Managing General Partner

By: /s/ John R. McNulty
John R. McNulty, Its President

Date: 10/28/99

TENANT:

MICROMED LABORATORIES, INC., a California corporation

By: /s/ Hojabr Alimi
(signature)

Hojabr Alimi
(print name)

Its
President, CEO
(insert title)

Date: 10/26/99

ADDENDUM
TO LEASE

This Addendum is made and entered into by and between RNM Lakeville, L.P., a California Limited Partnership, as Landlord, and MICROMED LABORATORIES, INC., a California corporation, as Tenant, and is dated as of the date set forth on the first page of the Lease between Landlord and Tenant to which this Addendum is attached (the "Lease"). The promises, covenants, agreements and declarations made and set forth herein are intended to and shall have the same force and effect as if set forth at length in the body of the Lease. To the extent that the provisions of this Addendum are inconsistent with the terms and conditions of the Lease, the terms of this Addendum shall control.

26. TENANT'S EXTENSION OPTION.

26.1. Grant of Option. Tenant shall have the right and option (the "Extension Option") to extend the Term of this Lease for two additional period of three (3) years each (each an "Extension Term"), commencing immediately upon expiration of the then expiring Lease term (each, an "Adjustment Date"), upon and subject to the terms, conditions and provisions below.

26.2. Exercise of Extension Option. To exercise an Extension Option to extend the term of this Lease for an Extension Term, Tenant must deliver written notice of Tenant's intention to exercise the Extension Option to Landlord not earlier than nine (9) months and not later than six (6) months prior to the expiration of the Term. If Landlord does not receive such notice from Tenant by that time, then Tenant's Extension Option (and any subsequent Extension Option) shall forever lapse unexercised and be of no further force or effect whatsoever.

26.3. Effect of Exercise of Extension Option. If Tenant timely exercises an Extension Option as provided herein, the term of this Lease shall (by delivery of Tenant's notice of exercise to Landlord and without further action by Landlord or Tenant) be extended for the Extension Term, upon and subject to all of the terms, conditions and provisions set forth in this Lease, except as provided below, and except that the Base Rent for the Extension Term shall equal to the Market Rate (determined as provided below) for said period and Tenant shall have one fewer option to extend or renew. There shall be no broker's commission payable with respect to any Extension Term.

26.4. Definition of Market Rate. As used in this Lease, the "Market Rate" shall be the net effective fair market rental rate based on comparable lease transactions in comparable projects located in the Lakeville/Petaluma market area, all based on the best information available at the time of determination of the Market Rate. The Market Rate shall be based on prevailing rentals then being charged to tenants in comparable buildings in the immediate area, or if none are comparable, in the Lakeville/Petaluma market area, for space of equivalent quality, size and location (or adjusting the rental rate as appropriate for differences therein), taking into such account the size, nature and stature of the tenant, the length of the Extension Option period during which such rate will

apply, and differences in terms and provisions of the applicable leases, such as pass-throughs of operating expenses and taxes, and the fact that no tenant improvement allowance will be provided. The Market Rate shall not be reduced on account of any differences in leasing commissions and shall not include the value of any Alterations made and paid for by Tenant.

26.5. Determination of Market Rate. If Tenant timely exercises an Extension Option, then, during the thirty (30) day period following Landlord's receipt of Tenant's notice of exercise of Tenant's Extension Option, Landlord and Tenant shall meet and negotiate in good faith to agree upon the Market Rate. If Landlord and Tenant are unable to agree upon the Market Rate prior to the expiration of said thirty (30) day period, then Tenant's exercise of its Extension Option shall be deemed revoked, and the Lease shall terminate as of the Termination Date hereunder.

26.6. Limitations on Extension Option. Time is of the essence as to the exercise of Tenant's Extension Option. If Landlord does not timely receive delivery of Tenant's notice of exercise of Tenant's Extension Option, the option shall expire, lapse unexercised and be of no further force or effect whatsoever, and Tenant shall have no further option to extend. Tenant's Extension Option is conditioned upon Tenant's full, faithful and timely performance and observation of all obligations and provisions to be performed or observed by Tenant under this Lease. Any election to exercise the Extension Option shall be null and void at the option of Landlord (A) if Tenant is in default hereunder at any time during the Term of the Lease or at the time of such notice or at the Adjustment Date, or (B) if the named Tenant hereunder does not, at both the time of exercise of the option to extend and the Adjustment Date, occupy all of the Premises (it being the intent of the parties to this Lease that such extension option is personal to the original Tenant hereunder, and shall not be assignable to or exercisable by or for the benefit of any assignee, sublessee or other transferee of the original Tenant hereunder). Transfer of all or any portion of Tenants rights under this Paragraph 26 is absolutely prohibited.

27. RIGHT OF FIRST REFUSAL.

27.1. Grant. As of the Commencement Date, Landlord grants to Tenant a right of first refusal (the "Right of First Refusal") to expand the Premises leased hereunder to include approximately 5,413 square feet of Rentable Area contiguous to the Premises as designated as Area C on Exhibit B (the "Additional Premises") on a coterminous basis with this Lease and on the same terms and conditions as set forth in this Lease. If, at any time during the term of this Right of First Refusal, the Additional Premises becomes available to lease, Landlord shall notify Tenant in writing of the availability of such Additional Premises and the date upon which it will be available ("Landlord's Notice"). If Tenant desires to exercise the Right of First Refusal, then Tenant must irrevocably and unconditionally exercise its right in writing by delivering written notice thereof to Landlord within ten (10) business days after Landlord's Notice. If Tenant fails to exercise its Right of First Refusal within the time period set forth above, then its Right of First Refusal shall lapse and be of no further force or effect. Notwithstanding the above, in the event that less than twenty-four (24) months are remaining in the then current term

of this Lease, then, as a condition to entering into any lease with respect to the Additional Premises, Tenant must exercise its next Extension Option, if any.

27.2. Limitations of Right of First Refusal. Any election to exercise its Right of First Refusal shall be null and void at the option of Landlord if Tenant is in default hereunder beyond applicable notice and cure periods at the time of Landlord's Notice or Tenant's exercise of its Right of First Refusal or on the date of the commencement of Tenant's leasing of the Additional Premises. In addition, Tenant's Right of First Refusal shall be subject to any and all extension options, rights of first offer or refusal granted by Landlord prior to the date of this Lease.

27.3. Lease Terms After Exercise. If Tenant's Right of First Refusal is duly exercised, then the terms and conditions of this Lease shall remain in full force and effect, except that Landlord and Tenant shall promptly thereafter execute an amendment to this Lease modifying the definitions of Premises, Tenant's Share of Operating Expenses, Base Rent, and such other provisions as may be appropriate to incorporate the Additional Premises, including without limitation parking allocations, maintenance, and pass throughs.

28. PARKING. Tenant shall be entitled to the non-exclusive use of up to 2 unreserved and unassigned parking spaces in the Common Areas per thousand feet of Rentable Area within the Premises, in accordance with Landlord's rules and regulations as may be amended from time to time. Tenant shall not park any vehicle other than ordinary passenger vehicles in the Common Areas, except for loading purposes. Loading and loading is permitted only on designated loading docks or areas. Tenant shall not at any time park or permit the parking of Tenants vehicles or trucks, or the vehicles or trucks of Tenant, its employees, invitees, suppliers or others, in any portion of the Common Area not designated by Landlord for such use by Tenant. Tenant shall not abandon any inoperative vehicles or equipment on any portion of the Common Area, nor shall Tenant, its employees, invitees, suppliers or others park or store any vehicle (permitted size or otherwise) on any portion of the Common Area, including designated parking areas, unattended for any period longer than twenty-four (24) hours. Vehicles parked in violation of this Section shall be subject to towing at Tenant's expense.

29. HAZARDOUS MATERIAL.

29.1. Use Restrictions. Tenant shall not use, generate, manufacture, produce, store, release, discharge or dispose of, on, under or about the Premises, or transport to or from the Premises, any Hazardous Materials or allow its employees, Agents, contractors, invitees or any other person or entity to do so except in full compliance with all Federal, state and local laws, regulations and ordinances and this Agreement. The term "Hazardous Materials" shall include without limitation: (1) Those substances included within the definitions of "hazardous substances", "hazardous materials", "toxic substances" or "solid waste" under CERCLA, RCRA and the Hazardous Materials Transportation Act, 49 U.S.C. Sections 1801, et seq. and in the regulations promulgated pursuant to said Laws, (2) Those substances defined as "hazardous wastes" in Section 25117 of the California Health & Safety Code, or as "hazardous substances" in Section

25316 of the California Health & Safety Code, and in the regulations promulgated pursuant to said Laws; (3) Those substances listed in the United States Department of Transportation Table (49 CFR 172.101 and amendments thereto) or designated by the Environmental Protection Agency (or any successor agency) as hazardous substances; (4) Such other substances, materials and wastes which are or become regulated under applicable local, state or federal Law or the United States government, or which are or become classified as hazardous or toxic under federal, state or local Laws or regulations; and (5) Any material, waste or substance which is (i) petroleum, (ii) asbestos, (iii) polychlorinated biphenyls, (iv) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act of 1977, 33 U.S.C. Sections 1251, et seq. (33 U.S.C. Section 1321) or listed pursuant to Section 307 of the Clean Water Act of 1977 (33 U.S.C Section 1317), (v) flammable explosives, or (vi) radioactive materials.

29.2. Tenant's Indemnity. Tenant shall be liable to Landlord for and indemnify and hold Landlord harmless against all damages (including investigation and remedial costs), liabilities, losses (including diminution of value of the Premises), fines, penalties, fees, and claims arising out of Tenant's and Tenant's agents' activities associated with Hazardous Materials, including all costs and expenses incurred by Landlord in remediating, cleaning up, investigating or responding to any governmental or third party claims, demands, orders or enforcement actions. In the event Tenant and/or Tenant's agents' activities with Hazardous Materials create a contamination problem on or adjacent to the Premises, the Building, Tenant shall promptly commence investigation and remedial activities to fully clean up the problem. If appropriate or required by law, these activities shall be conducted in conjunction with Federal, state and local oversight and approvals. If any action of any kind is required or requested to be taken by any governmental authority to clean-up, remove remediate or monitor any Hazardous Materials (the presence of which is the result of the acts or omissions of Tenant or its Agents) and such action is not completed prior to the expiration or earlier termination of the Lease, Tenant shall be deemed to have impermissibly held over until such time as such required action is completed, and Landlord shall be entitled to all damages directly or indirectly incurred in connection with such holding over, including, without limitation, damages occasioned by the inability to re-let the Premises or a reduction of the fair market and/or rental value of the Premises.

29.3. Assignment and Subletting. It shall not be unreasonable for Landlord to withhold its consent to any proposed assignment or subletting if (i) the proposed assignee's or subtenant's anticipated use of the Premises involves the storage, generation, discharge, transport, use or disposal of any Hazardous Material in a greater intensity and scope than Tenant's then-existing use, or (ii) the proposed assignee or subtenant has been required by any prior landlord, Lender or governmental authority to "clean-up" or remediate any Hazardous Material and has failed to do so, or (iii) the proposed assignee or subtenant is subject to a criminal investigation or enforcement order or proceeding by any government authority in connection with the use, generation, discharge, transport, disposal or storage of any Hazardous Material.

29.4. List of Hazardous Materials. Upon request of Landlord, Tenant shall provide Landlord with a list of Hazardous Materials (and the quantities thereof) which

Tenant uses or stores (or intends to use or store) on the Premises, which list shall be attached to this Lease as Exhibit F.

(a) Prior to Tenant using, handling, transporting or storing any Hazardous Material at or about the Premises, Tenant shall submit to Landlord a Hazardous Materials Management Plan ("HMMP") for Landlord's review and approval, which approval shall not be unreasonably withheld. The HMMP shall describe: (aa) the quantities of each material to be used, (bb) the purpose for which each material is to be used, (cc) the method of storage of each material, (dd) the method of transporting each material to and from the Premises and within the Premises (ee) the methods Tenant will employ to monitor the use of the material and to detect any leaks or potential hazards, and (ff) any other information any department of any governmental entity (city, state or federal) requires prior to the issuance of any required permit for the Premises or during Tenant's occupancy of the Premises. Landlord may, but shall have no obligation to review and approve the foregoing information and HMMP, and such review and approval or failure to review and approve shall not act as an estoppel or otherwise waive Landlord's rights under this Lease or relieve Tenant of its obligations under this Lease. If Landlord determines in good faith by inspection of the Premises or review of the HMMP that the methods in use or described by Tenant are not adequate in Landlord's good faith judgment to prevent or eliminate the existence of environmental hazards, then Tenant shall not use, handle, transport, or store such Hazardous Materials at or about the Premises unless and until such methods are approved by Landlord in good faith and added to an approved HMMP. Once approved by Landlord, Tenant shall strictly comply with the HMMP and shall not change its use, operations or procedures with respect to Hazardous Materials without submitting an amended HMMP for Landlord's review and approval as provided above.

(b) Tenant shall pay to Landlord when Tenant submits an HMMP (or amended HMMP) the amount reasonably determined by Landlord to cover all Landlord's costs and expenses reasonably incurred in connection with Landlord's review of the HMMP which costs and expenses shall include, among other things, all reasonable out-of-pocket fees of attorneys, architects, or other consultants incurred by Landlord in connection with Landlord's review of the HMMP. Landlord shall have no obligation to consider a request for consent to a proposed HMMP unless and until Tenant has paid all such costs and expenses to Landlord irrespective of whether Landlord consent to such proposed HMMP. Tenant shall pay to Landlord on demand the excess, if any, of such costs and expenses actually incurred by Landlord over the amount of such costs and expenses actually paid by Tenant over the amount such costs and expenses actually incurred by Landlord. Tenant shall immediately notify Landlord of any inquiry, test, investigation, enforcement proceeding by or against Tenant or the Premises concerning any Hazardous Material. Any remediation plan prepared by or on behalf of Tenant must be submitted to Landlord prior to conducting any work pursuant to such plan and prior to submittal to any applicable government authority and shall be subject to Landlord's consent. Tenant acknowledges that Landlord, as the owner of the Property, at its election, shall have the sole right to negotiate, defend, approve and appeal any action taken or order issued with regard to any Hazardous Material by any applicable governmental authority. Landlord shall have the right to appoint a consultant to conduct

an investigation to determine whether any Hazardous Material is being used, generated, discharged, transported to or from, stored or disposed of in, on, over, through, or about the Premises, in an appropriate and lawful manner and in compliance with the requirements of this Lease. Tenant, at its expense, shall comply with all reasonable recommendations of the consultant required to conform Tenant's use, storage or disposal of Hazardous Materials to the requirements of applicable Law or to fulfill the obligations of Tenant hereunder.

29.5. Landlord's Indemnity. Landlord shall be liable to Tenant for and indemnify and hold Tenant harmless against all damages (including investigation and remedial costs), liabilities and claims arising out of Landlord's and Landlord's agents' activities associated with Hazardous Materials, and arising out of any Hazardous Materials existing on or under the Building as of the Commencement Date, including all costs and expenses incurred by Tenant in remediating, cleaning up, investigating or responding to any governmental or third party claims, demands, orders or enforcement actions.

29.6. Provisions Survive Termination. Upon the expiration or earlier termination of the Lease, Tenant, at its sole cost, shall remove all Hazardous Materials from the Premises that Tenant or its Agents introduced to the Premises. The provisions of this Section 29 shall survive the expiration or termination of this Lease.

30. CONDITIONAL ABATEMENT OF BASE RENT. As consideration for Tenant's performance of all obligations to be performed by Tenant under this Lease, Landlord shall forbear from demanding payment of the first thirty (30) days of Base Rent (the "Suspended Rent"), provided that and so long as Tenant timely and fully performs all obligations of Tenant under this Lease. Should Tenant at any time be in default under the Lease (beyond any applicable grace or cure period), then the Suspended Rent so conditionally excused shall be immediately due and payable by Tenant to Landlord. If at the date of expiration of the term of this Lease, Tenant is not in default under this Lease, then Landlord shall unconditionally waive any payment by Tenant to Landlord of the Suspended Rent.

EXHIBIT A

LEASE
Definitions

Building means the building in which the Premises are located, identified as 1129 North McDowell Blvd., Petaluma, California. The total Rentable Area of the Building is 58,558 square feet.

Business days means Monday through Friday, except holidays; "holidays" means those holidays specified by the laws of the United States or State of California, and all holidays to which maintenance employees of the Building are entitled from time to time under their union contract or other agreement.

CC&Rs means all matters of public record affecting title to the Building or the use thereof, including without limitation that certain Covenants, Conditions and Restrictions recorded October 1, 1979 in Book 3630 of official records, Page 901, Sonoma County Records, as amended to date.

Common Areas means all areas within the Building and surrounding areas of the property which are not designated for the exclusive use of Tenant, Landlord or any other tenant, including but not limited to parking areas, loading and unloading areas and docks, platforms, trash areas, roadways, sidewalks, landscaping, ramps, driveways, recreations areas, greenbelts, common entrances, lobbies, restrooms, elevators, stairways and accessways, and the common pipes, conduits, wires and appurtenant equipment serving the Premises, and similar areas and facilities appurtenant to the Building and the property.

Guarantor means any guarantor of any of Tenant's obligations under this Lease.

Law or Laws means governmental laws, rules, regulations, orders, decrees, ordinances and directives as are applicable to the conduct or condition referenced in this Lease.

Lease Years means successive periods of twelve (12) full calendar months, beginning on the Commencement Date. If the Commencement Date is not the first day of a month, then the first Lease Year also includes the partial month in which the Commencement Date occurs.

Mortgage means any mortgage or Deed of Trust, blanket or otherwise, covering any part of the Building.

Mortgagee means the holder of a Mortgage.

Operating Expenses means any and all costs, expenses and disbursements of every kind and character which Landlord incurs, pays or becomes obligated to pay at any time during the Term in connection with its ownership interest in the Building and Common Areas and associated land and parking, or the operation, maintenance, management, repair, replacement, and security thereof; plus, with respect to such costs, expenses, and disbursements for the Building which do not exclusively pertain to a single building, the portion which Landlord reasonably allocates to the Building. Operating costs include, without limitation, any and all

assessments Landlord must pay pursuant to the CC&Rs and any other covenants, conditions or restrictions, reciprocal easement agreements, tenancy-in-common agreements or similar restrictions and agreements affecting the Building or Common Areas; rent taxes, gross receipt taxes (whether assessed against Landlord or assessed against Tenant and paid by Landlord, or both); water and sewer charges, accounting, legal and other consulting fees; the net cost and expense of insurance, including loss of rents coverage, for which Landlord is responsible hereunder or which Landlord or any Mortgagee reasonably deems necessary or desirable (including losses borne by Landlord as a result of deductibles carried by Landlord under any insurance policy or self insurance by Landlord); utilities not paid directly by Tenant; security; labor, utilities surcharges, or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations or interpretations thereof, promulgated by any federal, state, regional, municipal or local government authority in connection with the use or occupancy of the Building or the Common Areas; the cost (amortized over such reasonable period as Landlord shall determine together with interest at the Prime Rate on the unamortized balance) of any equipment used in connection with the operation of the Building, and of any capital improvements which can be reasonably be expected to reduce Operating Expenses that would otherwise be incurred or which are made or installed in order to comply with any statutes, rules, regulations or directives hereafter promulgated by any governmental authority, including but not limited to the Americans with Disabilities Act; costs incurred in the management of the Building (including supplies, wages and salaries of employees used in the management, operation, repair and maintenance of the Building, and payroll taxes and similar governmental charges with respect thereto, Building management office rental, a management fee and, if Landlord is directly participating in the administration of the Building, Landlord's expenses of such administration, not to exceed three percent (3%) of the annual rent (Base Rent and Additional Rent excluding therefrom such fee); air conditioning; waste disposal; heating, ventilating; elevator maintenance and supplies; materials; equipment tools; repair and maintenance of the Building, including the structural portion of the Building, and the plumbing, heating, ventilating, air conditioning, electrical and building management systems installed or furnished by Landlord; maintenance costs, including utilities and payroll expenses, rental of personal property used in maintenance, gardening and landscaping, repaving and all other upkeep of all Common Areas; maintenance of signs (other than Tenant's signs); personal property taxes levied on or attributable to personal property used in connection with the entire Building or Common Areas, including the Common Areas; reasonable audit or verification fees; costs and expenses of repairs, resurfacing, repairing, maintenance, painting, lighting, cleaning, refuse removal, security and similar items, including appropriate reserves; and costs reasonably incurred to reduce or contest Real Property Taxes and other Operating Expenses. Operating Expenses shall not include depreciation on the Building or equipment therein, Landlord's executive salaries, real estate brokers' commissions, interest and amortization on mortgages or ground lease payments, or (except as explicitly included above) costs required to be capitalized. Operating Expenses paid or incurred by Landlord during any calendar year of the Lease term during which the occupancy rate in the Building is less than ninety-five percent (95%) shall be adjusted upward to reflect (i) a ninety-five percent (95%) occupancy rate for the Building, and (ii) assuming a tax appraisal of the Building as though it were completed and fully-occupied.

Notwithstanding the above, Operating Expenses shall not include the following:

(i) Interest, principal, depreciation, and other lender costs and closing costs on any mortgage or mortgages, or other debt instrument encumbering the Building;

(ii) Any bad debt loss, rent loss, or reserves for bad debt or rent loss;

(iii) Costs associated with operation of the business of the ownership of the Building or entity that constitutes Landlord or Landlord's property manager, as distinguished from the cost of Building operations, including the costs of partnership or corporate accounting and legal matters, selling or syndicating any of Landlord's interest in the Building, and disputes between Landlord and Landlord's property manager;

(iv) Landlord's general corporate or partnership overhead and general administrative expenses, including the salaries of management personnel who are not directly related to the Building and primarily engaged in the operation, maintenance, and repair of the Building;

(v) Advertising and promotional expenditures primarily directed toward leasing tenant space in the Building;

(vi) Leasing commissions, space-planning costs, attorney fees and costs, disbursements, and other expenses all incurred in connection with leasing, other negotiations, or disputes with tenants, occupants, prospective tenants, or other prospective occupants of the Building, or associated with the enforcement of any leases;

(vii) Costs incurred (including permit, license, and inspection fees but excluding utilities) or cash consideration paid in renovating or otherwise improving, decorating, painting, or redecorating space for tenants, prospective tenants, or other occupants or in renovating or redecorating vacant space available for those tenants, prospective tenants, or other occupants. This exclusion does not apply to remove from Operating Expenses the costs of maintenance and repair provided to the tenants of the Building in general or of the Common Areas;

(viii) Charitable or political contributions;

(ix) Costs for which Landlord is reimbursed;

(x) Damage or loss results from any casualty which Landlord has covenanted to insure against, except to the extent of deductibles contemplated herein;

(xi) Any costs or expenses that are incurred directly or indirectly with respect to Landlord's indemnity obligations under this Lease; and

(xii) Fees paid to any affiliate or party related to Landlord to the extent such fees exceed the charges for comparable services rendered by unaffiliated thirty parties of comparable skill, stature and reputation in the same market.

Premises means the approximate area shown on Exhibit B. Landlord hereby reserves for its sole and exclusive use, the roof, any and all mechanical, electrical, telephone and similar rooms, janitor closets, elevator, pipe and other vertical shafts and ducts, flues, stairwells; the area above the acoustical ceiling; facilities serving parts of the Building or other than the Premises; and any other area not shown on Exhibit B as being part of the Premises.

Prime Rate means the rate of interest published in the "Money Rates" column of Wall Street Journal as the Prime Rate, as such rate may change from time to time (or, if such rate is no longer published in the Wall Street Journal, such reasonable substitute as Landlord may select).

Real Property Taxes means any form of general or special assessment, license fee, license tax, business license fee, any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Building, the Common Areas or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, sanitary, fire, street, drainage or other improvement district, or any other governmental entity or public corporation, as against (a) any legal or equitable interest of Landlord in the Building, Common Areas or any portion thereof, (b) Landlord's right to rent or other income therefrom, (c) the square footage thereof, (d) the act of entering into any lease, (e) the occupancy of tenant or tenants generally, or (f) Landlord's business of leasing the Building, Common Areas or any portion thereof. The term "real property taxes" shall also include any tax, fee, levy, assessment or charge including, without limitation, any so-called value added tax, (i) which is in the nature of, in substitution for or in addition to any tax, fee, levy, assessment or charge hereinbefore included within the definition of "real property taxes," (ii) which is imposed for a service or right not charged for prior to June 1, 1978, or if previously charged for, which has been increased since June 1, 1978, (iii) which is imposed or added to any tax or charge hereinbefore included within the definition of real property taxes as a result of a "change in ownership" of the Building, Common Areas or any portion thereof, as defined by applicable statutes and regulations, for property tax purposes, or (iv) which is imposed by reason of this transaction, any modification or change hereto or any transfer hereof.

Tenant's Share means the percentage of the cost of Operating Expenses for which Tenant is obligated to reimburse Landlord pursuant to this Lease. Landlord shall determine Tenant's Share of the cost of Operating Expenses using the following methods: (a) by multiplying the cost of all Operating Expenses by a fraction, the numerator of which is the number of square feet of Rentable Area in the Premises and the denominator of which is the number of square feet of Rentable Area in the entire Building, or (b) by allocating an Operating Expense in any other reasonable manner, as determined by Landlord.

EXHIBIT B - PREMISES

DIAGRAM GOES HERE

1129 North McDowell Boulevard
Petaluma, California

EXHIBIT C

SAMPLE FORM OF
OPENING/CLOSING CERTIFICATE

Re: _____

_____, CA

This is to certify that _____
TENANT NAME

_____has opened/closed on _____
DATE

BILLING ADDRESS

TENANT NAME _____

ADDRESS _____

CITY, STATE, ZIP _____

_____

ATTN: _____

By: _____

AUTHORIZED AGENT FOR TENANT

RENTABLE AREA _____

TENANT'S SHARE _____ percent (%)

LEASE COMMENCEMENT DATE _____

LEASE EXPIRATION DATE _____

RENTAL PAYMENT COMMENCEMENT

DATE _____

PREPAID RENT RECEIVED _____

FINAL TENANT CONSTRUCTION OVERAGE _____

PAYMENT DUE

INSURANCE CERTIFICATE SUBMITTED

(Y/N) _____

SECURITY DEPOSIT RECEIVED _____

PARKING SPACES _____

By: _____

AUTHORIZED AGENT FOR LANDLORD

EXHIBIT D

SAMPLE FORM OF
TENANT ESTOPPEL CERTIFICATE

_____("Tenant") herby certifies to _____ _____ as follows:

1. Attached hereto is a true, correct and complete copy of a lease dated _____, 19_, between RNM Lakeville, L.P. ("Landlord") and Tenant (the "Lease"), which demised premises located at _____, California (the "Property'). The Lease is now in full force and effect and has been amended, modified, supplemented, extended, renewed or assigned by and only by the following described agreements, copies of which are attached hereto (if none, so indicate), all of which (together with the Lease) are hereby ratified:

_____
_____

_____
_____

2. The term of this Lease commenced on _____, 19___and will expire on _____, 19_.

3. Tenant has accepted and is now in possession of said premises.

4. Tenant and Landlord acknowledge that the Lease will be assigned to _____ and that no modification, adjustment, revision or cancellation of the Lease or amendments thereto shall be effective unless written consent of _____ is obtained, and that until further notice, payments under the Lease may continue as heretofore.

5. The amount of fixed monthly rent is $_____. Tenant is paying in full lease rental which has been paid in full as of the date hereof. No rent under the Lease has been paid for more than thirty (30) days in advance of its due date.

6. The amount of security deposits (if any) is $_____. No other security deposits have been made.

7. All work required to be performed by Landlord or Tenant under the Lease has been performed, except for the following (if none, so indicate) _____ _____;_____

8. There are no defaults on the part of the Landlord or Tenant under the Lease, except for the following (if none, so indicate) _____ _____ _____;_____

9. Tenant has no defense as to its obligations under the Lease and claims no setoff or counterclaim against Landlord, except for the following (if none, so indicate) _____;_____

10. Tenant has no right to any concession (rental or otherwise) or similar compensation in connection with renting the space it occupies except as provided in the Lease, except for the following (if none, so indicate)

_____

The foregoing certification is made with the knowledge that _____is about to (fund a loan to) (purchase the Property from) Landlord and that said party is relying upon the representations herein made in (funding such loan) (making such purchase).

Dated: ___, 19_.

TENANT:

_____

By: _____

Its: _____

EXHIBIT E

RULES AND REGULATIONS

1. The sidewalks, plazas, halls, passages, exits, entrances and lobbies of the Building and the other Common Areas shall not be obstructed by Tenant or used by it for any purpose other than for ingress to and egress from the Premises. Landlord retains the right to control and prevent access to the Common Areas of all persons whose presence in the judgment of the Landlord would be prejudicial to the safety, character, reputation and interests of the Building and its tenants, or who it believes are engaged in illegal or objectionable activities.

2. With the exception of typical catering and food warming activities, no cooking shall be done or permitted by Tenant on the Premises, except that use by Tenant of Underwriters' Laboratory approved portable equipment for brewing coffee, tea, hot chocolate and similar beverages shall be permitted, as shall the use of similarly-approved microwave ovens for personal use by Tenant's employees, provided that such use is in accordance with all applicable federal, state, and local laws, codes, ordinances, rules and regulations. Tenant's employees may prepare food items solely for their own personal consumption and for guests, and shall not prepare or sell, or permit to be prepared or sold, any consumable items whatsoever in the Premises or in the Building. In the event pest control is required within the Premises as a result of food preparation or other activities by Tenant, Tenant shall contract and pay for such services.

3. No person or persons other than those approved by Landlord shall be permitted to enter the Building for the purpose of cleaning same. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness.

4. Landlord will initially furnish to Tenant, free of charge, two keys per lockset to the Premises, and Landlord may make a reasonable charge for additional keys. No additional locking devices shall be installed in the Premises by Tenant nor shall any locking device be changed or altered in any respect without the prior written consent of Landlord. Landlord may make reasonable charge for any additional lock or any bolt (including labor) installed on any door of the Premises. All locks installed in the Premises shall be identified in writing to Landlord and shall be keyed to the Building master key system, with the exception of locks leading to vaults, safes or other secured areas as previously identified in writing to Landlord. The installation of such vaults, safes or other secured areas by Tenant will be subject to Landlord's prior written approval, which shall not be unreasonably withheld. Tenant, upon the termination of its tenancy, shall deliver to Landlord all keys to doors in the Premises and all access cards and I.D. cards, if any, to the Building.

5. Landlord and Tenant shall mutually agree to a reasonable time for Tenant's initial move to the Premises. Tenant shall reimburse Landlord upon demand for any additional security or other charges incurred by Landlord as a consequence of a major move. Any third parties employed by Tenant to move equipment or other items in or out of the

Building must be approved in advance by Landlord. The floors, comers and walls of corridors used for the moving of equipment or other items into or out of the Building must be adequately covered, padded and protected, and Landlord may elect to provide such padding and protection, at Tenant's expense, if Landlord determines that such measures undertaken by Tenant or Tenant's movers are inadequate. Landlord shall have the right to prescribe the maximum weight, size and position of all equipment, materials, supplies, furniture or other property bought into the Building, but this right shall apply only if the weight, size or position of same could reasonably be expected to exceed the load capacity of the floors and structure of the Building, or if in Landlord's reasonable estimation the position of such items creates a hazard or interferes with operation of the building systems. Heavy objects shall, if considered necessary by Landlord, be placed on a platform of such thickness as is necessary to properly distribute the weight of such objects. Landlord shall not be responsible for loss of or damage to the Building resulting from moving or maintaining Tenant's property and shall be repaired at the expense of Tenant.

6. Tenant agrees to cooperate in any delivery scheduling programs for the Common Areas, including restriction of deliveries or pickups to reasonable periods as may be determined by Landlord. In its use of the loading and unloading areas of the Building, Tenant shall not obstruct or permit the obstruction of the Common Areas, and at no time shall Tenant store materials, furniture, or equipment, or park vehicles therein.

7. Landlord reserves the right to exclude from the Building at all times other than the usual business hours of the Building, as established by Landlord, all persons who do not have proper evidence of Tenant's prior authorization to enter the Premises after hours. Landlord may establish at its discretion what shall constitute proper evidence, which may include LID. cards, special passes or other forms or methods. Tenant shall be responsible to Landlord for all persons for whom it requests such access, and shall be liable to Landlord for any and all acts of such persons. Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In the case of invasion, mob, not, public excitement or other circumstances rendering such action advisable in Landlord's sole opinion, Landlord reserves the right to prevent access to the Building during the continuance of same by such action as Landlord may deem appropriate, including closing and securing any doors in the Building.

8. No curtains, draperies, blinds, shutters, shades, screens or other coverings, hangings or decorations shall be attracted to or placed in, or used in connection with, any window of the Building without the prior written consent of the Landlord, other than standard window coverings.

9. Tenant shall use reasonable procedures to see that the doors of the Premises are closed and locked and that all water faucets, water apparatus, light switches, cooking facilities and office equipment (excluding office equipment required to be operative at all times) are shut off before Tenant or Tenant's employees leave the Premises, so as to prevent waste or damage. Tenant shall at all times comply with any rules or orders of the fire department or any other government agency with respect to ingress and egress.

10. The toilets, urinals, wash bowls and other restroom facilities shall not be used for any purpose other than that for which they are constructed, no foreign substance of any kind whatsoever shall be placed therein, and the expense of repairing any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant whose employees or invitees shall have caused it.

11. Tenant shall not install any radio or television antenna, loudspeaker, or other device on or about the Common Areas or the roof or exterior walls of the Building. No television, radio or other audio or visual apparatus shall be used in the Premises in such a manner as to cause a nuisance to any other Building tenant or to interfere with any frequencies used in connection with Building operations.

12. Tenant shall at all times maintain the Premises in a neat, professional and first-class manner, and shall show the same standard of care with regard to the Common Areas, Tenant shall store all its trash and garbage within the Premises until removal of same to such location in the Common Areas as may be designated from time to time by Landlord, and at no time shall Tenant store any trash or garbage in any of the hallways, stairways, elevator or stairway lobbies, loading areas, entrances or exits for the Building. No fluid or material shall be placed with Tenant's trash and garbage or be placed in the Building trash boxes or receptacles if such fluid or material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the City of Petaluma without being in violation of any law or ordinance governing such disposal. Tenant shall pay reasonable extra charges as determined by Landlord for any unusual trash disposal.

13. Canvassing, soliciting, peddling, or distribution by Tenant to other Building tenants or visitors of handbills or any other written material in the Building is prohibited, and Tenant shall not permit such activities by its employees or invitees. Tenant shall cooperate in reporting to Landlord any such activities of solicitors in the Building.

14. Tenant shall immediately, upon written request from Landlord (which request need not be in writing), reduce its lighting in the Premises for temporary periods designated by Landlord, when required in a temporary emergency situation caused by earthquake or other force majeure event to prevent overloading of the mechanical or electrical systems of the Building.

15. Tenant shall not place any load on the floors of the Premises or the Building exceeding the live load capacity thereof as determined by Landlord. Tenant shall not use electricity for lighting, machines or equipment in excess of the consumption load of the Premises as determined by Landlord. Except as permitted in accordance with the Lease, Tenant shall not alter any of the Building systems, including but not limited to heating, air conditioning, and other mechanical or electrical systems, without the prior written consent of Landlord.

16. Landlord reserves the right to exclude or expel from the Building any person who is, in the judgment of Landlord, intoxicated or under the influence of alcohol or other drug, or

acting in a violent or disruptive manner, or who shall in any manner do any act in violation of any of the Rules and Regulations of the Building.

17. No animals of any kind shall be permitted at any time in the Premises or the Building, with the exception of guide animals for the handicapped employees or invitees of Tenant and Tenant's laboratory specimens.

18. Any charges which Tenant is obligated by these Rules to pay shall be deemed additional rent under the Lease, and should Tenant fail to pay the same within ten (10) days after written demand, such failure shall be treated as a default by Tenant to pay rent as due under the Lease.

19. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of these Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Building. All waivers shall be one time waivers only unless in writing and specifically providing to the contrary.

20. These Rules and Regulations are in addition to, and shall not be construed in any way to modify, alter or amend, in whole or part, the terms, covenants, agreements and conditions of Tenant's Lease or any other lease of premises in the Building. In the event of any conflict between the terms of these Rules and Regulations and the terms of any lease in the Building, the terms of the lease shall prevail.

21. Landlord reserves the right to make such other reasonable rules and regulations, or to amend or repeal these Rules and Regulations, as in its judgment may from time to time be needed for the safety, care and cleanliness of the Building and for the preservation of good order therein.

22. Tenant shall be responsible for the observance of all of the foregoing rules and regulations by Tenant's employees, agents, contractors, clients, customers, invitees and guests. Tenant shall cooperate with Landlord's educational programs for Landlord's policies and procedures with regard to fire and life safety, earthquakes and any other emergency or evacuation procedures of which Landlord shall notify Tenant from time to time.

23. Tenant shall at all times require communication, telephone, computer and all other similar types of vendors installing cables, lines; and the like in the ceiling plenum, to support their work independently of the ducts and ceiling grids.

EXHIBIT F

LIST OF HAZARDOUS MATERIALS

Exhibit 10.8

AMENDMENT NO 1
TO LEASE

THIS AMENDMENT NO. 1 TO LEASE is made and entered into as of September 15, 2000, by and between **RNM LAKEVILLE, L.P.,** a California Limited Partnership ("Landlord"), and **MICROMED LABORATORIES, INC.**, a California corporation ("Tenant").

RECITALS

A. Landlord and Tenant are parties to that certain Lease dated as of October 26, 1999 (the "Lease"), pursuant to which Landlord leases to Tenant, and Tenant leases from Landlord, certain Premises at 1129 North McDowell Boulevard in Petaluma, California. Unless otherwise defined herein, all capitalized terms shall have the meanings assigned to them in the Lease.

B. Under paragraph 27 of the Lease, Tenant has the Right of First Refusal with respect to certain premises, which are contiguous to the Premises. In lieu of exercising such Right of First Refusal, Tenant and Landlord have agreed to the terms of Tenant's expansion into the Additional Premises, pursuant to the terms and conditions of this Amendment.

THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. First Expansion Premises. Landlord and Tenant agree that as of September 1, 2000, the Premises shall include the First Expansion Premises for a total area of 6,286 square feet of Rentable Area. For purposes of the Lease, the First Expansion Date is September 1, 2000.

2. Additional Premises. In lieu of Tenant's exercise of its Right of First Refusal pursuant to paragraph 27 of the Lease, Landlord and Tenant have agreed that as of October 1, 2000, 5,500 square feet of Rentable Area (the "Additional Premises") designated as Area D on Exhibit B1 attached to this Amendment and incorporated herein shall be added to the Premises. On and following October 1, 2000, all references in the Lease to the term Premises shall include such Additional Premises, and the total square feet of Rentable Area within the Premises shall be 11,786.

3. Acceptance of Premises. Tenant is accepting the Additional Premises in their current condition, AS IS and with all faults. Landlord shall not be under any obligation to modify, alter, paint or otherwise make any modifications to the Additional Premises either prior to or following the delivery thereof to Tenant. Not withstanding the foregoing, the present occupant of the Additional Premises and all personal properties within the Additional Premises shall be removed on or before October 1, 2000 by Landlord. The Additional Premises shall be delivered to Tenant in a clean "broom-swept" condition.

4. Parking Spaces. The parties hereby confirm that Tenant's allocation of parking spaces shall increase by two spaces for every 1,000 square feet of Rentable Area within the Additional Premises.

5. Second Expansion Date. The parties hereby confirm that the Second Expansion Date shall be March 1, 2001. As of and following the Second Expansion Date, the Premises shall consist of 13,840 square feet of Rentable Area.

6. Base Rent. The parties hereby confirm that Base Rent and Tenant's Share for the remainder of the term shall be as follows:

Months	Base Rent	Tenant's Share
09/01/00 - 09/30/00	$ 5,343	10.73%
10/01/00 - 02/28/01	$10,018	20.12%
03/01/01- 02/28/02	$11,764	23.62%
03/01/02 - 02/28/03	$12,235	
03/01/03 - 02/29/04	$12,724	
03/01/04 - 02/28/05	$13,233	
03/01/05 - 02/28/06	$13,763	

7. Security Deposit Increases. Tenant confirms that on the date of each increase in Base Rent Tenant shall deposit with Landlord the corresponding increase in the Security Deposit.

8. No Other Modifications. Unless otherwise expressly modified herein, the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties executed this Amendment No. 1 as of the date first written above.

LANDLORD:

RNM LAKEVILLE, L.P.,
a California Limited Partnership

By: RNM PETALUMA, INC.,
a California corporation,
its Managing General Partner

Name: /s/ John R. McNulty
John R. McNulty, President

Date: 9/15/2000

TENANT:

MICROMED LABORATORIES, INC.,
a California corporation

By: /s/ Hojabr Alimi

Its: President

Date: 9/15/2000

EXHIBIT B-1 — PREMISES

DIAGRAM

1129 North McDowell Boulevard
Petaluma, California

Exhibit 10.9

AMENDMENT NO 2
TO LEASE

THIS AMENDMENT NO. 2 TO LEASE is made and entered into as of July 29, 2005, by and between **RNM LAKEVILLE, LLC,** a Delaware limited liability company (successor to RNM Lakeville, L.P.) ("Landlord'), and **OCULUS INNOVATIVE SCIENCES, INC.** (f/k/a MicroMed Laboratories, Inc.), a California corporation ("Tenant").

RECITALS

A. Landlord and Tenant are parties to that certain Lease dated as of October 26, 1999 as amended by Amendment No. 1 to Lease dated as of September 15, 2000 (collectively the "Lease"), pursuant to which Landlord leases to Tenant, and Tenant leases from Landlord, certain Premises at 1129 North McDowell Boulevard in Petaluma, California. Unless otherwise defined herein, all capitalized terms shall have the meanings assigned to them in the Lease.

B. The Termination Date of the Lease Term is February 28, 2006.

C. The parties wish to extend the Lease Term as provided herein.

THEREFORE, for consideration, the adequacy and receipt of which are hereby acknowledged, the parties agree as follows:

1. **Term**. The Termination Date of the Lease is hereby extended to September 30, 2006.

2. **Base Rent.** Base Rent shall remain at its current rate throughout the Termination Date as extended herein.

3. **Tenant's Extension Options**. Tenant's Extension Options shall continue in full force and effect.

4. **Leasing Commissions.** Each party hereby warrants to the other party that it has had no dealing with any finder, broker or agent in connection with this Amendment and the extension of the Lease. Each party hereby agrees that it shall indemnify, defend and hold harmless the other party from and against any and all costs, expenses (including attorney's fees and costs of suit), and liabilities for commissions or other compensation, charges or damages claimed by any other finder, broker or agent based upon dealings with the indemnifying party with respect to the renewal and renegotiation of the Lease.

5. **Confirmation of Lease.** Tenant hereby represents and warrants to Landlord that, as of the date hereof, (a) the Lease is in full force and effect and has not been modified except pursuant to this Amendment; (b) Tenant has not subleased or assigned any of its right, title and interest in and to the Lease and has full power and authority to enter into and perform its obligations hereunder, (c) Tenant is not in default under the Lease, and to the best of Tenant's knowledge, there are no defaults on the part of Landlord existing under the Lease; (d) to the best of Tenant's knowledge, there exists no valid abatements, causes of action, counterclaims, disputes, defenses, offsets, credits, deductions, or claims against the enforcement of any of the

terms and conditions of the Lease; (e) this Amendment has been duly authorized, executed and delivered by Tenant and constitutes the legal, valid and binding obligation of Tenant; and (f) there are no actions, whether voluntary or otherwise, pending against Tenant under the bankruptcy or insolvency laws of the United States or any state thereof. Except as expressly modified herein, the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties executed this Amendment No. 2 as of the date fast written above.

LANDLORD:	**TENANT:**
RNM LAKEVILLE, LLC, a Delaware limited liability company	**OCULUS INNOVATIVE SCIENCES, INC.,** a California corporation
By: RNM PETALUM, INC., a California corporation, its Manager	By: /s/ Jim Schutz Its: General Counsel
Name: /s/ Paul B. Elmore Paul B. Elmore, President	Date: 7/28/2005
Date: 7/29/05	

Exhibit 10.10

LEASING AGREEMENT OF THE BUILDING SET UP FOR FACTORY, WAREHOUSE AND OFFICES.

IN GUADALAJARA CITY, STATE OF JALISCO, TO EIGHTEEN DAY OF MAY YEAR TWO THOUSAND AND SIX, AND IN PRESENCE OF THE WITNESSES WHO AT THE END SIGNED THIS DOCUMENT, APPEARED ON THE ONE HAND, **MR. ANTONIO SERGIO ARTURO FERNANDEZ VALENZUELA FROM NOW ON THE LESSOR AND ON THE OTHER HAND OCULUS TECHNOLOGIES OF MEXICO SA DE CV** REPRESENTED BY MR**. EVERARDO GARIBAY RAMIREZ FROM NOW ON THE LESEE, ALL OF THEM, MEXICAN, OF LEGAL AGE, CAPABLE TO AGREE AND TO COMMIT THEMSELVES, DECLARE THAT IT IS THEIR WILL TO CELEBRATE THIS LEASING AGREEMENT UNDER THE FOLLOWING TERMS AND CONDITIONS:**

S T A T E M E N T S

1.- LESSOR DOES HEREBY DECLARE:

a. That he is holder of the rights for use of the premise matter of this agreement, and that therefore, he counts on legal faculties to give it in leasing.

b. That for legal effects his CONSTANCY OF REGISTRY IN THE FEDERAL TAX PAYER RECORD is **FEVA-501215 5H4**

2.- LESEE DOES HEREBY DECLARE:

a. That it is a legally constituted mercantile society according to Mexican laws and that within its social object among others is the acquisition,

involvement, purchase, sale, distribution, commission, consignment, import, export and commercial transit in general by its own account or by third parties of all class of medical equipments, radiological of laboratory and treatment articles.

b. THAT UNDER TESTIMONIAL TO DECLARE THE TRUTH MR. EVERARDO GARIBAY RAMIREZ has valid administration powers that have not been modified or revoked.

c. That he has professional and personal capacity and is interested to lease premise referred in this agreement.

3.- ALL PARTIES DO HEREBY DECLARE:**:**

That it is their will to celebrate the present Leasing Agreement and Guarantee it, under the following

TERMS AND CONDITIONS

FIRST. LESSOR gives in leasing and THE LESSEE receives in such concept, in perfect conditions of use and to his whole satisfaction the property marked with number 81 de la Calle Industria Vidriera, Zapopan Industrial, Zapopan, Jalisco which has an approximated surface of 800 square meters of warehouse and 340 square meters of offices, both with luxury finishes, with a total of approximately 1.140 meters of construction; THE LESSEE commits to exclusively use it for STORAGE AND OFFICES as long as they do not contravene what is set forth in clause EIGHTH. The leased building is received with all and each one of the goods and services listed in the inventory that is part of this agreement.

SECOND.- Parties consent in common agreement in terms of Article 2046 of the Civil Code effective in this date, that THE LESSEE will pay to THE LESSOR in terms of Article 2010 of the Civil Code an annual rent for the leasing of the building described in the previous clause, the amount of $869,400.00 (Eight hundred sixty nine thousand four hundred pesos) plus VAT to be paid in 12 equal monthly payments, the 18th day of every month of this year; rent that shall be paid in the address of "THE LESSOR" is located in Industria Maderera 142, Zapopan Industrial Norte, Zapopan, Jalisco; in the event of overdue payments THE LESSEE commits to pay to THE LESSOR a monthly interest of 3% on the overdue amounts.

The rent has been established in common agreement by the parties, based on the physical characteristics of the rented warehouse.

Payments of water, telephone, tenant fees, garbage collection and electrical energy as of the date of this agreement and until the total delivery of the building will be exclusive responsibility of THE LESSEE. THE LESSEE declares that has Municipal Licenses for WAREHOUSE AND OFFICES releasing THE LESSOR of any responsibility.

THIRD.- Parties agree that duration of this agreement will be one YEAR, counted from the EIGHTEEN of MAY 2006 and consequently concluding day SEVENTEEN of MAY of 2007, reason why in this later date THE LESSEE will return to THE LESSOR the premises matter of this agreement along with its improvements without right to indemnification for such concept.
THE LESSEE could obtain a one year extension for the next three annual periods unless the obligations described in this lease are not fulfilled.

If at the end of the present agreement THE LESSEE continues occupying the building without authorization in writing of THE LESSOR by means of a new signed agreement, during the respective judgment to recover premises, THE LESSEE shall pay a monthly rent equivalent to the amount that turns out by increasing 50% the monthly rent plus VAT without considering this agreement

as being renewed since it is understood that such delay does not have consent of THE LESSOR

In case of an extended lease, the Annual Rent will increase every eighteen day of May years 2007, 2008, 2009 and 2010 according to the average Consumer Prices published by the Bank of Mexico, on April of the year previous to the month of April of the year corresponding to the increase.

Duration of this agreement is mandatory for both parties; if THE LESSEE wishes to conclude it in advance he shall notify it in writing to THE LESSOR three months in advance and shall cover as conventional penalty without judicial declaration, the equivalent to 30% of the total amount of rents that will be missing to execute the term of the agreement.

FOURTH.- Both parties consent that if THE LESSEE does not voluntarily evacuate the property rented at the end of the leasing term and continues in possession of the building without the consent of THE LESSOR for a period greater than ninety days after conclusion of the term, shall pay a fine equivalent to a 30% of the amount of the rents applied that THE LESSEE shall have had to pay for the term of this agreement without considering this leasing as being renewed since it is understood that such delay does not have consent of the LESSOR. This fine will become effective by the single delay in the delivery of the rented building. (Articles, 1310 and 1313 of the Civil Code)

FIFTH.- LESSEE shall at its own expense and responsibility maintain in good shape all the pipes, water taps, common drainages, WC, glasses, locks, plates, doors, floors, pipes, and electrical systems, as well as all the repairs required by the premise.

SIXTH.- Considering prohibitions mentioned in the diverse clauses part of this agreement and the stipulated ones by the law, THE LESSEE has strictly forbidden to sublease, grant of transfer the premise without the written

consent of THE LESSOR and in the event of infringement THE LESSEE shall pay the fine stipulated in clause fourth of this agreement

SEVENTH.- THE LESSEE has strictly forbidden to make improvements without the written consent of LESSOR. All improvements, installations, adaptations or modifications to the rented property, although useful or decorative shall remain as benefit of this building and the Lessee will not have to right to ask for any kind or indemnification set up in terms of Article 931

If the adaptations, improvements and constructions were made without THE LESSOR' consent it will be THE LESSOR option to keep them as benefit of the building or to remove them at The Lessee's expense.

EIGHTH.- If derived of Lessee's activities he keeps, stores or uses any kind of explosives or inflammable materials, he will be directly responsible to safeguard facilities, constructions and third parties contiguous buildings. Despite the previous issue, LESSEE shall ask in writing consent to "THE LESSOR" who will determine if request s approved.

Lessee at his expense shall maintain an insurance policy and have it effective throughout the time that occupies the building, to guarantee damages to the building and to third parties caused by fire, explosion and in general any other act that can cause some damage to the building or to third parties, with ample coverage to guarantee repairs caused by damages. LESSOR shall be the beneficiary and premium shall cover commercial price of the building.

NINTH.- Parties specifically consent that independently of the established ones by the law, the following casuals may rescind leasing:

a. To sublease, transfer or grant rights related to the property matter of this agreement

b. Failure to pay rents in the established term, that is the nonpayment or delayed payments

c. Modify the leased building either with useful or decorative alterations. The laboratory modifications have been previously authorized by THE LESSOR and it does not cause the rescission of this lease.

d. Give the rented property a different use from the stipulated one.

e. Store in the building dangerous or inflammable substances that threaten its security, without having an insurance policy as mentioned in clause eighth of this Agreement.

f. Damage the property.

In the event that THE LESSEE incurs in any of the casuals that originate rescission of leasing, fine set in clause Fourth of this Agreement will apply.

TENTH-. If THE LESSEE originates any breakdown to responsibilities set in this agreement and infringements to terms that may require judicial or extrajudicial suit, LESSEE shall be responsible for the expenses caused and shall pay the equivalent to four months of rent to pay attorney's fees during the first instance, and another equal amount in the second instance.

ELEVENTH.- Conventional address to call THE LESSEE a suit will be the leased property one, and only in such address THE LESSEE will be called even if premise had been evacuated or abandoned. At the end of leasing, THE LESSEE shall give to THE LESSOR evidence that payments of water, telephone, tenant fees, garbage collection and electrical energy had been completely done until the total delivery of the building although bills covering THE LESSEE consumptions arrive once the premise had been evacuated.

TWELFTH .- THE LESSEE receives the rented property for the exclusively use of warehouse and offices, with electrical and hydraulic system in normal

conditions of use, WC, washbasins, complete glasses and water pump, everything in perfect conditions and working to his complete satisfaction Lessee shall at its own expense and at all times, maintain the premises in the same good and safe conditions widely executing Article 2036 of the Civil Code for the State of Jalisco. Dully signed Inventory of the goods and services of the premise hereinafter are part of this agreement.

THIRTEENTH.- THE LESSEE" resigns specifically to the right of transfer.

On the contrary THE LESSEE will have the right to be the first to receive the offer of the building leased in case THE LESSOR decides to sell the building.

FOURTEENTH. — THE LESSEE commits himself to show at any time the property upon notice from THE LESSOR**.**

FIFTEENTH.- THE LESSEE shall deposit with Lessor $362,250.00 Pesos (THREE HUNDRED SIXTY TWO THOUSAND TWO HUNDRED PESOS) for the security to execute Lessee's obligations under this lease, amount that will be refunded by THE LESSOR to THE LESSEE three months after THE LESSEE had evacuated the building and premises does not present damages and do not exist pending debits to cover and that still are THE LESSEE responsibility. This amount will not generate any interest. By separate document THE LESSOR shall issue the corresponding acknowledgement receipt of this deposit.

SIXTEENTH.- THE LESSEE" commits himself to timely carry out and cover at his own expense maintenance works such as gardening, painting, coating, etc.

SEVENTEENTH.- The parties agree that THE LESSEE shall comply with ecological norms and urban development regulations indicated by the laws; THE LESSEE specifically declares that is able to execute 100% such norms

and regulations. THE LESSE must pay the annual rent independently of closing or closure by any authority.

EIGHTEENTH.- PARTIES agree that for the fulfillment, interpretation and execution of the Agreement, PARTIES submit themselves to the jurisdiction and competence of the courts of Jalisco state with explicit waiver to their respective present or future personal addresses for any other reason

The foregoing constitutes the entire agreement between parties and it is signed in presence of the undersigned witnesses

LESSOR	**LESSEE**
C.P. ANTONIO SERGIO ARTURO FERNANDEZ VALENZUELA	**OCULUS TECHNOLOGIES OF MEXICO, S.A. DE C.V. REPRESENTED BY : EVERARDO GARIBAY RAMIREZ**
WITNESS	**WITNESS**

I ACKNOWLEDGE RECEIPT FROM MR. ANTONIO SERGIO ARTURO FERNANDEZ VALENZUELA OF THE FOLLOWING INVENTORY OF THE WAREHOUSE LOCATED IN INDUSTRIA VIDRIERA 81 DEL FRACCIONAMIENTO ZAPOPAN INDUSTRIAL NORTE, ZAPOPAN JALISCO.

AMOUNT	DESCRIPTION
4	DESKS IN “L” FORM DE 2.70 X 2.60 X .65
1	DESKS “L “ 1.85 X 2.10 X 1.85 X .90 1.22 X .50
1	DESK 1.60 X 1.83, 1.60 X .75 1.10 X .65
1	CABINET FOR FILING MADE OF CAOBILLA WITH BANAC
4	DOORS 1.51 X 1.22 X .61
7	MIRRORS .50 X .69 FOR BATHROOMS
1	BOX 1.08 X .57 X .40

2	YORK MINISPLIT 1 TON CAPACITY(12,000 BTU)
1	YORK MINISPLIT 1.5 TONS CAPACITY 18,000 BTU)
1	CONDENSER SERIAL NO. MOC 18RE16A: 0306-02030
1	CONDENSER SERIAL HLDA12FS-ADA:0404 A 04809
1	CONDENSER SERIAL HLDA12FS-ADA:0404 A 04764
1	VAPORIZER MHC18B16:0307-10317
1	VAPORIZER HLEA12FS-ADA:0404 A 04024
1	VAPORIZER RA HLEA12FS-ADA:0404 A 03396
1	YORK MINISPLIT AIR CONDITIONER HI-WALL 1 TON CAPACITY (12,000 BTUH)
1	VAPORIZDR HLEA12FS-ADA SERIE: 0404-A32465
1	CONDENSER HLDA12FS-AADA SERIE: 0404-A33179
1	YORK AIR CONDITIONING 2 TONS CAPACITY
2	AIR CONDITIONING CONTROLS HONEY WELL
1	THREE PHASES ENERGY CENTRE DE 200 AMPERS
1	CENTRO DE CARGA TRIFASICO CON UNA PASTILLA DE 100, UNA PASTILLA DE 50
1	CENTRO DE CARGA CON DOS PASTILLAS DE 20 DE 220 AMPERES Y UNA PASTILLA
13	SEARCHLIGHTS
5	SAVING LAMPS DE 13 WATTS
21	COLD LIGHT LAMPS
18	SET OF COLD LIGHT LAMPS

IN RECEIPT:

C.P. EVERARDO GARIBAY RAMIREZ
OCULUS TECHNOLOGIES OF MEXICO, S.A. DE C.V.

I ACKNOWLEDGE RECEIPT FROM MR. ANTONIO SERGIO ARTURO FERNANDEZ VALENZUELA OF THE FOLLOWING INVENTORY OF THE WAREHOUSE LOCATED IN INDUSTRIA VIDRIERA 81 DEL FRACCIONAMIENTO ZAPOPAN INDUSTRIAL NORTE, ZAPOPAN JALISCO.

AMOUNT	DESCRIPTION
6	LAMPS UIT CABINETS
6	SEARCHLIGHTS FOR THE GARDEN AND ENTRANCE
1	STAINLESS STEEL KITCHEN CON SLASH
2	WHITE WC WITH ACCESSORIES
5	BONE-COLORED WCS WITH ACCESSORIES
5	WASHBASINS WITH TAPS AND ACCESSORIES
2	WASHBASINS WITH TAPS AND ACCESSORIES
1	ELECTRIC CURTAIN WITH 1HP MOTOR
1	GAS TANK DE 116 LTS.
1	WATER PUMP OF 1/4 HP
1	RACK PARA SERVER AND BTICINIO SWITCHBOARD
1	BTICINIO INTERFON WITH TWO TELEPHONES
1	SMALL KITCHEN FOR COFFEE PREPARATION
1	WASHBASIN IN THE WAREHOUSE
13	WOODEN DOORS
5	BATHROOMS EXTRACTOR
3	METALIC DOORS
1	WOODEN DESK IN THE RECEPTION
1	MAMPARA EN BAÑOS DE HOMBRES PLANTA BAJA

IN RECEIPT:

C.P. EVERARDO GARIBAY RAMIREZ
OCULUS TECHNOLOGIES OF MEXICO, S.A. DE C.V.

Exhibit 10.11

TENANCY AGREEMENT FOR OFFICE SPACE
and other business accommodation within the meaning of article 7:230a Civil Code

Specimen form adopted by the Council for Immoveable Property (ROZ[1]) in July 2003.
References to this specimen form and the use thereof are permitted only if the completed, added or divergent text is clearly identifiable as such. Any additions to or departures therefrom should preferably be included under the heading entitled "special provisions".

The ROZ hereby excludes any liability for the prejudicial consequences of the use of the text of the specimen form.

THE UNDERSIGNED
ARTIKONA HOLDING B.V.,
Herein represented for the purposes of the law by Mr. M.M.H. Pollaert,
Having their registered office at Withulsveld 30, 6226 NV Maastricht,

hereinafter called the "landlord",

entered in the Register of Companies for:	**Zuid-Limburg**
under number:	**14048821**
turnover tax number:	**NL8032.71.001.B02**

AND

Oculus Innovative Sciences Netherlands B.V., whose sole shareholder is Oculus Innovative Sciences Inc., herein represented for the purposes of the law by Mr. B.J. Philippens, born in Heerlen on 26 May 1972, presently resident at Beljikensweg 42, 6438 KB Oirsbeek, and by Mr. K.S.W. Kelderman, born in Ede on 08 August 1967, presently resident at Main Street 3901, Fair Oaks CA 95628, United States of America.

hereinafter called the "tenant",

entered in the Register of Companies for:	**Zuid-Limburg**
Under number:	**14078738**

HAVE AGREED AS FOLLOWS:

The premises intended use

1.1 The landlord hereby leases to the tenant, who takes on lease from the landlord a business complex covering approx. 450 m^2 office space situated on the ground floor and a first floor, two corporate halls having dimensions of approx. 843 m^2 and 327 m^2 respectively, a transshipment area having dimensions of approx. 164 m^2, and a parking and outdoor area (no rights may be derived from any over or under dimensions) with which the parties are sufficiently familiar, hereinafter called the "premises"[2], situated at Nusterweg 123, 6136 ST Sittard, known in the Land Register as gemeente Sittard, sectie K, nummers 2765 en 2778

(= municipality of Sittard, section K, numbers 2765 and 2778). As a follow-up hereto the parties shall initial a record of delivery, which shall indicate which installations and other facilities form part of the premises and which do not and which shall also contain a description of the state of the premises, supplemented, where necessary, by photographs initialed by the parties.

1.2 The premises are intended to be used by or on behalf of the tenant exclusively for the purpose of the production of and trade in (bio-medical) products in the field of disinfection and sterilisation.

1.3 The tenant shall not, without the prior written consent of the landlord, be permitted to put the premises to any use other than that described in t.2.

1.4 Floors may not be subjected to loads greater than 4,000 kg/m^2.

Conditions

1 Raad voor Onroerende Zaaken.

2 Literally the premises leased.

2.1 This agreement shall include the "GENERAL PROVISIONS FOR TENANCY AGREEMENT FOR OFFICE SPACE" and other business accommodation within the meaning of article 7:230A Civil Code, as filed with the Registry of the Court of The Hague on 11th July 2003 and entered there under number 72/2033, hereinafter called the "general provisions". The parties are familiar with the contents of these general provisions. The tenant and the landlord have each received a copy of the general provisions.

2.2 The general provisions to which reference is made in 2.1, shall be applicable, save to the extent that this agreement contains any express departure therefrom or the application thereof in respect of the premises is not possible.

Duration, prolongation and termination

3.1 This agreement is concluded for a term of 5 years commencing on 01 February 2004 and shall run up to and including 31 January 2009 (see also special provisions article 8.1).

3.2 After the expiration of the period mentioned in 3.1 this agreement shall be continued for a subsequent period of 5 years, hence up to and including 31 January 2014. Thereafter this agreement shall be continued for subsequent periods of 5 years.

3.3 The ending of this agreement shall take place by means of notice of termination to take effect at the end of a tenancy period subject to a period of notice of at least one year.

3.4 Notice of termination must be served by bailiff's summons or by registered letter.

Rent, turnover tax, adjustment of rent, payment obligation, payment period

4.1 The initial rent for the premises shall amount on an annual basis to €75,000. In words: seventy five thousand euros.

4.2 The parties hereby agree that the landlord will charge turnover tax on the rent. In the event that no tenancy subject to turnover tax is agreed, the tenant shall, in addition to the rent, be liable to the landlord for a separate payment by way of compensation for the detriment suffered, or at some future date to be suffered, by the landlord or his successor(s) at law as a result of the fact that the turnover tax on the landlord's investments and operating costs are not (or may no longer be) deductible.

4.3 In the event that the parties have agreed on a tenancy subject to turnover tax, the tenant and the landlord shall make use of the opportunity afforded them on the basis of Communication 45 Decree of 24 March 1999, no. VB 99/571 to waive the submission of a joint option application for a tenancy subject to turnover tax. By the signing of the tenancy agreement the tenant hereby also declares in favour of the landlord's successor(s) at law that he permanently uses or shall caused to be used the premises for purposes for which there exists a full or virtually full right to the deduction of turnover tax on the basis of article 15 1968 Turnover Tax Law.

4.4 The tenant's financial year runs from 01 January to 31 December inclusive.

4.5 The rent shall be adjusted annually on 01 February, and for the first time with effect from 01 February 2005, in accordance with the provisions of 9.1 to 9.4 inclusive general provisions.

4.6 The remuneration payable by the tenant for additional supplies and services provided by or on behalf of the landlord shall be determined in accordance with 16 general provisions. This remuneration shall be subject to a system of advance payments with subsequent set-offs as indicated therein. **N/A**.

4.7.1 The tenant's payment obligation shall consist of:

- the rent;
- the turnover tax payable on the rent;

4.7.2 The tenant will no longer be liable for turnover tax on the rent if the premises may no longer be leased subject to turnover tax, even though the parties had agreed thereon. In the event that this is the case, the payments mentioned in 19.3.a general provisions shall replace the turnover tax and the payment mentioned in 19.3.a(1) shall be determined in advance at 5% of the current rent.

4.8 In respect of each payment period of one (1) calendar month, and upon the commencement of the tenancy agreement:

-	the rent shall amount to:	€6,250.—
	total	€6,250.—

In words: six thousand two hundred and fifty euros.

4.9 Having regard to the commencing date of the tenancy, the tenant's first payment shall refer to the period February 2004 and the sum owed for this first period shall be €6,250.— (see also special provisions article 8.2). This sum shall be exclusive of turnover tax. The tenant shall pay this sum on or before 01 February 2004.

4.10 The periodic payments to be made by the tenant to the landlord under this tenancy agreement, as described in 4.8, shall be payable in advance as a single sum in euros and must have been made in full on or before the first day of the period to which the payments refer.

4.11 Save where otherwise mentioned, all amounts in this tenancy agreement and the general provisions forming part thereof shall be exclusive of turnover tax.

Supplies and services

5. The additional supplies and services to be provided by or on behalf of the landlord are hereby agreed by the parties to be as follows: N/A.

Banker's guarantee

6. The amount of the banker's guarantee mentioned in 12.1 general provisions is hereby fixed by the parties at €20,000.—, in words twenty thousand euros.

Administrator

7.1 Until such time as the landlord advises otherwise, the landlord shall act as administrator.

7.2 Save where otherwise agreed in writing, the tenant must consult with the administrator with regard to the contents and all further matters concerning this tenancy agreement.

Special provisions

8.1 The parties hereby agree that the tenant and landlord may, on one single occasion, viz 31 January 2007, bring this tenancy agreement to an end without the incurring of any costs and without giving any reason in the manner described in article 3.3 and 3.4 of this present agreement.

8.2 In the first year (01 February 2004 to 31 January 2005 inclusive) the parties shall agree on a reduction in the rent of €10,000.-, in words: ten thousand euros, which shall be accounted for on a monthly basis. As a departure from the provisions of articles 4.8 and 4.9, the (monthly) rent during the first year shall, therefore, come to €5,416.67 euros, excluding VAT, payable for the first time on 01 February 2004. For the second year (01 February 2005 to 31 January 2006 inclusive) the parties shall agree on a reduction in the rent of €5,000.—, in words: five thousand euros, which shall be accounted for in the same way as described above. With effect from 01 February 2006 the tenant must pay to the landlord the then applicable (index-linked) rent without deduction.

8.3 The tenant is aware of the fact that in the rearmost corporate hall (of a dimension of approx. 327 m^2 and sufficiently known to the parties) an installation has been erected which belongs to the landlord. The landlord will have removed such installation from the hall by the latest 31 March 2004. Until the aforementioned date (31-03-2004) the landlord shall retain right of unimpeded access to the aforementioned hall for the purpose of demolishing/ removing the said installation. The landlord will retain in this matter the full responsibility and risk for this rearmost hall. The parties hereby further agree in this matter that the tenant will furthermore in no way be held liable for any damage resulting from the possible claims. The parties shall in this matter exercise reasonableness and fairness.

8.4 If, by operation of law, the tenant fails to obtain an environmental permit to conduct on the premises those activities described in article 1.2, he may by the latest 01 April 2004 rescind this present tenancy agreement entirely free of charge and without the intervention of the courts.

8.5 The landlord hereby grants the tenant permission, for the account and risk of the latter, to affix advertising signs to the outside of the premises, provided always that this does not lead to damage to the premises! In this respect the tenant must abide by any possible regulations derived from the law or imposed by the authorities.

8.6 In respect of the alarm and video system the parties hereby expressly agree that, after the initial delivery, all costs of replacement, adjustments, maintenance, renewal etc. shall be for the account and risk of the tenant.

8.7 The parties hereby agree that the keys will be handed over as soon as the following conditions have been observed:

- contracts have been duly signed by the parties;
- the banker's guarantee has been received by the landlord;
- the first rent has been received by the landlord.

8.8 With regard to the obtaining of the required environmental permit, the parties hereby agree that the landlord (insofar as this has reference to the landlord) will afford the tenant his co-operation to this end in the widest sense of the word. Any possible costs resulting herefrom shall be for the tenant's account!

8.9 As a departure from the general provisions, the parties hereby agree that subletting by the tenant to a business affiliated to the tenant shall be permitted, provided always that the tenant in this present case shall remain

fully liable in this matter as a principal tenant in respect of all matters stipulated in the present agreement. The tenant shall inform the landlord in writing of the foregoing.

8.10 As a departure from the stipulations of the attached general provisions, the parties hereby agree as follows:

Article 6.2:

This shall be read as follows: “The tenant and landlord shall act in accordance with the provisions etc.” and at the end of the article shall be added the words: “insofar as these are covered by the tenant’s responsibility”.

Article 6.4:

The word “joint” is deleted.

Article 6.8.1 to 6.8.3 inclusive:

As a follow-up to the provisions of the aforementioned articles, the parties hereby agree that any possible costs resulting from pollution etc. in relation to the premises, may only be imputed to the tenant if they have been caused by the tenant and/or the conduct of his business.

Article 21:

The first sentence is replaced by: In the event that various (natural or juridical) persons have committed themselves as tenant/landlord, they shall in all cases be severally and each one of them liable for the whole vis-à-vis the landlord/tenant for all engagements flowing from the tenancy agreement.

Article 22.2 + 22.3

The words “serious” and “gross” are deleted.

Thus drawn up and signed in triplicate.

Place Date	Place Date
ARTIKONA HOLDING B.V.	Oculus Innovative Sciences Netherlands B.V.
Mr. M. Pollaert *(signature)*	Mr. B.J. Philippens *(signature)*
	Mr. K.S.W. Kelderman *(signature)*

Annexes:

- general provisions ROZ offices
- record of delivery
- declaration in favour of tenancy subject to tax
- baker’s guarantee

Separate signature(s) of tenant(s) for receipt of his/their own copy of the “GENERAL PROVISIONS FOR TENANCY AGREEMENT FOR OFFICE SPACE” and other business accommodations within the meaning of article :230a Civil Code as mentioned in 2.1.

Oculus Innovative Sciences Netherlands B.V.

Mr. B.J. Philippens
(signature)

Mr. K.S.W. Kelderman
(signature)

Landlord’s initials Tenant’s initials

Exhibit 10.12

LOAN AND SECURITY AGREEMENT
(Equipment)

Dated as of March 25, 2004

between

OCULUS INNOVATIVE SCIENCES, INC.
a California Corporation

as "Borrower",

and

VENTURE LENDING & LEASING III, INC.,
a Maryland corporation

as "Lender"

LOAN AND SECURITY AGREEMENT
(Equipment)

The Borrower and Lender identified on the cover page of this document have entered or anticipate entering into one or more transactions pursuant to which Lender agrees to make available to Borrower a loan facility governed by the terms and conditions set forth in this document and one or more Supplements executed by Borrower and Lender which incorporate this document by reference. Each Supplement constitutes a supplement to and forms part of this document, and will be read and construed as one with this document, so that this document and the Supplement constitute a single agreement between the parties (collectively referred to as this "Agreement").

Accordingly, the parties agree as follows:

ARTICLE 1 — INTERPRETATION

1.1 Definitions. The terms defined in Article 10 and in the Supplement will have the meanings therein specified for purposes of this Agreement.

1.2 Inconsistency. In the event of any inconsistency between the provisions of any Supplement and this document, the provisions of the Supplement will be controlling for the purpose of all relevant transactions.

ARTICLE 2 — THE COMMITMENT AND LOANS

2.1 The Commitment. Subject to the terms and conditions of this Agreement, Lender agrees to make term loans to Borrower from time to time from the Closing Date and to, but not including, the Termination Date in an aggregate principal amount not exceeding the Commitment, for the purpose of financing the acquisition or carrying of certain Equipment. The Commitment is not a revolving credit commitment, and Borrower does not have the right to repay and reborrow hereunder. Each Loan requested by Borrower to be made on a single Business Day shall be for a minimum principal amount set forth in the Supplement, except to the extent the remaining Commitment is a lesser amount.

2.2 Notes Evidencing Loans, Repayment. Each Loan shall be evidenced by a separate Note payable to the order of Lender, in the total principal amount of the Loan. Principal and interest of each Loan shall be payable at the times and in the manner set forth in the Note and payment shall be effected by automatic debit of the appropriate funds from Borrower's Primary Operating Account as specified in the Supplement hereto.

2.3 Procedures for Borrowing.

(a) Borrower shall give Lender, at least five (5) Business Days' prior to a proposed Borrowing Date, written notice of any request for borrowing hereunder (a "Borrowing Request"). Each Borrowing Request shall be in substantially the form of Exhibit "B" to the Supplement, shall be executed by a responsible executive or financial officer of Borrower, and shall state how much is requested, and shall be accompanied by such other information and documentation as Lender may reasonably request.

(b) No later than 1:00 p.m. Pacific Standard Time on the Borrowing Date, if Borrower has satisfied the conditions precedent in Article 4, Lender shall make the Loan available to Borrower in immediately available funds.

2.4 Interest. Except as otherwise set forth in the Supplement, Basic Interest on the outstanding principal balance of each Loan shall accrue daily at the Designated Rate from the Borrowing Date until the Maturity Date. If the outstanding principal balance of such Loan is not paid on the Maturity Date, interest shall accrue at the Default Rate until paid in full, as further set forth herein.

2.5 Terminal Payment. Borrower shall pay the Terminal Payment with respect to each Loan on the Maturity Date of such Loan.

2.6 Interest Rate Calculation. Basic Interest, along with charges and fees under this Agreement and any Loan Document, shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrower be obligated to pay Lender interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

2.7 Default Interest. Any unpaid payments of principal or interest or the Terminal Payment with respect to any Loan shall bear interest from their respective maturities. whether scheduled or accelerated, at the Designated Rate for such Loan plus five percent (5.00%) per annum, until paid in full, whether before or after judgment (the "Default Rate"). Borrower shall pay such interest on demand.

2.8 Late Charges. If Borrower is late in making any payment of principal or interest or Terminal Payment under this Agreement by more than five (5) days, Borrower agrees to pay a late charge of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrower acknowledges that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Agreement and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrower to make timely payments. Borrower further agrees that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Agreement or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

2.9 Lender's Records. Principal, Basic Interest, Terminal Payments and all other sums owed under any Loan Document shall be evidenced by entries in records maintained by Lender for such purpose. Each payment on and any other credits with respect to principal, Basic Interest, Terminal Payments and all other sums outstanding under any Loan Document shall be evidenced by entries in such records. Absent manifest error, Lender's records shall be conclusive evidence thereof.

2.10 Grant of Security Interests; Filing of Financing Statements.

(a) To secure the timely payment and performance of all of Borrower's Obligations to Lender, Borrower hereby grants to Lender continuing security interests in all of the Collateral. In connection with the foregoing, Borrower authorizes Lender to prepare and file any financing statements describing the Collateral without otherwise obtaining the Borrower's signature or consent with respect to the filing of such financing statements.

(b) Borrower is and shall remain absolutely and unconditionally liable for the performance of its obligations under the Loan Documents, including, without limitation, any deficiency by reason of the failure of the Collateral to satisfy all amounts due Lender under any of the Loan Documents.

(c) All Collateral pledged by Borrower under this Agreement and any Supplement shall secure the timely payment and performance of all Obligations under this Agreement, the Notes and the other Loan Documents. Except as expressly provided in this Agreement, no Collateral pledged under this Agreement or any Supplement shall be released until such time as all Obligations under this Agreement and the other Loan Documents have been satisfied and paid in full.

ARTICLE 3 — REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants that, except as set forth in the Supplement or any schedule of exceptions executed by the parties, as of the Closing Date and each Borrowing Date:

3.1 Due Organization. Borrower is a corporation duly organized and validly existing in good standing under the laws of the jurisdiction of its incorporation, and is duly qualified to conduct business and is in good standing in each other jurisdiction in which its business is conducted or its properties are located, except where the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect.

3.2 Authorization, Validity and Enforceability. Subject to obtaining the approval of the requisite vote of the shareholders of Borrower in favor of the increase of the authorized capital of the borrower and consent to the grant of the Warrant, the execution, delivery and performance of all Loan Documents executed by Borrower are within Borrower's powers, have been duly authorized, and are not in conflict with Borrower's articles or certificate of incorporation or by-laws, or the terms of any charter or other organizational document of Borrower, as amended from time to time; and all such Loan Documents (other than the Warrant) constitute valid and binding obligations of Borrower, enforceable in accordance with their terms (except as may be limited by bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights in general, and subject to general principles of equity).

3.3 Compliance with Applicable Laws. Borrower has complied with all licensing, permit and fictitious name requirements necessary to lawfully conduct the business in which it is engaged, and to any sales, leases or the furnishing of services by Borrower, including without limitation those requiring consumer or other disclosures, the noncompliance with which would have a Material Adverse Effect.

3.4 No Conflict. The execution. delivery, and performance by Borrower of all Loan Documents (other than the Warrant) are not in conflict with any

law, rule, regulation, order or directive, or any indenture, agreement, or undertaking to which Borrower is a party or by which Borrower may be bound or affected.

3.5 No Litigation, Claims or Proceedings. There is no litigation, tax claim, proceeding or dispute pending, or, to the knowledge of Borrower, threatened against or affecting Borrower, its property or the conduct of its business.

3.6 Correctness of Financial Statements. Borrower's financial statements which have been delivered to Lender fairly and accurately reflect Borrower's financial condition in accordance with GAAP as of the latest date of such financial statements; and, since that date there has been no Material Adverse Change.

3.7 No Subsidiaries. Borrower is not a majority owner of or in a control relationship with any other business entity, except as shown on the Supplement.

3.8 Environmental Matters. Borrower has reviewed, or caused to be reviewed on its behalf, all Environmental Laws applicable to its business operations and materials handled therein, and as a result thereof has reasonably concluded that Borrower is in compliance with such Environmental Laws, except to the extent a failure to be in such compliance could not reasonably be expected to have a Material Adverse Effect.

3.9 No Event of Default. No Default or Event of Default has occurred and is continuing.

3.10 Full Disclosure. None of the representations or warranties made by Borrower in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of Borrower in connection with the Loan Documents (including disclosure materials delivered by or on behalf of Borrower to Lender prior to the Closing Date or pursuant to Section 5.2 hereof), contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

3.11 Specific Representations Regarding Collateral.

(a) **Title**. Except for the security interests created by this Agreement and Permitted Liens, (i) Borrower is and will be the unconditional legal and beneficial owner of the Collateral, and (ii) the Collateral is genuine and subject to no Liens, rights or defenses of others.

(b) **Location of Collateral**. Borrower's chief executive office, Records, Equipment, and any other offices or places of business are located at the address(es) shown on the Supplement.

(c) **Business Names**. Other than its full corporate name, Borrower has not conducted business using any trade names or fictitious business names except as shown on the Supplement.

3.12 Copyrights, Patents, Trademarks and Licenses.

(a) Borrower owns or is licensed or otherwise has the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other similar rights that are reasonably necessary for the operation of its business, without, to the best of Borrower's knowledge, conflict with the rights of any other Person.

(b) To Borrower's knowledge, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by Borrower infringes upon any rights held by any other Person.

(c) No claim or litigation regarding any of the foregoing is pending or, to Borrower's knowledge, threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or proposed which, in either case, could reasonably be expected to have a Material Adverse Effect.

3.13 Survival. The representations and warranties of Borrower as set forth in this Agreement survive the execution and delivery of this Agreement.

ARTICLE 4 — CONDITIONS PRECEDENT

4.1 Conditions to First Loan. The obligation of Lender to make its first Loan hereunder is, in addition to the conditions precedent specified in Section 4.2, subject to the fulfillment of the following conditions and to the receipt by Lender of the documents described below, duly executed and in form and substance satisfactory to Lender and its counsel:

(a) **Resolutions**. A certified copy of the resolutions of the Board of Directors of Borrower authorizing the execution, delivery and performance by Borrower of the Loan Documents.

(b) **Incumbency and Signatures**. A certificate of the secretary of Borrower certifying the names of the officer or officers of Borrower authorized to sign the Loan Documents, together with a sample of the true signature of each such officer.

(c) **Legal Opinion**. The opinion of legal counsel for Borrower as to such matters as Lender may reasonably request in substantially the form of Exhibit "F" attached to the Supplement.

(d) **Articles and By-Laws**. Certified copies of the Articles or Certificate of Incorporation and By-Laws of Borrower, as amended through the Closing Date.

(e) **This Agreement**. A counterpart of this Agreement and an initial Supplement, with all schedules completed and attached thereto, and disclosing such information as is acceptable to Lender.

(f) **Financing Statements**. Filing copies (or other evidence of filing satisfactory to Lender and its counsel) of such UCC financing statements, account control agreements, collateral assignments and termination statements, with respect to the Collateral as Lender shall request.

(g) **Lien Searches**. UCC lien, judgment, bankruptcy and tax lien searches of Borrower from such jurisdictions or offices as Lender may reasonably request, all as of a date reasonably satisfactory to Lender and its counsel.

(h) **Good Standing Certificate**. A Certificate of status or good standing of Borrower as of a date acceptable to Lender from the jurisdiction of Borrower's organization and any foreign jurisdictions where Borrower is or should be qualified to do business.

4.2 Conditions to All Loans. The obligation of Lender to make its initial Loan and each subsequent Loan is subject to the following further conditions precedent that:

(a) **No Default**. No Default or Event of Default has occurred and is continuing or will result from the making of any such Loan, and the representations and warranties of Borrower contained in Article 3 of this Agreement and Part 3 of the Supplement are true and correct as of the Borrowing Date of such Loan.

(b) **No Material Adverse Effect**. No event that has had or could reasonably be expected to have a Material Adverse Effect has occurred.

(c) **Borrowing Request**. Borrower shall have delivered to Lender a Borrowing Request for such Loan.

(d) **Note**. Borrower shall have delivered an executed Note evidencing such Loan, substantially in the form of Exhibit "A" attached to the Supplement.

(e) **Supplemental Lien Filings**. Borrower shall have executed and delivered such amendments or supplements to this Agreement and such financing statements as Lender may reasonably request in connection with the proposed Loan, in order to create or perfect or to maintain the perfection of Lender's Liens on the Collateral.

(f) **VCOC Limitation**. Lender shall not be obligated to make any Loan under its Commitment if at the time of or after giving effect to the proposed Loan Lender would no longer qualify as: (A) a "venture capital operating company" under U.S. Department of Labor Regulations Section 2510.3-101(d), Title 29 of the Code of Federal Regulations, as amended; and (B) a "business development company" under the provisions of federal Investment Company Act of 1940, as amended; and (C) a "regulated investment company" under the provisions of the Internal Revenue Code of 1986, as amended.

(g) **Financial Projections**. Borrower shall have delivered to Lender Borrower's business plan and/or financial projections or forecasts as most recently approved by Borrower's Board of Directors.

ARTICLE 5 — AFFIRMATIVE COVENANTS

During the term of this Agreement and until its performance of all Obligations, Borrower will:

5.1 Notice to Lender. Promptly give written notice to Lender of

(a) Any litigation or administrative or regulatory proceeding affecting Borrower where the amount claimed against Borrower is at the Threshold Amount or more, or where the granting of the relief requested could have a Material Adverse Effect.

(b) Any substantial dispute which may exist between Borrower or any governmental or regulatory authority.

(c) The occurrence of any Default or any Event of Default.

(d) Any change in the location of any of Borrower's places of business or Collateral at least thirty (30) days in advance of such change, or of the establishment of any new, or the discontinuance of any existing, place of business.

(e) Any dispute or default by Borrower or any other party under any joint venture, partnering, distribution, cross-licensing, strategic alliance, collaborative research or manufacturing, license or similar agreement which could reasonably be expected to have a Material Adverse Effect

(f) Any other matter which has resulted or might reasonably result in a Material Adverse Change.

5.2 Financial Statements. Deliver to Lender or cause to be delivered to Lender, in form and detail satisfactory to Lender the following financial and other information, which Borrower warrants shall be accurate and complete in all material respects:

(a) **Monthly Financial Statements**. As soon as available but no later than thirty (30) days after the end of each month, Borrower's balance sheet as of the end of such period, and Borrower's income statement for such period and for that portion of Borrower's financial reporting year ending with such period, prepared in accordance with GAAP and attested by a responsible financial officer of Borrower as being complete and correct and fairly presenting Borrower's financial condition and the results of Borrower's operations. After a Qualified Public Offering, the foregoing interim financial statements shall be delivered no later than 45 days after each fiscal quarter and for the quarter-annual fiscal period then ended.

(b) **Year-End Financial Statements**. As soon as available but no later than one hundred twenty (120) days after and as of the end of each financial reporting year, starting on the financial reporting year ending December 31, 2005 or any prior year that Borrower's Board of Director's directs audited statements to be produced, a complete copy of Borrower's audit report, which shall include balance sheet, income statement, statement of changes in equity and statement of cash flows for such year, prepared in accordance with GAAP and certified by an independent certified public accountant selected by Borrower and satisfactory to Lender (the "Accountant"). The Accountant's certification shall not be qualified or limited due to a restricted or limited examination by the Accountant of any material portion of Borrower's records or otherwise. For its financial reporting year ended December 31, 2003 (and December 31, 2004, if applicable), Borrower shall furnish company prepared annual financial statements to Lender as otherwise required above.

(c) **Compliance Certificates**. Simultaneously with the delivery of each set of financial statements referred to in paragraphs (a) and (b) above, a certificate of the chief financial officer of Borrower substantially in the form of Exhibit "C" to the Supplement (i) setting forth in reasonable detail any calculations required to establish whether Borrower is in compliance with any financial covenants or tests set forth in the Supplement, and (ii) stating whether any Default or Event of Default exists on the date of such certificate, and if so, setting forth the details thereof and the action which Borrower is taking or proposes to take with respect thereto.

(d) **Government Required Reports; Press Releases**. Promptly after sending, issuing, making available, or filing, copies of all statements released to any news media for publication, all reports, proxy statements, and financial statements that Borrower sends or makes available to its stockholders, and, not later than five (5) days after actual filing or the date such filing was first due, all registration statements and reports that Borrower files or is required to file with the Securities and Exchange Commission, or any other governmental or regulatory authority.

(e) **Other Information**. Such other statements, lists of property and accounts, budgets, forecasts, reports, or other information as Lender may from time to time reasonably request.

5.3 Managerial Assistance from Lender. Permit Lender to substantially participate in, and substantially influence the conduct of management of Borrower through the exercise of "management rights," as that term is defined in 29 C.F.R. § 2510.3-101(d), including without limitation the following rights:

(a) Borrower agrees that (i) it will make its officers, directors, employees and affiliates available at such times as Lender may reasonably request for Lender to consult with and advise as to the conduct of Borrower's business, its equipment and financing plans, and its financial condition and prospects, (ii) Lender shall have the right to inspect Borrower's books, records, facilities and properties at reasonable times during normal business hours on reasonable advance

notice, and (iii) Lender shall be entitled to recommend prospective candidates for election or nomination for election to Borrower's Board of Directors and Borrower shall give due consideration to (but shall not be bound by) such recommendations, it being the intention of the parties that Lender shall be entitled through such rights, *inter alia*, to furnish "significant managerial assistance", as defined in Section 2(a)(47) of the Investment Company Act of 1940, to Borrower.

(b) Without limiting the generality of (a) above, if Lender reasonably believes that financial or other developments affecting Borrower have impaired or are likely to impair Borrower's ability to perform its obligations under this Agreement, permit Lender reasonable access to Borrower's management and/or Board of Directors and opportunity to present Lender's views with respect to such developments.

Lender shall cooperate with Borrower to ensure that the exercise of Lender's rights shall not disrupt the business of Borrower. The rights enumerated above shall not be construed as giving Lender control over Borrower's management or policies.

5.4 Existence. Maintain and preserve Borrower's existence, present form of business, and all rights and privileges necessary or desirable in the normal course of its business; and keep all Borrower's property in good working order and condition, ordinary wear and tear excepted.

5.5 Insurance. Obtain and keep in force insurance in such amounts and types as is usual in the type of business conducted by Borrower, with insurance carriers having a policyholder rating of not less than "A" and financial category rating of Class VII in "Best's Insurance Guide," unless otherwise approved by Lender. Such insurance policies must be in form and substance satisfactory to Lender, and shall list Lender as an additional insured or loss payee, as applicable, on endorsement(s) in form reasonably acceptable to Lender. Borrower shall furnish to Lender such endorsements, and upon Lender's request, copies of any or all such policies.

5.6 Accounting Records. Maintain adequate books, accounts and records, and prepare all financial statements in accordance with GAAP, and in compliance with the regulations of any governmental or regulatory authority having jurisdiction over Borrower or Borrower's business.

5.7 Compliance With Laws. Comply with all laws (including Environmental Laws), rules, regulations applicable to, and all orders and directives of any governmental or regulatory authority having jurisdiction over, Borrower or Borrower's business, and with all material agreements to which Borrower is a party, except where the failure to so comply would not have a Material Adverse Effect.

5.8 Taxes and Other Liabilities. Pay all Borrower's Indebtedness when due; pay all taxes and other governmental or regulatory assessments before delinquency or before any penalty attaches thereto, except as may be contested in good faith by the appropriate procedures and for which Borrower shall maintain appropriate reserves; and timely file all required tax returns.

5.9 Special Collateral Covenants.

(a) **Maintenance of Collateral; Inspection**. Do all things reasonably necessary to maintain, preserve, protect and keep all Collateral in good working order and salable condition, ordinary wear and tear excepted, deal with the Collateral in all ways as are considered good practice by owners of like property, and use the Collateral lawfully and, to the extent applicable, only as permitted by Borrower's insurance policies. Maintain, or cause to be maintained, complete and accurate Records relating to the Collateral. Upon reasonable prior notice at reasonable times during normal business hours, Borrower hereby authorizes Lender's officers, employees, representatives and agents to inspect the Collateral and to discuss the Collateral and the Records relating thereto with Borrower's officers and employees.

(b) **Financing Statements and Other Actions**. Execute and deliver to Lender all financing statements, notices and other documents from time to time reasonably requested by Lender to maintain a first perfected security interest in the Collateral in favor of Lender; perform such other acts, and execute and deliver to Lender such additional conveyances, assignments, agreements and instruments, as Lender may at any time request in connection with the administration and enforcement of this Agreement or Lender's rights, powers and remedies hereunder.

(c) **Liens**. Not create, incur, assume or permit to exist any Lien or grant any other Person a negative pledge on any Collateral, except Permitted Liens.

(d) **Documents of Title**. Not sign or authorize the signing of any financing statement or other document naming Borrower as debtor or obligor, or acquiesce or cooperate in the issuance of any bill of lading, warehouse receipt or other document or instrument of title with respect to any Collateral, except those

negotiated to Lender, or those naming Lender as secured party.

(e) **Change in Location or Name**. Without at least 30 days' prior written notice to Lender: (a) not relocate any Collateral or Records, its chief executive office, or establish a place of business at a location other than as specified in the Supplement; and (b) not change its name, mailing address, location of Collateral, jurisdiction of incorporation or its legal structure.

(f) **Decals, Markings**. At the request of Lender, firmly affix a decal, stencil or other marking to designated items of Equipment, indicating thereon the security interest of Lender.

(g) **Agreement With Real Property Owner/Landlord**. Obtain and maintain such acknowledgments, consents, waivers and agreements from the owner, lienholder, mortgagee and landlord with respect to any real property on which Equipment is located as Lender may require, all in form and substance satisfactory to Lender.

5.10 Intellectual Property. Borrower shall use reasonable commercial efforts to (i) protect, defend and maintain the validity and enforceability of its Trademarks, Patents, Copyrights, and any licenses of any of the foregoing (ii) detect infringements of its Trademarks, Patents, Copyrights, and any licenses of any of the foregoing, and (iii) not allow any material Trademarks, Patents or Copyrights to be abandoned, forfeited or dedicated to the public unless approved by Borrower's Board of Directors.

5.11 Authorization for Automated Clearinghouse Funds Transfer. (i) Authorize Lender to initiate debit entries to Borrower's Primary Operating Account, specified in the Supplement hereto, through Automated Clearinghouse ("ACH") transfers, in order to satisfy the Obligations; (ii) provide Lender at least thirty (30) days notice of any change in Borrower's Primary Operating Account; and (iii) grant Lender any additional authorizations necessary to begin ACH debits from a new account which becomes the Primary Operating Account.

ARTICLE 6 — NEGATIVE COVENANTS

During the term of this Agreement and until the performance of all Obligations, Borrower will not (without Lender's prior written consent):

6.1 Dividends. Except after a Qualified Public Offering, pay any dividends or purchase, redeem or otherwise acquire or make any other distribution with respect to any of Borrower's capital stock, except (a) dividends or other distributions solely of capital stock of Borrower, (b) so long as no Event of Default has occurred and is continuing, (i) repurchases of stock from employees upon termination of employment under reverse vesting or similar repurchase plans, or (ii) dividends required to be paid to Series A Preferred Stockholders pursuant to the Amended and Restated Articles of Incorporation in force at the time of the execution of this Agreement and (c) as expressly permitted in the Supplement.

6.2 Changes/Mergers. Liquidate or dissolve; or enter into any consolidation, merger or other combination in which the stockholders of the Borrower immediately prior to the first such transaction own less than 50% of the voting stock of the Borrower immediately after giving effect to such transaction or related series of such transactions, except that Borrower may consolidate or merge so long as: (A) the entity that results from such merger or consolidation (the "Surviving Entity") shall have executed and delivered to Lender an agreement in form and substance reasonably satisfactory to Lender, containing an assumption by the Surviving Entity of the due and punctual payment and performance of all Obligations and performance and observance of each covenant and condition of Borrower in the Loan Documents; (B) all such obligations of the Surviving Entity to Lender shall be guaranteed by any entity that directly or indirectly owns or controls more than 50% of the voting stock of the Surviving Entity; (C) immediately after giving effect to such merger or consolidation, no Event of Default or, event which with the lapse of time or giving of notice or both, would result in an Event of Default shall have occurred and be continuing; and (D) the credit risk to Lender, in its sole discretion, of the Surviving Entity shall not be increased. In determining whether the proposed merger or consolidation would result in an increased credit risk, Lender may consider, among other things, changes in Borrower's management team, employee base, access to equity markets, venture capital support, financial position and/or disposition of intellectual property rights which may reasonably be anticipated as a result of the transaction.

6.3 Sales of Assets. Sell, transfer, lease, license or otherwise dispose of (a "Transfer") any of Borrower's assets except (i) non-exclusive licenses of Intellectual Property in the ordinary course of business consistent with industry practice; (ii) Transfers of worn-out, obsolete or surplus property (each as determined by the Borrower in its reasonable judgment) not constituting Equipment as to which a Loan was made hereunder; (iii) Transfers of Inventory not constituting Equipment

as to which a Loan was made hereunder; (iv) Transfers constituting Permitted Liens; (v) Transfers of Borrower's assets (other than Intellectual Property and Equipment as to which a Loan was made hereunder) for fair consideration and in the ordinary course of its business, and (vi) except as expressly permitted in the Supplement.

6.4 Loans/Investments. Make or suffer to exist any loans, guaranties, advances, or investments, except:

(a) Accounts receivable in the ordinary course of Borrower's business;

(b) Investments in domestic certificates of deposit issued by, and other domestic investments with, financial institutions organized under the laws of the United States or a state thereof, having One Hundred Million Dollars ($100,000,000) in capital and a rating of at least "investment grade" by Moody's or Standard & Poors of any successor rating agency;

(c) Investments in marketable obligations of the United States of America and in open market commercial paper rated at least A2 or P2 by Moody's and /or Standard & Poors.

(d) Temporary advances to cover incidental expenses to be incurred in the ordinary course of business;

(e) Investments in joint ventures, strategic alliances, licensing and similar arrangements customary in Borrower's industry and which do not require Borrower to assume or otherwise become liable for the obligations of any third party not directly related to or arising out of such arrangement or, without the prior written consent of Lender, require Borrower to transfer ownership of Collateral to such joint venture or other entity; and

(f) Investments in wholly-owned subsidiaries of the Borrower; and

(g) as expressly permitted in the Supplement.

6.5 Transactions With Related Persons. Directly or indirectly enter into any transaction with or for the benefit of a Related Person on terms more favorable to the Related Person than would have been obtainable in an "arms' length" dealing.

6.6 Other Business. Engage in any material line of business other than the business Borrower conducts as of the Closing Date.

6.7 Financial Covenants. Fail to comply with any financial covenants or tests set forth in the Supplement.

6.8 Compliance. Become an "investment company" or controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Loan for such purpose. Fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to comply with the Federal Fair Labor Standards Act or violate any law or regulation, which violation could have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Lender's Lien on the Collateral, or permit any of its subsidiaries to do any of the foregoing.

6.9 Stock Ownership. Allow any Person or two or more Persons acting in concert to acquire beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission) of twenty-five percent (25%) or more of the outstanding shares of voting stock of Borrower.

ARTICLE 7 — EVENTS OF DEFAULT

7.1 Events of Default; Acceleration. Upon the occurrence and during the continuation of any Default, the obligation of Lender to make any additional Loan shall be suspended. The occurrence of any of the following (each, an "Event of Default") shall terminate any obligation of Lender to make any additional Loan; and shall, at the option of Lender (1) make all sums of Basic Interest and principal, all Terminal Payments, and any Obligations and other amounts owing under any Loan Documents immediately due and payable without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor or any other notices or demands, and (2) give Lender the right to exercise any other right or remedy provided by contract or applicable law:

(a) Borrower shall fail to pay any principal, interest or Terminal Payment under this Agreement or any Note, or fail to pay any fees or other charges when due under any Loan Document, and such failure continues for five (5) Business Days or more after the same first becomes due; or an Event of Default as

defined in any other Loan Document shall have occurred.

(b) Any representation or warranty made, or financial statement, certificate or other document provided, by Borrower under any Loan Document shall prove to have been false or misleading in any material respect when made or deemed made herein.

(c) Borrower shall fail to pay its debts generally as they become due or shall commence any Insolvency Proceeding with respect to itself; an involuntary Insolvency Proceeding shall be filed against Borrower, or a custodian, receiver, trustee, assignee for the benefit of creditors, or other similar official, shall be appointed to take possession, custody or control of the properties of Borrower, and such involuntary Insolvency Proceeding, petition or appointment is acquiesced to by Borrower or is not dismissed within sixty (60) days; or the dissolution or termination of the business of Borrower.

(d) Borrower shall be in default beyond any applicable period of grace or cure under any other agreement involving the borrowing of money, the purchase of property, the advance of credit or any other monetary liability of any kind to Lender or to any Person which results in the acceleration of payment of such obligation in an amount in excess of the Threshold Amount.

(e) Any governmental or regulatory authority shall take any judicial or administrative action, or any defined benefit pension plan maintained by Borrower shall have any unfunded liabilities, any of which, in the reasonable judgment of Lender, might have a Material Adverse Effect.

(f) Subject to Section 6.3 hereof, any sale, transfer or other disposition of all or a substantial or material part of the assets of Borrower, including without limitation to any trust or similar entity, shall occur, except any transfer to a wholly-owned subsidiary permitted under the Supplement.

(g) Any judgment(s) singly or in the aggregate in excess of the Threshold Amount shall be entered against Borrower which remain unsatisfied, unvacated or unstayed pending appeal for ten (10) or more days after entry thereof.

(h) Borrower shall fail to perform or observe any covenant contained in Article 6 of this Agreement.

(i) Borrower shall fail to perform or observe any covenant contained in Section 5.9 of this Agreement.

(j) Borrower shall fail to perform or observe any covenant contained in this Agreement or any other Loan Document (other than a covenant which is dealt with specifically elsewhere in this Article 7) and, if capable of being cured, the breach of such covenant is not cured within 30 days after the sooner to occur of Borrower's receipt of notice of such breach from Lender or the date on which such breach fast becomes known to any officer of Borrower; provided, however that if such breach is not capable of being cured within such 30-day period and Borrower timely notifies Lender of such fact and Borrower diligently pursues such cure, then the cure period shall be extended to the date requested in Borrower's notice but in no event more than 90 days from the initial breach; provided, further, that such additional 60-day opportunity to cure shall not apply in the case of any failure to perform or observe any covenant which has been the subject of a prior failure within the preceding 180 days or which is a willful and knowing breach by Borrower.

7.2 Remedies Upon Default. Upon the occurrence and during the continuance of an Event of Default, Lender shall be entitled to, at its option, exercise any or all of the rights and remedies available to a secured party under the UCC or any other applicable law, and exercise any or all of its rights and remedies provided for in this Agreement and in any other Loan Document. The obligations of Borrower under this Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any Obligations is rescinded or must otherwise be returned by Lender upon, on account of, or in connection with, the insolvency, bankruptcy or reorganization of Borrower or otherwise, all as though such payment had not been made.

7.3 Sale of Collateral. Upon the occurrence and during the continuance of an Event of Default, Lender may, subject to the provisions contained in the UCC and other applicable law, rules or regulations, sell all or any part of the Collateral, at public or private sales, to itself, a wholesaler, retailer or investor, for cash, upon credit or for future delivery, and at such price or prices as Lender may deem commercially reasonable. To the extent permitted by law, Borrower hereby specifically waives all rights of redemption and any rights of stay or appraisal which it has or may have under any applicable law in effect from time to time. Any such public or private sales shall be held at such times and at such place(s) as Lender may determine. In case of the sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by Lender until the selling price is paid by the purchaser, but Lender shall not incur any liability in case of the failure of such purchaser to pay for the

Collateral and, in case of any such failure, such Collateral may be resold. Lender may, instead of exercising its power of sale, proceed to enforce its security interest in the Collateral by seeking a judgment or decree of a court of competent jurisdiction.

7.4 Borrower's Obligations Upon Default. Upon the request of Lender after the occurrence and during the continuance of an Event of Default, Borrower will:

(a) Assemble and make available to Lender the Collateral at such place(s) as Lender shall reasonably designate, segregating all Collateral so that each item is capable of identification; and

(b) Subject to the rights of any lessor, permit Lender, by Lender's officers, employees, agents and representatives, to enter any premises where any Collateral is located, to take possession of the Collateral, to complete the processing, manufacture or repair of any Collateral, and to remove the Collateral, or to conduct any public or private sale of the Collateral, all without any liability of Lender for rent or other compensation for the use of Borrower's premises.

ARTICLE 8 — SPECIAL COLLATERAL PROVISIONS

8.1 Performance of Borrower's Obligations. Without having any obligation to do so, upon reasonable prior notice to Borrower, Lender may perform or pay any obligation which Borrower has agreed to perform or pay under this Agreement, including, without limitation, the payment or discharge of taxes or Liens levied or placed on or threatened against the Collateral. In so performing or paying, Lender shall determine the action to be taken and the amount necessary to discharge such obligations. Borrower shall reimburse Lender on demand for any amounts paid by Lender pursuant to this Section, which amounts shall constitute Obligations secured by the Collateral and shall bear interest from the date of demand at the Default Rate.

8.2 Power of Attorney. For the purpose of protecting and preserving the Collateral and Lender's rights under this Agreement, Borrower hereby irrevocably appoints Lender, with full power of substitution, as its attorney-in-fact with full power and authority, after the occurrence and during the continuance of an Event of Default, to do any act which Borrower is obligated to do hereunder; to exercise such rights with respect to the Collateral as Borrower might exercise; to use such Equipment, Fixtures or other property as Borrower might use; to enter Borrower's premises; to give notice of Lender's security interest in, and to collect the Collateral; and to execute and file in Borrower's name any financing statements, amendments and continuation statements necessary or desirable to perfect or continue the perfection of Lender's security interests in the Collateral. Borrower hereby ratifies all that Lender shall lawfully do or cause to be done by virtue of this appointment.

8.3 Authorization for Lender to Take Certain Action. The power of attorney created in Section 8.2 is a power coupled with an interest and shall be irrevocable. The powers conferred on Lender hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon lender to exercise such powers. Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and in no event shall Lender or any of its directors, officers, employees, agents or representatives be responsible to Borrower for any act or failure to act, except for gross negligence or willful misconduct. After the occurrence and during the continuance of an Event of Default, Lender may exercise this power of attorney without notice to or assent of Borrower, in the name of Borrower, or in Lender's own name, from time to time in Lender's sole discretion and at Borrower's expense. To further carry out the terms of this Agreement, after the occurrence and during the continuance of an Event of Default, Lender may:

(a) Execute any statements or documents or take possession of, and endorse and collect and receive delivery or payment of, any checks, drafts, notes, acceptances or other instruments and documents constituting Collateral, or constituting the payment of amounts due and to become due or any performance to be rendered with respect to the Collateral.

(b) Sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts; drafts, certificates and statements under any commercial or standby letter of credit relating to Collateral; or any other documents relating to the Collateral, including without limitation the Records.

(c) Use or operate Collateral or any other property of Borrower for the purpose of preserving or liquidating Collateral.

(d) File any claim or take any other action or proceeding in any court of law or equity or as otherwise deemed appropriate by Lender for the purpose of collecting any and all monies due or

securing any performance to be rendered with respect to the Collateral.

(e) Commence, prosecute or defend any suits, actions or proceedings or as otherwise deemed appropriate by Lender for the purpose of protecting or collecting the Collateral.

(f) Prepare, adjust, execute, deliver and receive payment under insurance claims, and collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and apply such amounts at Lender's sole discretion, toward repayment of the Obligations or replacement of the Collateral.

8.4 Application of Proceeds. Any Proceeds and other monies or property received by Lender pursuant to the terms of this Agreement or any Loan Document may be applied by Lender first to the payment of expenses of collection, including without limitation reasonable attorneys' fees, and then to the payment of the Obligations in such order of application as Lender may elect.

8.5 Deficiency. If the Proceeds of any disposition of the Collateral are insufficient to cover all costs and expenses of such sale and the payment in full of all the Obligations, plus all other sums required to be expended or distributed by Lender, then Borrower shall be liable for any such deficiency.

8.6 Lender Transfer. Upon the transfer of all or any part of the Obligations, Lender may transfer all or part of the Collateral and shall be fully discharged thereafter from all liability and responsibility with respect to such Collateral so transferred, and the transferee shall be vested with all the rights and powers of Lender hereunder with respect to such Collateral so transferred, but with respect to any Collateral not so transferred, Lender shall retain all rights and powers hereby given.

8.7 Lender's Duties.

(a) Lender shall use reasonable care in the custody and preservation of any Collateral in its possession. Without limitation on other conduct which may be considered the exercise of reasonable care, Lender shall be deemed to have exercised reasonable care in the custody and preservation of such Collateral if such Collateral is accorded treatment substantially equal to that which Lender accords its own property, it being understood that Lender shall not have any responsibility for ascertaining or taking action with respect to declining value or other matters relative to any Collateral, regardless of whether Lender has or is deemed to have knowledge of such matters; or taking any necessary steps to preserve any rights against any Person with respect to any Collateral. Under no circumstances shall Lender be responsible for any injury or loss to the Collateral, or any part thereof, arising from any cause beyond the reasonable control of Lender.

(b) Lender may at any time deliver the Collateral or any part thereof to Borrower and the receipt of Borrower shall be a complete and full acquittance for the Collateral so delivered, and Lender shall thereafter be discharged from any liability or responsibility therefor.

(c) Neither Lender, nor any of its directors, officers, employees, agents, attorneys or any other person affiliated with or representing Lender shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by Borrower or any other party through the ordinary negligence of Lender, or any of its directors, officers, employees, agents, attorneys or any other person affiliated with or representing Lender.

8.8 Termination of Security Interests. Upon the payment in full of the Obligations and satisfaction of all Borrower's obligations under this Agreement and the other Loan Documents, and if Lender has no further obligations under its Commitment, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to Borrower. Upon any such termination, the Lender shall, at Borrower's expense, execute and deliver to Borrower such documents as Borrower shall reasonably request to evidence such termination.

ARTICLE 9 — GENERAL PROVISIONS

9.1 Notices. Any notice given by any party under any Loan Document shall be in writing and personally delivered, sent by overnight courier, or United States mail, postage prepaid, or sent by facsimile, or other authenticated message, charges prepaid, to the other party's or parties' addresses shown on the Supplement. Each party may change the address or facsimile number to which notices, requests and other communications are to be sent by giving written notice of such change to each other party. Notice given by hand delivery shall be deemed received on the date delivered; if sent by overnight courier, on the next Business Day after delivery to the courier service; if by first class mail, on the third Business Day after deposit in the U.S. Mail; and if by facsimile, on the date of transmission.

9.2 Binding Effect. The Loan Documents shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns; provided, however, that neither Borrower nor Lender may assign or transfer Borrower's rights or obligations under any Loan Document without the other party's prior written consent, provided that Lender may grant a security interest in its rights under the Loan Documents. Lender shall at all times maintain the confidentiality of all documents and information which Lender now or hereafter may have relating to the Loans, Borrower, or its business. It is the intention of the parties that. as a "venture capital operating company," Venture Lending & Leasing III, LLC ("LLC"), the parent and sole owner of Venture Lending & Leasing III, Inc., shall have the benefit of, and the power to independently exercise, those management rights' provided in Section 5.3. To that end, the references to Lender in Sections 4.2(f), 5.1, 5.2, 5.3 and 5.9(a) hereof shall include LLC, and LLC shall have the right to exercise the advisory, inspection, information and other rights given to lender under those Sections independently of Lender. No amendment or modification of this Agreement shall alter or diminish LLC's rights under the preceding sentence without the consent of LLC.

9.3 No Waiver. Any waiver, consent or approval by Lender of any Event of Default or breach of any provision, condition, or covenant of any Loan Document must be in writing and shall be effective only to the extent set forth in writing. No waiver of any breach or default shall be deemed a waiver of any later breach or default of the same or any other provision of any Loan Document. No failure or delay on the part of Lender in exercising any power, right, or privilege under any Loan Document shall operate as a waiver thereof, and no single or partial exercise of any such power, right, or privilege shall preclude any further exercise thereof or the exercise of any other power, right or privilege. Lender has the right at its sole option to continue to accept interest and/or principal payments due under the Loan Documents after default, and such acceptance shall not constitute a waiver of said default or an extension of the Maturity Date unless Lender agrees otherwise in writing.

9.4 Rights Cumulative. All rights and remedies existing under the Loan Documents are cumulative to, and not exclusive of, any other rights or remedies available under contract or applicable law.

9.5 Unenforceable Provisions. Any provision of any Loan Document executed by Borrower which is prohibited or unenforceable in any jurisdiction, shall be so only as to such jurisdiction and only to the extent of such prohibition or unenforceability, but all the remaining provisions of any such Loan Document shall remain valid and enforceable.

9.6 Accounting Terms. Except as otherwise provided in this Agreement, accounting terms and financial covenants and information shall be determined and prepared in accordance with GAAP.

9.7 Indemnification; Exculpation. Borrower shall pay and protect, defend and indemnify Lender and Lender's employees, officers, directors, shareholders, affiliates, correspondents, agents and representatives (other than Lender, collectively "Agents") against, and hold Lender and each such Agent harmless from, all claims, actions, proceedings, liabilities, damages, losses, expenses (including, without limitation, attorneys' fees and costs) and other amounts incurred by Lender and each such Agent, arising from (i) the matters contemplated by this Agreement or any other Loan Documents or (ii) any contention that Borrower has failed to comply with any law, rule, regulation, order or directive applicable to Borrower's business; provided, however, that this indemnification shall not apply to any of the foregoing incurred solely as the result of Lender's or any Agents gross negligence or willful misconduct. This indemnification shall survive the payment and satisfaction of all of Borrower's Obligations to Lender.

9.8 Reimbursement. Borrower shall reimburse Lender for all costs and expenses, including without limitation reasonable attorneys' fees and disbursements expended or incurred by Lender in any arbitration, mediation, judicial reference, legal action or otherwise in connection with (a) the preparation and negotiation of the Loan Documents (which Lender acknowledges shall be included within the Documentation Fee), (b) the amendment and enforcement of the Loan Documents, including without limitation during any workout, attempted workout, and/or in connection with the rendering of legal advice as to Lender's rights, remedies and obligations under the Loan Documents, (c) collecting any sum which becomes due Lender under any Loan Document, (d) any proceeding for declaratory relief, any counterclaim to any proceeding, or any appeal, or (e) the protection, preservation or enforcement of any rights of Lender. For the purposes of this section, attomeys' fees shall include, without limitation, fees incurred in connection with the following: (1) contempt proceedings; (2) discovery; (3) any motion, proceeding or other activity of any kind in connection with an Insolvency Proceeding; (4) garnishment, levy, and debtor and third party examinations; and (5) postjudgment motions and proceedings of any kind, including without limitation any activity taken to collect or enforce any judgment.

All of the foregoing costs and expenses shall be payable upon demand by Lender, and if not paid within forty-five (45) days of presentation of invoices shall bear interest at the highest applicable Default Rate.

9.9 Execution in Counterparts. This Agreement may be executed in any number of counterparts which, when taken together, shall constitute but one agreement.

9.10 Entire Agreement. The Loan Documents are intended by the parties as the final expression of their agreement and therefore contain the entire agreement between the parties and supersede all prior understandings or agreements concerning the subject matter hereof. This Agreement may be amended only in a writing signed by Borrower and Lender.

9.11 Governing Law and Jurisdiction.

(a) THIS AGREEMENT AND THE LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF CALIFORNIA OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF CALIFORNIA, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF BORROWER AND LENDER CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF BORROWER AND LENDER IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. BORROWER AND LENDER EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY CALIFORNIA LAW.

9.12 Waiver of Jury Trial. BORROWER AND LENDER EACH WAIVES ITS RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. BORROWER AND LENDER EACH AGREES THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEMS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

ARTICLE 10 — DEFINITIONS

The definitions appearing in this Agreement or any Supplement shall be applicable to both the singular and plural forms of the defined terms:

"**Account**" means any "account," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and, in any event, shall include, without limitation, all accounts receivable, book debts and other forms of obligations (other than forms of obligations evidenced by Chattel Paper, Documents or Instruments) now owned or hereafter received or acquired by or belonging or owing to Borrower (including, without limitation, under any trade name, style or division thereof) whether arising out of goods sold or services rendered by Borrower or from any other transaction, whether or not the same involves the sale of goods or services by Borrower (including, without limitation, any such obligation that may be characterized as an account or contract right under the UCC) and all of Borrower's rights in, to and under all purchase orders or receipts now owned or hereafter acquired by it for goods or services, and all of Borrower's rights to any goods represented by any of the foregoing (including, without limitation, unpaid seller's rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or

repossessed goods), and all monies due or to become due to Borrower under all purchase orders and contracts for the sale of goods or the performance of services or both by Borrower or in connection with any other transaction (whether or not yet earned by performance on the part of Borrower), now in existence or hereafter occurring, including, without limitation, the right to receive the proceeds of said purchase orders and contracts, and all collateral security and guarantees of any kind given by any Person with respect to any of the foregoing.

"**Affiliate**" means any Person which directly or indirectly controls, is controlled by, or is under common control with Borrower. "Control," "controlled by" and "under common control with" mean direct or indirect possession of the power to direct or cause the direction of management or policies (whether through ownership of voting securities, by contract or otherwise); provided, that control shall be conclusively presumed when any Person or affiliated group directly or indirectly owns five percent (5%) or more of the securities having ordinary voting power for the election of directors of a corporation.

"**Agreement**" means this Loan and Security Agreement and each Supplement thereto, as each may be amended or supplemented from time to time.

"**Bankruptcy Code**" means the Federal Bankruptcy Reform Act of 1978 (1I U.S.C. §101, et seq.), as amended.

"**Basic Interest**" means the fixed rate of interest payable on the outstanding balance of each Loan at the applicable Designated Rate.

"**Borrowing Date**" means the Business Day on which the proceeds of a Loan are disbursed by Lender.

"**Borrowing Request**" means a written request from Borrower in substantially the form of Exhibit "B" to the Supplement, requesting the funding of one or more Loans on a particular Borrowing Date.

"**Business Day**" means any day other than a Saturday, Sunday or other day on which commercial banks in New York City or San Francisco are authorized or required by law to close.

"**Chattel Paper**" means any "chattel paper," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"**Closing Date**" means the date of this Agreement.

"**Collateral**" means all of Borrower's right, title and interest in and to Equipment, whether now or hereafter owned or acquired by Borrower and wherever located; and whether held by Borrower or in the possession of any third party, and all Proceeds of each of the foregoing and all accessions to substitutions and replacements for, and rents, profits and products of each of the foregoing.

"**Commitment**" means the obligation of Lender to make Loans to Borrower up to the aggregate principal amount set forth in the Supplement.

"**Copyrights**" means all of the following now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (i) all copyrights, whether registered or unregistered, held pursuant to the laws of the United States, any State thereof or of any other country; (ii) all registrations, applications and recordings in the United States Copyright Office or in any similar office or agency of the United States, any State thereof or any other country; (iii) all continuations, renewals or extensions thereof; and (iv) any registrations to be issued under any pending applications.

"**Default**" means an event which with the giving of notice, passage of time, or both would constitute an Event of Default.

"**Default Rate**" is defined in Section 2.7.

"**Designated Rate**" means the rate of interest per annum described in the Supplement as being applicable to an outstanding Loan from time to time.

"**Environmental Laws**" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any governmental authorities, in each case relating to environmental, health, or safety matters.

"**Equipment**" means each item of "equipment" and "goods," as such terms are defined in the UCC, described on Schedule I, attached to the Supplement and incorporated herein by this reference (as such Schedule I may be amended or supplemented from time to time), now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest, and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments,

components, parts, equipment and accessories installed thereon or affixed thereto; and all proceeds of the foregoing arising from the sale, lease, use of other disposition of all or any portion of such property, including all rights to payments with respect to insurance or condemnation of the foregoing, and any cause of action relating to any of the foregoing.

"**Event of Default**" means any event described in Section 7. I.

"**GAAP**" means generally accepted accounting principles and practices consistent with those principles and practices promulgated or adopted by the Financial Accounting Standards Board and the Board of the American Institute of Certified Public Accountants, their respective predecessors and successors. Each accounting term used but not otherwise expressly defined herein shall have the meaning given it by GAAP.

"**Indebtedness**" of any Person means at any date, without duplication and without regard to whether matured or unmatured, absolute or contingent: (i) all obligations of such Person for borrowed money; (ii) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments; (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business; (iv) all obligations of such Person as lessee under capital leases; (v) all obligations of such Person to reimburse or prepay any bank or other Person in respect of amounts paid under a letter of credit, banker's acceptance, or similar instrument, whether drawn or undrawn; (vi) all obligations of such Person to purchase securities which arise out of or in connection with the sale of the same or substantially similar securities; (vii) all obligations of such Person to purchase, redeem, exchange, convert or otherwise acquire for value any capital stock of such Person or any warrants, rights or options to acquire such capital stock, now or hereafter outstanding, except to the extent that such obligations remain performable solely at the option of such Person; (viii) all obligations to repurchase assets previously sold (including any obligation to repurchase any accounts or chattel paper under any factoring, receivables purchase, or similar arrangement): (ix) obligations of such Person under interest rate swap, cap, collar or similar hedging arrangements, excluding foreign exchange contracts used for hedging; and (x) all obligations of others of any type described in clause (i) through clause (ix) above guaranteed by such Person.

"**Insolvency Proceeding**" means (a) any case, action or proceeding before any court or other governmental authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding up or relief of debtors, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of its creditors generally or any substantial portion of its creditors, undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code.

"**Instruments**" means any "instrument," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

"**Lien**" means any mortgage, deed of trust, pledge, hypothecation, assignment for security, security interest, encumbrance, levy, lien or charge of any kind, whether voluntarily incurred or arising by operation of law or otherwise, against any property, any conditional sale or other title retention agreement, any lease in the nature of a security interest, and the filing of any financing statement (other than a precautionary financing statement with respect to a lease that is not in the nature of a security interest) under the UCC or comparable law of any jurisdiction.

"**Loan**" means an extension of credit by Lender under this Agreement.

"**Loan Documents**" means, individually and collectively, this Loan and Security Agreement, each Supplement, each Note, and any other security or pledge agreement(s), any Warrants issued by Borrower to Lender in connection with this Agreement, and all other contracts, instruments, addenda and documents executed in connection with this Agreement or the extensions of credit which are the subject of this Agreement.

"**Material Adverse Effect**" or "**Material Adverse Change**" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, or condition (financial or otherwise) of Borrower, (b) a material impairment of the ability of Borrower to perform under any Loan Document; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against Borrower of any Loan Document.

"**Maturity Date**" means, with regard to a Loan, the earlier of (i) its maturity by reason of acceleration, or (ii) its stated maturity date; and is the date on which payment of all outstanding principal, accrued interest,

and the Terminal Payment with respect to such Loan is due.

"**Note**" means a promissory note substantially in the form attached to the Supplement as Exhibit "A", executed by Borrower evidencing each Loan.

"**Obligations**" means all debts, obligations and liabilities of Borrower to Lender currently existing or now or hereafter made, incurred or created under, pursuant to or in connection with this Agreement or any other Loan Document, whether voluntary or involuntary and however arising or evidenced, whether direct or acquired by Lender by assignment or succession, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether Borrower may be liable individually or jointly, or whether recovery upon such debt may be or become barred by any statute of limitations or otherwise unenforceable; and all renewals, extensions and modifications thereof; and all attorneys' fees and costs incurred by Lender in connection with the collection and enforcement thereof as provided for in any Loan Document.

"**Patents**" means all of the following property now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (a) all letters patent of, or rights corresponding thereto in, the United States or any other county, all registrations and recordings thereof, and all applications for letters patent of, or rights corresponding thereto in, the United States or any other country, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country; (b) all reissues, continuations, continuations-in-part or extensions thereof; (c) all petty patents, divisionals, and patents of addition; and (d) all patents to be issued under any such applications.

"**Permitted Lien**" means

(a) Involuntary Liens which, in the aggregate, would not have a Material Adverse Effect and which in any event would not exceed, in the aggregate, the Threshold Amount;

(b) Liens for current taxes or other governmental or regulatory assessments which are not delinquent, or which are contested in good faith by the appropriate procedures and for which appropriate reserves are maintained;

(c) security interests on any property held or acquired by Borrower in the ordinary course of business securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; provided, that such Lien attaches solely to the property acquired with such Indebtedness and that the principal amount of such Indebtedness does not exceed one hundred percent (100%) of the cost of such property; and further provided, that such property is not equipment or other Collateral with respect to which a Loan has been made hereunder.

(d) Liens in favor of Lender;

(e) bankers' liens, rights of setoff and similar Liens incurred on deposits made in the ordinary course of business;

(f) material men's, mechanics', repairmen's, employees' or other like Liens arising in the ordinary course of business and which are not delinquent for more than 45 days or are being contested in good faith by appropriate proceedings;

(g) any judgment, attachment or similar Lien, unless the judgment it secures has not been discharged or execution thereof effectively stayed and bonded against pending appeal within 30 days of the entry thereof;

(h) nonexclusive licenses or sublicenses of patents, copyrights or trademarks in the order course of Borrower's business; and

(i) Liens which have been approved by Lender in writing prior to the Closing Date.

"**Proceeds**" means "proceeds," as such term is defined in the UCC and, in any event, shall include, without limitation, (a) any and all Accounts, Chattel Paper, Instruments, cash or other forms of money or currency or other proceeds payable to Borrower from time to time in respect of the Collateral, (b) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to Borrower from time to time with respect to any of the Collateral, (c) any and all payments (in any form whatsoever) made or due and payable to Borrower from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental authority (or any Person acting under color of governmental authority), (d) any claim of Borrower against third parties (i) for past, present or future infringement of any copyright, patent or patent license or (ii) for past, present or future infringement or

dilution of any trademark or trademark license or for injury to the goodwill associated with any trademark, trademark registration or trademark licensed under any trademark license and (e) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral

"**Person**" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, other entity or government (whether federal, state, county, city, municipal, local, foreign, or otherwise, including any instrumentality, division, agency, body or department thereof).

"**Qualified Public Offering**" means the closing of a firmly underwritten public offering of Borrower's common stock with aggregate proceeds of not less than $20,000,000 (prior to underwriting expenses and commissions).

"**Records**" means all Borrower's computer programs, software, hardware, source codes and data processing information, all written documents, books, invoices, ledger sheets, financial information and statements, and all other writings concerning Equipment and other Collateral.

"**Related Person**" means any Affiliate of Borrower, or any officer, employee, director or equity security holder of Borrower or any Affiliate.

"**Supplement**" means that certain supplement to the Loan and Security Agreement, as the same may be amended or restated from time to time, and any other supplements entered into between Borrower and Lender, as the same may be amended or restated from time to time.

"**Terminal Payment**" means, with respect to each Loan, an amount payable on the Maturity Date of such Loan in an amount equal to that percentage of the original principal amount of such Loan specified in the Supplement.

"**Termination Date**" has the meaning specified in the Supplement.

"**Threshold Amount"** has the meaning specified in the Supplement.

"**Trademarks**" means all of the following property now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (a) all trademarks, tradenames, corporate names, business names, trade styles, service marks, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and any applications in connection therewith, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof and (b) reissues, extensions or renewals thereof.

"**UCC**" means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of California; provided, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, Lender's Lien on any Collateral is governed by the uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of California, the term "UCC" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions. Unless otherwise defined herein, terms that are defined in the UCC and used herein shall have the meanings given to them in the UCC.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BORROWER:

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/
Name: Hojabr Alimi
Title: _____

BORROWER:

VENTURE LENDING & LEASING III, INC.

By: /s/
Name: Salvador O. Gutierrez
Title: President

Disclosure Schedule to Loan and Security Agreement

This Disclosure Schedule is provided to Venture Lending & Leasing III, Inc. (the "Lender") by Oculus Innovative Sciences, Inc. (the "Borrower") in connection with that certain Loan and Security Agreement dated as of March 25, 2004 and entered into by and between Lender and Borrower (the "Agreement"). This Disclosure Schedule is incorporated into, and shall be deemed a part of the Agreement. The Borrower hereby delivers this Disclosure Schedule to the Lender setting forth certain exceptions to the Borrower's representations and warranties given in the Agreement. The item numbers in this Disclosure Schedule correspond to the Section numbers in the Agreement; however, any information disclosed herein under any item number shall be deemed to be disclosed and incorporated in other Section numbers of the Agreement, where such disclosure would be appropriate. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Agreement.

3.4 (a) In the event that the Lender has not, as of the Closing Date, received the release from Remington Partners, Inc. contemplated in Section 3 of the Supplement (the "Remington Release"), the transactions contemplated in the Agreement and the documents related thereto may be in conflict with the terms of that certain Security Agreement dated as of April 25, 2003 by and between the Borrower and Remington Partners, Inc. (the "Remington Agreement").

(b) In the event that the Lender has not, as of the Closing Date, received the consent from Remington Partners, Inc. contemplated in Section 3 of the Supplement regarding payment by Borrower to Lender of the principal amount of any Loan, any such payment, prior to the full payment of the loan outstanding under the Remington Agreement, would conflict with Borrower's covenant under Section 9(h) of the Remington Agreement.

3.11 In the event that the Lender has not, as of the Closing Date, received the Remington Release, the Collateral may be subject to a security interest in favor of Remington Partners, Inc.

[Signature Page Follows)

Executed as of the date first written above.

BORROWER	LENDER
Oculus Innovative Sciences, Inc.	Venture Lending & Leasing III, Inc.
By /s/	By: /s/
Name: Robert Miller	Name:
Title: Chief Financial Officer	Title:

[SIGNATURE PAGE TO DISCLOSURE SCHEDULE TO LOAN AND SECURITY AGREEMENT]

SUPPLEMENT
to the
Loan and Security Agreement
Dated as of March 25, 2004
between
Oculus Innovative Sciences, Inc. ("Borrower")
and
Venture Lending & Leasing III, Inc. ("Lender")

This is a Supplement identified in the document entitled Loan and Security Agreement dated as of March 25, 2004, between Borrower and Lender. All capitalized terms used in this Supplement and not otherwise defined in this Supplement have the meanings ascribed to them in Section 10 of the Loan and Security Agreement, which is incorporated in its entirety into this Supplement. In the event of any inconsistency between the provisions of that document and this Supplement, this Supplement is controlling. Execution of this Supplement by the Lender and Borrower shall constitute execution of the Loan and Security Agreement.

In addition to the provisions of the Loan and Security Agreement, the parties agree as follows:

Part 1. — Additional Definitions:

"**Commitment**": Subject to the terms and conditions set forth in the Loan and Security Agreement and this Supplement, Lender commits to make Equipment Loans to Borrower up to the aggregate original principal amount of One Million Dollars ($1,000,000.00) to finance the acquisition of Eligible Equipment. As a sub-facility of the Commitment, Lender commits to make Soft Cost Loans to Borrower in an aggregate original principal amount not to exceed Seven Hundred Fifty Thousand Dollars ($750,000.00) of the Commitment (the "Soft Cost Loan Sublimit"), provided, however, that in no event shall the aggregate original principal amount of all Equipment Loans and Soft Cost Loans funded under the Commitment exceed One Million Dollars ($1,000,000). Equipment Loans and Soft Cost Loans are sometimes referred to herein individually as a "Loan" or collectively as "Loans".

"**Designated Rate**": The Designated Rate shall be (i) for each Loan, a fixed rate of interest per annum equal to the Prime Rate as published on the Business Day on which Lender prepares the Note for such Loan following Borrower's submission of the Borrowing Request for such Loan, plus five and 797/1000 percent (5.797%); provided, however, that in no event shall the Designated Rate for an Loan be less than nine and 797/1000 percent (9.797%).

"**Eligible Equipment**" means manufacturing equipment, computer equipment, lab and shop equipment, test equipment, office equipment and other standard hardware located in the United Stated, approved by Lender in writing and that is not the subject of a license agreement(s) between Borrower and any Person, and excluding any equipment constituting Soft Costs.

"**Equipment Loan**" means any Loan requested by Borrower and funded by Lender to finance Borrower's acquisition or carrying of specific items of Eligible Equipment.

"**Permitted Lien**" includes, in addition to those Permitted Liens defined in the Loan and Security Agreement, the security interest in favor of Remington Partners, Inc.

"**Prime Rate**" means the "prime rate" of interest, as published from time to time by The Wall Street Journal in the "Money Rates" section of its Western Edition newspaper.

"**Soft Costs**" means, with respect to amounts to be financed hereunder with proceeds of a Soft Cost Loan, Borrower's costs of acquiring or licensing non-standard equipment (not otherwise approved by Lender as Eligible Equipment), perpetual software license fees, tenant improvements at Borrower's primary business premises, mask sets, sales tax, freight charges and other items approved by Lender in writing. In addition, Soft Costs includes

equipment located outside of the United States that would otherwise qualify as Eligible Equipment and including the installation of flooring at the Borrower's facility in the Netherlands.

"**Soft Cost Loan** "means any Loan requested by Borrower and funded by Lender to finance Soft Costs.

"**Spin-off Subsidiary**" means L3 Pharmaceuticals, Inc. a Delaware corporation. which was formed to conduct Borrower's lines of business in the development of oncology technology and the provision of consulting services.

"**Terminal Payment**": Each Loan shall have a Terminal Payment equal to five percent (5%) of the original principal amount of such Loan.

"**Termination Date**": The Termination Date is the earliest of (a) the date Lender may terminate making Loans or extending other credit pursuant to the rights of Lender under Article 7 of the Loan and Security Agreement, or (b) December 31, 2004; provided, however, if there is a remaining balance of unused Commitment of at least Fifty Thousand Dollars ($50,000.00) on December 31, 2004, such date shall be extended to March 31, 2005, provided that the aggregate sum of all Borrowing Requests submitted after December 31, 2004 shall not exceed the lesser of (i) the remaining balance of the Commitment, or (ii) Three Hundred Thousand Dollars ($300,000.00).

"**Threshold Amount**": Seventy-Five Thousand Dollars ($75,000.00).

Part 2. — Additional Covenants and Conditions:

I. **Use of Proceeds; Limitations on Loans**.

(a) Equipment Loan Facility and Soft Cost Loan Sub-facility. Subject to the terms and conditions of the Agreement, Lender agrees to make:

(i) Equipment Loans to Borrower from time to time from the Closing Date and to and including the Termination Date in an aggregate original principal amount up to but not exceeding the lesser of (A) the then unfunded portion of the Commitment, and (B) an amount equal to 100% of the amount paid or payable by Borrower to a manufacturer, vendor or dealer who is not an Affiliate of Borrower for each item of Eligible Equipment being financed with the proceeds of such Loan as shown on an invoice therefor (excluding any commissions and any portion of the amount invoiced which relates to servicing of the Eligible Equipment, delivery, freight and installation charges or sales taxes payable upon acquisition) ("Original Cost"). Notwithstanding the foregoing, no item of Eligible Equipment shall be eligible to be financed with the proceeds of an Equipment Loan if such item was acquired or first placed in service by Borrower earlier than 90 days prior to the Borrowing Date of such Equipment Loan; provided, however, that so long as the Borrowing Date of the initial Equipment Loan occurs prior to April 15, 2004, Borrower may finance Eligible Equipment acquired or first placed in service after January 15, 2003, at the Original Cost of such Eligible Equipment.

(ii) Soft Cost Loans to Borrower from time to time from the Closing Date and to and including the Termination Date in an aggregate original principal amount up to but not exceeding the lowest of (A) the then unfunded portion of the Commitment; (B) the then unfunded portion of the Soft Cost Loan Sublimit; and (C) an amount equal to 100% of the Soft Costs proposed to be financed under the related Borrowing Request. Notwithstanding the foregoing, no item of Soft Costs shall be eligible to be financed with the proceeds of a Soft Cost Loan if such Soft Cost was first expended, incurred, or acquired (in the case of equipment) by Borrower earlier than 90 days prior to the Borrowing Date of such Soft Cost Loan.

(b) Locations of Equipment. All Eligible Equipment financed hereunder shall be located at all times at Borrower's principal place of business in Petaluma, California, or with respect to Soft Costs, such other place of business located within or outside the United States disclosed on the Supplement or, if not so disclosed, approved by Lender in writing prior to the Funding Date of any Soft Cost Loan. Borrower shall provide a monthly statement of all Equipment financed by Lender which shall include the location(s) of all such Equipment.

(c) Minimum Funding Amount. Except to the extent the remaining Commitment is a lesser amount, each Loan or Loans requested by Borrower to be made on a single Business Day shall be for a minimum aggregate principal amount of Fifty Thousand Dollars ($50,000.00). Borrower shall not submit a Borrowing Request more frequently than once each month.

2. **Prepayment**. Borrower may voluntarily prepay Loans as follows:

(a) On or before January 31, 2005, Borrower may voluntarily prepay all, but not less than all, Loans in whole but not in part at any time by tendering to Lender payment in respect of each such Loan as provided in this paragraph (a). The prepayment of the outstanding principal balance of each such Loan shall be accompanied by payment of: (i) all accrued and unpaid Basic Interest on such Loan as of the date of prepayment; (ii) the undiscounted Terminal Payment on such Loan; and (iii) an amount equal to the undiscounted, total amount of all installment payments of principal and Basic Interest that would have accrued and been payable from the date of prepayment through the stated Maturity Date of the Loan had it remained outstanding and been paid in accordance with the terms of the related Note.

(b) On or after February I, 2005, Borrower may voluntarily prepay all, but not less than all, Loans in whole but not in part at any time by tendering to Lender payment in respect of each such Loan as provided in this paragraph (b). The prepayment of the outstanding principal balance of each such Loan shall be accompanied by payment of : (i) all accrued and unpaid Basic Interest on such Loan as of the date of prepayment; (ii) the Terminal Payment on such Loan discounted at a rate per annum equal to 0.89%, from the scheduled Maturity Date of such Loan to the date of such prepayment; and (iii) an amount equal to the, total amount of all installment payments of principal and Basic Interest that would have accrued and been payable from the date of prepayment through the stated Maturity Date of the Loan had it remained outstanding and been paid in accordance with the terms of the related Note, discounted at a rate per annum equal to 0.89%, from the scheduled Maturity Date of such Loan to the date of such prepayment.

3. P**artial Releases of Blanket Liens, Remington Partners Waiver of Payment Restrictions**. As an additional condition precedent under Section 4.2 of the Loan and Security Agreement, on or prior to each Borrowing Date, Lender shall be in receipt of an executed release from Remington Partners, Inc. and any lenders who may acquire a security interest in assets of the Borrower subsequent to the execution of the Loan Agreement, if any, of any and all Liens on the Collateral that is the subject of the Borrowing Request. As an additional condition precedent under Section 4.1 of the Loan and Security Agreement, on or prior to the initial Borrowing Date, Borrower shall provide to Lender the written approval by Remington Partners, Inc, to all principal, interest and/or other payments to be made to Letider by Borrower under any Note executed by Borrower pursuant to the Loan and Security Agreement

4. **Issuance of Warrants to Lender**. As additional consideration for the making of the Commitment, Lender has earned and is entitled to receive a warrant instrument issued by Borrower (the "Warrant") initially exercisable for 66,667 of fully paid and nonassessable shares of the Borrower's Series A Preferred Stock. The Warrant shall be exercisable at an initial exercise price of $1.50 per share. The above stated exercise price per share and number of shares issuable upon exercise of the Warrant shall also be subject to adjustment as provided in the Warrant.

The Warrant shall be in substantially the form attached hereto as Exhibit "D" and shall be exercisable at any time and from time to time through December 31, 2014, and shall include piggyback and S-3 registration rights and anti-dilution protection provisions reasonably satisfactory to Lender and its counsel and equivalent to those rights and protections granted to the holders of Borrower's Series A Preferred Stock. Borrower acknowledges that Lender has assigned its rights to receive the Warrant to its parent, Venture Lending & Leasing III, LLC: in connection therewith, Borrower shall issue the Warrant directly to Venture Lending & Leasing III, LLC. Upon request of Borrower, Lender shall furnish to Borrower a copy of the agreement in which Lender assigned the right to receive the Warrant to Venture Lending & Leasing III, LLC.

Notwithstanding the foregoing or anything contrary elsewhere in the Loan Agreement, no later than April 30, 2004, all action on the part of Borrower necessary for the valid execution, delivery and performance by Borrower of the Warrant shall have been duly and effectively taken and evidence satisfactory to Lender. In addition, borrower

shall provide an opinion of legal counsel for the Borrower regarding the due authorization by the Borrower of the issuance of the Warrant to Lender.

Borrower agrees that the failure to deliver the Warrant on or before April 30, 2004 shall constitute an Event of Default and entitle Lender to, at its election, make all sums of Basic Interest and principal, with respect to any Equipment or Soft Cost Loans outstanding at that time, immediately due and payable without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor or any other notices or demands, to terminate making Loans or extending other credit pursuant to the rights of Lender under Article 7 of the Loan and Security Agreement, and to take such other action allowable under applicable law, including but not limited to requesting a court to grant specific performance of the issuance and delivery of the Warrant.

5. **Equity Purchase**. As additional consideration for the making of the Commitment, Borrower grants Lender the right to purchase up to an aggregate amount of Two Hundred Thousand ($200,000) of Borrower's stock issued in Borrower's next *bona fide* round of equity financing resulting in net aggregate proceeds to the Borrower of at least $1,000,000.00 at the same price per share paid by the lead investor of that round of financing. Borrower shall give Lender reasonable advance notice of such securities offering, and if Lender desires to participate in such offering, it shall give Borrower written notice of its election to purchase within fifteen (15) calendar days after receipt of Borrower's notice. Lender shall have no obligation to purchase Borrower's securities except pursuant to definitive purchase documents executed in connection with the offering, containing such representations as Borrower and its counsel shall reasonably deem necessary to comply with applicable law.

6. **Documentation Fee Payment**. As an additional condition precedent under Section 4.1 of the Loan and Security Agreement, on or prior to the initial Borrowing Date, Borrower shall pay Lender an amount not to exceed Six Thousand Dollars ($6,000.00), which amount shall constitute payment for the total amount of Lender's legal expenses incurred in connection with the preparation and negotiation of the Loan Documents pursuant to Section 9.8(a) of the Loan and Security Agreement (the "Documentation Fee"); provided, however, that Documentation Fee does not include Lender's out-of-pocket costs of perfecting its security interest, which Borrower shall pay to Lender on demand.

7. **Completion of Due Diligence; Payment and Disposition of Commitment Fee**. As an additional condition precedent under Section 4.1 of the Loan and Security Agreement, Lender shall have completed to its satisfaction its due diligence review of Borrower's business and financial condition and prospects, and Lender's credit committee shall have approved the Commitment. If this condition is not satisfied, Lender shall refund to Borrower the Five Thousand Dollar ($5,000.00) commitment fee previously paid to Lender on account of the Commitment. Lender agrees that with respect to each Loan advanced, on the Borrowing Date applicable to such Loan, Lender shall credit against the payments due from Borrower on such date in respect of such Loan an amount equal to the product of Five Thousand Dollars ($5,000.00) and a fraction the numerator of which is the principal amount of such Loan and the denominator of which is One Million Dollars ($1,000,000.00), until the aggregate amount of such credits equals but does not exceed Five Thousand Dollars ($5,000.00).

8. **Spin-Off of Subsidiary**. Notwithstanding anything to the contrary elsewhere in the Loan Agreement, Lender acknowledges that Borrower has formed the Spin-off Subsidiary. Borrower may without Lender's prior consent (i) Transfer assets, that are related to each line of business to the Spin-off Subsidiary; and (ii) re-distribute the capital stock of either of the Spin-off Subsidiary issued to the Borrower, to the Borrower's shareholders, provided, however, that Borrower shall not transfer any assets comprising Collateral or any assets, including Intellectual Property, that are directly related to the operation or development of Borrower's disinfectant technology.

9. **Debits to Account for ACH Transfers**. For purposes of Section 2.2 and 5.10 of the Loan and Security Agreement, Borrower's Primary Operating Account is:

Cupertino National Bank
3 Palo Alto Square, Suite I50
Palo Alto, CA 94306

Account No.: 003115895
Routing No.: 121141152

Loans will be advanced to the account specified above and payments will be automatically debited from the same account.

Part 3. — Additional Representations:

Borrower represents and warrants that as of the Closing Date and each Borrowing Date:

a) Its chief executive office is located at: 1129 North McDowell Blvd., Petaluma, CA 94954

b) Its Equipment is located at: 1129 North McDowell Blvd., Petaluma, CA 94954, except as otherwise disclosed in the Borrowing Request for a Loan.

c) Its Records are located at: 1129 North McDowell Blvd., Petaluma, CA 94954.

d) In addition to its chief executive office, Borrower maintains offices or operates its business at the following locations:

Aquamed Technologies
1129 N. McDowell Blvd.
Petaluma, CA 94954 USA

MicroMed Laboratories, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA

L3 Pharmaceuticals, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA

Oculus Technologies of Mexico S.A. de C.V.
Salvador Pineda No. 214 Col. Dr. Miguel
Silva, C.P. 58120
Morelia, Michoacan
Mexico

Oculus Innovative Sciences Netherlands B.V.
Nusterweg 123
6136 KT Sittard
P.O. Box 5056
6130 PB Sittard
The Netherlands

e) Other than its full corporate name, Borrower has conducted business using the following trade names or fictitious business names: Micromed Laboratories

(f) Borrower's Federal Tax I.D. number is: 64-0423298

(g) Borrower's California state corporation I.D. number is: C2160639

(h) Borrower is a majority owner of or in a control relationship with the following business entities:

Aquamed Technologies
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA

MicroMed Laboratories, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA
(corporation formed but shares not yet issued)

L3 Pharmaceuticals, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA
(corporation formed but shares not yet issued)

Oculus Technologies of Mexico S.A. de C.V.
Salvador Pineda No. 214 Col. Dr. Miguel
Silva, C.P. 58120
Morelia, Michoacan
Mexico

Oculus Innovative Sciences Netherlands B.V.
Nusterweg 123
6136 KT Sittard
P.O. Box 5056
6130 PB Sittard
The Netherlands

Part 4. — Additional Loan Documents:

Form of Note	Exhibit “A”
Form of Borrowing Request	Exhibit “B”
Form of Compliance Certificate	Exhibit “C”
Form of Warrant	Exhibit “D”
Form of Landlord Waiver	Exhibit “E”
Form of Legal Opinion	Exhibit “F”

[Signature Page Follows)

IN WITNESS WHEREOF, the parties have executed this Supplement as of the date first above written.

BORROWER:

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/ Hojabr Alimi
Name: Hojabr Alimi
Title: CEO

Address for Notices:

Attn:
1129 North McDowell Blvd., Petaluma, CA 94954
Fax #: (707) 283-0551

LENDER:

VENTURE LENDING & LEASING III, INC.

By: /s/
Name:
Title:

Address for Notices:

Attn: Chief Financial Officer
2010 North First Street, Suite 310
San Jose, California 95131
Fax #: (408) 436-8625

EXHIBIT "A"

FORM OF PROMISSORY NOTE

[Note No. X-XXX]

$_____ _____ , 200___
San Jose, California

The undersigned ("Borrower") promises to pay to the order of VENTURE LENDING & LEASING III, INC., a Maryland corporation ("Lender"), at its office at 2010 North First Street, Suite 310, San Jose, California 95131, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of _____ Dollars ($_____), with Basic Interest thereon (except as otherwise provided herein) from the date hereof until maturity, whether scheduled or accelerated, at a fixed rate per annum equal to [the Prime Rate on the Business Day Lender prepares the Note plus 5.797%, but in no event less than 9.797%; (the "Designated Rate") [, and a Terminal Payment in the sum of 15.00% of face amount] Dollars ($ _____) payable on the Maturity Date.]

This Note is one of the Notes referred to in, and is entitled to all the benefits of, a Loan and Security Agreement dated as of March 25, 2004, between Borrower and Lender (the "Loan Agreement"). Each capitalized term not otherwise defined herein shall have the meaning set forth in the Loan Agreement. The Loan Agreement contains provisions for the acceleration of the maturity of this Note upon the happening of certain stated events.

Principal of and interest on this Note shall be payable as follows:

On the Borrowing Date, Borrower shall pay (i) interest at the Designated Rate on the outstanding principal balance of this Note for the period from the Borrowing Date through [the last day of the same month]; and (ii) a first (1st) amortization installment of principal and Basic Interest at the Designated Rate in the amount of _____ in advance for the month of [first full month after Borrowing Date] and (iii) a thirty-third (33rd) amortization installment of principal and Basic Interest at the Designated Rate in the amount of $_____, in advance for the month of [date of last regular amortization payment] .

Commencing on the first day of the second full month after the Borrowing Date, and continuing on the first day of each consecutive month thereafter, principal and Basic Interest at the Designated Rate shall be payable, in advance, in thirty (30) equal consecutive installments of _____ Dollars ($_____) each, with a thirty-first (31st) installment equal to the entire unpaid principal balance and accrued Basic Interest at the Designated Rate on _____, 200_. The Terminal Payment and unpaid expenses, fees, interest and principal amount shall be due and payable on [one month later] _____, 200_.]

This Note may be voluntarily prepaid only as permitted under Section 2 of Part 2 of the Supplement to the Loan Agreement.

Any unpaid payments of principal or interest on this Note shall bear interest from their respective maturities, whether scheduled or accelerated, at a rate per annum equal to the Default Rate. Borrower shall pay such interest on demand.

Interest, charges and fees shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrower be obligated to pay interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

If Borrower is late in making any payment under this Note by more than five (5) days, Borrower agrees to pay a "late charge" of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrower acknowledges that such late charge represents a reasonable

sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrower to make timely payments. Borrower further agrees that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Note or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____

Name: _____

Its: _____

EXHIBIT "B"

FORM OF BORROWING REQUEST

[Date]

Venture Lending & Leasing III, Inc.
2010 North First Street, Suite 310
San Jose, CA 95131

Re: Oculus Innovative Sciences, Inc. Gentlemen

Reference is made to the Loan and Security Agreement dated as of March 25, 2004 (as amended from time to time, the "Loan Agreement", the capitalized terms used herein as defined therein), between Venture Lending & Leasing III, Inc. and Oculus Innovative Sciences, Inc. (the "Company").

The undersigned is the _____of the Company, and hereby requests on behalf of the Company a Loan under the Loan Agreement, and in that connection certifies as follows:

I. The type(s) of the proposed Loan is/are [an Equipment Loan] a [Soft Cost Loan]. The amount of the proposed Loan is _____and _____/100 Dollars ($_____). The Borrowing Date of the proposed Loan is _____,200_____.

2. The Eligible Equipment and/or Soft Costs to be financed with the proceeds of the Equipment Loan are described, and are or will be located at the address(es) shown, on the attached Schedule I or amendment or supplement to Schedule I, which is hereby incorporated by reference in and made a part of the Loan Agreement. The requested amount of the Equipment Loan and/or Soft Cost Loan does not exceed the aggregate of one hundred percent (100%) of the amount paid or payable by Borrower to a non-affiliated manufacturer, vendor or dealer for such items of Eligible Equipment and/or Soft Costs as shown on an invoice therefor (excluding any commissions and any portion of the payment which relates to the servicing of the equipment or item and sales taxes payable by Borrower upon acquisition, and delivery charges). No item of Eligible Equipment or Soft Costs has been owned or was incurred by Borrower earlier than 90 days before the proposed Borrowing Date, or with respect to the Eligible Equipment, before January 15, 2003, for the initial Equipment Loan, if funded prior to April, 15, 2004.

3. [If this Borrowing Request will utilize the remainder of the Commitments] After giving effect to the Loan(s) requested hereby, no more than Seven Hundred Fifty Thousand Dollars ($750,000.00) of the Commitment has been used to finance Soft Costs.

4. As of this date, no Default or Event of Default has occurred and is continuing, or will result from the making of the proposed Loan, the representations and warranties of the Company contained in Article 3 of the Loan Agreement are true and correct, and the conditions precedent described in Article 4 of the Loan Agreement have been met.

5. No event that has had, or could reasonably be expected to have, a Material Adverse Change has occurred.

6, The Company's most recent [financial projections or business plan] dated _____, as approved by the Company's Board of Directors on _____, are enclosed herewith.

The Company shall notify you promptly before the funding of the Loan if any of the matters to which I have certified above shall not be true and correct on the Borrowing Date

Very truly yours,

OCULUS INNOVATIVE SCIENCES, INC.

By: _____

Name: _____

Title: _____

Schedule I to the Loan and Security Agreement

Description of Equipment/Soft Costs

Quantity	Article	Make	Year Mfg.	Model/Serial #	Location	✓ If Soft Cost

See attached continuation to Schedule I

together with all improvements, replacements, accessions and additions thereto, wherever located, and all Proceeds thereof arising from the sale, lease, rental or other use or disposition of any such property, including all rights to payment with respect to insurance or condemnation, returned premiums, or any cause of action relating to any of the foregoing.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____

Name: _____

Title: _____

VENTURE LENDING & LEASING III, INC.

By: _____

Name: _____

Title: _____

EXHIBIT "C"

COMPLIANCE CERTIFICATE

Venture Lending & Leasing III, Inc.
2010 North First Street, Suite 310
San Jose, CA 95131

Re: Oculus Innovative Sciences, Inc.

Gentlemen.

Reference is made to the Loan and Security Agreement dated as of March 25, 2004 (as the same have been and may be amended from time to time, the "Loan Agreement", the capitalized terms used herein as defined therein), between Venture Lending & Leasing III, Inc. and Oculus Innovative Sciences, Inc. (the "Company").

The undersigned authorized representative of the Company hereby certifies that in accordance with the terms and conditions of the Loan Agreement, the Company is in complete compliance for the financial reporting period ending _____ with all required financial reporting under the Loan Agreement, except as noted below. Attached herewith are the required documents supporting the foregoing certification. The undersigned further certifies that the accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles, and are consistent from one period to the next, except as explained below.

Indicate compliance status by circling Yes/No under "Complies"

REPORTING REQUIREMENT	REQUIRED	COMPLIES
Interim Financial Statements	Monthly within 30 days	YES/NO
Annual Financial Statements	FYE within 120 days	YES/NO
Business Plan or Projections dated _____	With each Borrowing Request	YES/NO
Any Change in budget since prior Borrowing Request		YES/NO

EXPLANATIONS

_____

_____

_____

_____

Very truly yours,

OCULUS INNOVATIVE SCIENCES, INC.
By: _____
Title:* _____

* Must be executed by Borrower's Chief Financial Officer or other executive officer.

EXHIBIT "D"

FORM OF WARRANT

EXHIBIT D

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE AND DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED DUE TO AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

WARRANT TO PURCHASE

66,667 SHARES OF SERIES A PREFERRED STOCK OF

OCULUS INNOVATIVE SCIENCES, INC.

(Void after December 31, 2014)

This certifies that VENTURE LENDING & LEASING III, LLC, a Delaware limited liability company, or assigns (the "Holder"), for value received, is entitled to purchase from OCULUS INNOVATIVE SCIENCES, INC., a California corporation (the "Company"), 66,667 fully paid and nonassessable shares of the Company's Series A Preferred Stock ("Preferred Stock") for cash at a price of $1.50 per share (the "Stock Purchase Price") at any time or from time to time up to and including 5:00 p.m. (Pacific time) on December 31, 2014 (the "Expiration Date"), upon surrender to the Company at its principal office at 1 129 North McDowell Blvd., Petaluma, California 94954. (or at such other location as the Company may advise Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof The Stock Purchase Price and the number of shares purchasable hereunder are subject to adjustment as provided in Section 4 of this Warrant.

This Warrant is subject to the following terms and conditions:

1 .. Exercise, Issuance of Certificates; Payment for Shares.

(a) Unless an election is made pursuant to clause (b) of this Section 1, this Warrant shall be exercisable at the option of the Holder, at any time or from time to time, on or before the Expiration Date for all or any portion of the shares of Preferred Stock (but not for a fraction of a share) which may be purchased hereunder for the Stock Purchase Price multiplied by the number of shares to be purchased. In the event, however, that pursuant to the Company's Articles of Incorporation, as amended, an event causing automatic conversion of the Company's Preferred Stock shall have occurred prior to the exercise of this Warrant, in whole or in part, then this Warrant shall be exercisable for the number of shares of Common Stock of the Company into which the Preferred Stock not purchased upon any prior exercise of this Warrant would have been so converted (and, where the context requires, reference to "Preferred Stock" shall be deemed to be or include such Common Stock, as may be appropriate). The Company agrees that the shares of Preferred Stock purchased under this Warrant shall be and are deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which the form of subscription shall have been delivered and payment made for such shares. Subject to the provisions of Section 2, certificates for the shares of Preferred Stock so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. Except as provided in clause (b) of this Section 1, in case of a purchase of less than all the shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the shares purchasable under this Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each stock certificate so delivered shall be in such denominations of

Preferred Stock as may be requested by the Holder hereof and shall be registered in the name of such Holder or such other name as shall be designated by such Holder, subject to the limitations contained in Section 2.

(b) The Holder. in lieu of exercising this Warrant by the cash payment of the Stock Purchase Price pursuant to clause (a) of this Section l, may elect, at any time on or before the Expiration Date, to surrender this Warrant and receive that number of shares of Preferred Stock equal to the quotient of (i) the difference between (A) the Per Share Price (as hereinafter defined) of the Preferred Stock, less (B) the Stock Purchase Price then in effect, multiplied by the number of shares of Preferred Stock the Holder would otherwise have been entitled to purchase hereunder pursuant to clause (a) of this Section 1 [or such lesser number of shares as the Holder may designate in the case of a partial exercise of this Warrant); over (ii) the Per Share Price. Election to exercise under this section (b) may be made by delivering a signed form of subscription to the Company via facsimile, to be followed by delivery of this Warrant.

(c) For purposes of clause (b) of this Section 1, "Per Share Price" means the product of: (i) the greater of (A) the closing price of the securities issuable upon conversion of the Preferred Stock, as quoted by NASDAQ or listed on any exchange, whichever is applicable, as published in the Western Edition of The Wall Street Journal for the trading day immediately prior to the date of the Holder's election hereunder or, (B) if applicable at the time of or in connection with the exercise under clause (b) of this Section 1, the gross sales price of one share of the Company's Common Stock pursuant to a registered public offering or that amount which stockholders of the Company will receive for each share of Common Stock pursuant to a merger, reorganization or sale of assets; and (ii) that number of shares of Common Stock into which each share of Preferred Stock is convertible. If the securities issuable upon conversion of the Preferred Stock are not quoted by NASDAQ or listed on an exchange and none of the above clauses apply, the Per Share Price of the Preferred Stock (or the equivalent number of shares of Common Stock into which such Preferred Stock is convertible) shall be the price per share which the Board of Directors of the Company shall determine in good faith.

2. Limitation on Transfer.

(a) This Warrant and the Preferred Stock shall not be transferable without the prior written consent of the Company (which shall not be unreasonably withheld or delayed) and then only after compliance with the conditions specified in this Section 2, which conditions are intended to insure compliance with the provisions of the Securities Act. Each holder of this Warrant or the Preferred Stock issuable hereunder will cause any proposed transferee of the Warrant or Preferred Stock to agree to take and hold such securities subject to the provisions and upon the conditions specified in this Section 2.

(b) Each certificate representing (i) this Warrant, (ii) the Preferred Stock, (iii) shares of the Company's Common Stock issued upon conversion of the Preferred Stock and (iv) any other securities issued in respect to the Preferred Stock or Common Stock issued upon conversion of the Preferred Stock upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of this Section 2 or unless such securities have been registered under the Securities Act or sold under Rule 144) be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE AND DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED DUE TO AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

(c) The Holder of this Warrant and each person to whom this Warrant is subsequently transferred (if permitted hereunder) represents and warrants to the Company (by acceptance of such transfer) that it will not transfer this Warrant (or securities issuable upon exercise hereof unless a registration statement under the Securities Act was in effect with respect to such securities at the time of issuance thereof) except pursuant to (i) an effective registration statement under the Securities Act, (ii) Rule 144 under the Securities Act (or any other rule under the

Securities Act relating to the disposition of securities), or (iii) an opinion of counsel, reasonably satisfactory to counsel for the Company, that an exemption from such registration is available.

3. Shares to be Fully Paid; Reservation of Shares. The Company covenants and agrees that all shares of Preferred Stock which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Preferred Stock, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such shares of Preferred Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Preferred Stock may be listed. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as defined in Section 4 hereof) (i) if the total number of shares of Preferred Stock issuable after such action upon exercise of all outstanding warrants, together with all shares of Preferred Stock then outstanding and all shares of Preferred Stock then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of shares of Preferred Stock then authorized by the Company's Articles of Incorporation, (ii) if the total number of shares of Common Stock issuable after such action upon the conversion of all such shares of Preferred Stock together with all shares of Common Stock then outstanding and then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding would exceed the total number of shares of Common Stock then authorized by the Company's Articles of Incorporation or (iii) if the par value per share of the Preferred Stock would exceed the Stock Purchase Price.

4. Adjustment of Stock Purchase Price and Number of Shares. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 4. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment.

4.1 Subdivision or Combination of Stock. In case the Company shall at any time subdivide its outstanding shares of Preferred Stock into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Preferred Stock of the Company shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

4.2 Dividends in Preferred Stock, Other Stock. Property, Reclassification. If at any time or from time to time the holders of Preferred Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(a) Preferred Stock, or any shares of stock or other securities whether or not such securities are at any time directly or indirectly convertible into or exchangeable for Preferred Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution, or

(b) any cash paid or payable otherwise than as a cash dividend, or

(c) Preferred Stock or other or additional stock or other securities or property (including cash) by way of spin off, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than shares of Preferred Stock issued as a stock split, adjustments in respect of which shall be covered by the terms of Section 4.1 above),

Then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Preferred Stock receivable thereupon, and without payment of any additional

consideration therefore, the amount of stock and other securities and property (including cash in the cases referred to in clauses (b) and (c) above) which such Holder would hold on the date of such exercise had he been the holder of record of such Preferred Stock as of the date on which holders of Preferred Stock received or became entitled to receive such shares and/or all other additional stock and other securities and property.

4.3 Reorganization, Reclassification, Consolidation, Merger or Sale. If any capital reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Preferred Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Preferred Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby the holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Preferred Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby) such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Preferred Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. In any such case, appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Stock Purchase Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be possible, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company will not effect any such consolidation, merger or sale unless, prior to the consummation thereof, the successor corporation (if other than the Company) resulting from such consolidation or the corporation purchasing such assets shall assume by written instrument, executed and mailed or delivered to the registered Holder hereof at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to purchase.

4.4 Sale or Issuance Below Purchase Price. The other antidilution rights applicable to the shares of series Preferred Stock purchasable hereunder are set forth in the Company's Articles of Incorporation, as amended through the date hereof (the "Charter"). The Company shall promptly provide the Holder hereof with any restatement, amendment, modification or waiver of the Charter promptly after the same has been made.

4.5 Notice of Adjustment. Upon any adjustment of the Stock Purchase Price, and/or any increase or decrease in the number of shares purchasable upon the exercise of this Warrant the Company shall give written notice thereof, by first class mail, postage prepaid, addressed to the registered holder of this Warrant at the address of such holder as shown on the books of the Company. The notice, which may be substantially in the form of Exhibit "A" attached hereto, shall be signed by the Company's chief financial officer and shall state the Stock Purchase Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

4.6 Other Notices. If at any time:

(a) the Company shall declare any cash dividend upon its Preferred Stock;

(b) the Company shall declare any dividend upon its Preferred Stock payable in stock or make any special dividend or other distribution to the holders of its Preferred Stock;

(c) the Company shall offer for subscription pro rata to the holders of its Preferred Stock any additional shares of stock in connection with a Down Round or additional shares of stock of any class or other rights;

(d) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another entity;

(e) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company; or

(f) the Company shall take or propose to take any other action, notice of which is actually provided to holders of the Preferred Stock;

then, in any one or more of said cases, the Company shall give, by first class mail, postage prepaid, addressed to the Holder of this Warrant at the address of such Holder as shown on the books of the Company, (i) at least 20 day's prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action and (ii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action, at least 20 day's written notice of the date when the same shall take place. Any notice given in accordance with the foregoing clause (i) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Preferred Stock shall be entitled thereto. Any notice given in accordance with the foregoing clause (ii) shall also specify the date on which the holders of Preferred Stock shall be entitled to exchange their Preferred Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action as the case may be.

4.7 Certain Events. If any change in the outstanding Preferred Stock of the Company or any other event occurs as to which the other provisions of this Section 4 are not strictly applicable and the Board of Directors in good faith believes that an adjustment is necessary to effect the essential intent and principles with the adjustment provisions of this Warrant or if the provisions of this Section 4 are strictly applicable to an event but the application of such provisions would not fairly effect the adjustments to this Warrant in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall make in good faith an adjustment in the number and class of shares issuable under this Warrant, the Stock Purchase Price and/or the application of such provisions, in accordance with such essential intent and principles, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of this Warrant upon exercise for the same aggregate Stock Purchase Price the total number, class and kind of shares as the Holder would have owned had this Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment.

5. Issue Tax. The issuance of certificates for shares of Preferred Stock upon the exercise of this Warrant shall be made without charge to the Holder of this Warrant for any issue tax in respect thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of this Warrant being exercised.

6. Closing of Books. The Company will at no time close its transfer books against the transfer of this Warrant or of any shares of Preferred Stock issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant, unless required by applicable law or regulation, or to avoid the violation of any applicable law or regulation..

7. No Voting or Dividend Rights; Limitation of Liability. Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase shares of Preferred Stock, and no mere enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a stockholder of the Company, whether such liability is asserted by the Company or by its creditors.

8. Intentionally Omitted.

9. Registration Rights. The Holder hereof shall be entitled, with respect to the shares of Preferred Stock issued upon exercise hereof or the shares of Common Stock or other securities issued upon conversion of such Preferred Stock as the case may be, to all of the registration rights set forth in the Series A Preferred Shares Investors Rights Agreement executed by the holders of Series A Preferred Stock in connection with the offering of Series A Preferred Shares (the "Rights Agreement"), to the same extent and on the same terms and conditions as possessed by the investors thereunder with the following exceptions and clarifications: (i) the Holder will have no demand registration rights; (ii) the Holder will be subject to the same provisions regarding indemnification as contained in the Rights Agreement; (iii) the registration rights are freely assignable by the Holder of this Warrant in connection with a permitted transfer of this Warrant or the shares issuable upon exercise hereof, and (iv) the Holder will be subject to the same lock-up obligations as contained in the Rights Agreement. The Company shall take such action as may be reasonably necessary to assure that the granting of such registration rights to the Holder does not violate the provisions of the Rights Agreement or any of the Company's charter documents or rights of prior grantees of registration rights.

10. Rights and Obligations Survive Exercise of Warrant. The rights and obligations of the Company, of the Holder of this Warrant and of the holder of shares of Preferred Stock issued upon exercise of this Warrant, contained in Sections 6 and 9 shall survive the exercise of this Warrant.

11. Modification and Waiver. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

12. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder hereof or the Company shall be deemed to have been given (i) upon receipt if delivered personally or by courier (ii) upon confirmation of receipt if by telecopy or (iii) three business days after deposit in the US mail, with postage prepaid and certified or registered, to each such Holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant.

13. Binding Effect on Successors. This Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets. All of the obligations of the Company relating to the Preferred Stock issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assign of the holder hereof. The Company will, at the time of the exercise of this Warrant, in whole or in part, upon request of the Holder hereof and at the Holder's expense, acknowledge in writing its continuing obligation to the Holder hereof in respect of any rights (including, without limitation, any right to registration of the shares of Common Stock) to which the Holder hereof shall continue to be entitled after such exercise in accordance with this Warrant; provided, that the failure of the Holder hereof to make any such request shall not affect the continuing obligation of the Company to the Holder hereof in respect of such rights.

14. Descriptive Headings and Governing Law. The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by. the laws of the State of California.

15. Lost Warrants or Stock Certificates. The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of any Warrant or stock certificate and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant or stock certificate, the Company at its expense will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

16. Fractional Shares. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

17. Representations of Holder. With respect to this Warrant, Holder represents and warrants to the Company as follows:

17.1 Experience. It is an "accredited investor" as that term is defined in Rule 501 (a) promulgated under the Securities Act of 1933, as amended; is experienced in evaluating and investing in companies engaged in businesses similar to that of the Company; it understands that investment in this Warrant involves substantial risks; it has made detailed inquiries concerning the Company, its business and services, its officers and its personnel; the officers of the Company have made available to Holder any and all written information it has requested; the officers of the Company have answered to Holder's satisfaction all inquiries made by it; in making this investment it has relied upon information made available to it by the Company; and it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of investment in the Company and it is able to bear the economic risk of that investment.

17.2 Investment. It is acquiring this Warrant for investment for its own account and not with a view to, or for resale in connection with, any distribution thereof. It understands that this Warrant, the shares of Preferred Stock issuable upon exercise thereof and the shares of Common Stock issuable upon conversion of the Preferred Stock, have not been registered under the Securities Act, nor qualified under applicable state securities laws.

17.3 Rule 144. It acknowledges that this Warrant, the Preferred Stock and the Common Stock must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. It has been advised or is aware of the provisions of Rule 144 promulgated under the Securities Act.

17.4 Access to Data. It has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has had the opportunity to inspect the Company's facilities.

18. Additional Representations and Covenants of the Company. The Company hereby represents, warrants and agrees as follows:

18.1 Corporate Power. The Company has all requisite corporate power and corporate authority to issue this Warrant and to carry out and perform its obligations hereunder.

18.2 Authorization. All corporate action on the part of the Company, its directors and stockholders necessary for the authorization, execution, delivery and performance by the Company of this has been taken. This Warrant is a valid and binding obligation of the Company, enforceable in accordance with its terms.

18.3 Offering. Subject in part to the truth and accuracy of Holder's representations set forth in Section 17 hereof, the offer, issuance and sale of this Warrant is, and the issuance of Preferred Stock upon exercise of this Warrant and the issuance of Common Stock upon conversion of the Preferred Stock will be exempt from the registration requirements of the Securities Act, and are exempt from the qualification requirements of any applicable state securities laws; and neither the Company nor anyone acting on its behalf will take any action hereafter that would cause the loss of such exemptions.

18.4 Stock Issuance. Upon exercise of this Warrant, the Company will use its best efforts to cause stock certificates representing the shares of Preferred Stock purchased pursuant to the exercise to be issued in the names of Holder, its nominees or assignees, as appropriate at the time of such exercise. Upon conversion of the shares of Preferred Stock into shares of Common Stock, the Company will issue the Common Stock in the names of Holder, its nominees or assignees, as appropriate.

18.5 Certificates and By-Laws. The Company has provided Holder with true and complete copies of the Company's Certificate of Incorporation, By-Laws, and each Certificate of Designation or other charter document setting, forth any rights, preferences and privileges of Company's capital stock, each as amended and in effect on the date of issuance of this Wan-ant.

18.6 Conversion of Preferred Stock. As of the date hereof, each share of the Preferred Stock is convertible into one share of the Common Stock.

18.7 Financial and Other Reports. From time to time up to the earlier of the Expiration Date or the complete exercise of this Warrant, the Company shall furnish to Holder (i) within 90 days after the close of each fiscal year of the Company an audited balance sheet and statement of changes in financial position at and as of the end of such fiscal year, together with an audited statement of income for such fiscal year; (ii) within 45 days after the close of each fiscal quarter of the Company, an unaudited balance sheet and statement of cash flows at and as of the end of such quarter, together with an unaudited statement of income for such quarter; and (iii) promptly after sending, making available, or filing, copies of all reports, proxy statements, and financial statements that the Company sends or makes available to its stockholders and all registration statements and reports that the Company files with the SEC or any other governmental or regulatory authority.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its officers, thereunto duly authorized this ___day of February, 2004.

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/ Robert Miller

Title: CFO

VENTURE LENDING & LEASING III, INC.

By: VLLI CAPITAL, LLC
a Delaware limited liability company,
its Managing Member

By: Westech Investment Advisors, Inc. its Managing Member

By: /s/

Name: Salvador Investment Advisors, Inc. its Managing Member

Title: President

FORM OF SUBSCRIPTION

(To be signed only upon exercise of Warrant)

To: OCULUS INNOVATIVE SCIENCES. INC.

☐ The undersigned, the holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, (1) See Below _____ (_____) shares (the "Shares") of Stock of _____ and herewith makes payment of _____ Dollars ($_____) therefor, and requests that the certificates for such shares be issued in the name of, and delivered to, _____ _____, whose address is _____.

☐ The undersigned hereby elects to convert _____ percent (_____%) of the value of the Warrant pursuant to the provisions of Section 1(b) of the Warrant.

The undersigned acknowledges that it has reviewed the representations and warranties contained in Section 17 of this Warrant and by its signature below hereby makes such representations and warranties to the Company.

Dated _____

Holder _____

By: _____

Its: _____

(Address)

_____

_____

(1) Insert here the number of shares called for on the face of the Warrant (or, in the case of a partial exercise, the portion thereof as to which the Warrant is being exercised), in either case without making any adjustment for additional Preferred Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the Warrant, may be issuable upon exercise.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned, the holder of the within Warrant, hereby sells, assigns and transfers all of the rights of the undersigned under the within Warrant, with respect to the number of shares of Preferred Stock covered thereby set forth herein below, unto:

Name of Assignee	Address	No. of Shares

Dated _____

Holder: _____

By: _____

Its: _____

EXHIBIT "A"

[On letterhead of the Company]

Reference is hereby made to that certain Warrant dated February ___, 2004 issued by OCULUS INNOVATIVE SCIENCES, INC, a California corporation (the "Company"), to VENTURE LENDING & LEASING III, INC., a Maryland corporation (the "Holder").

[IF APPLICABLE] Notice is hereby given pursuant to Section 4.5 of the Warrant that the following adjustment(s) have been made to the Warrant: [describe adjustments, setting forth details regarding method of calculation and facts upon which calculation is based].

This certifies that the Holder is entitled to purchase from the Company ___ (___) fully paid and nonassessable shares of the Company's ___Stock at a price of ___ Dollars ($___) per share (the "Stock Purchase Price"). The Stock Purchase Price and the number of shares purchasable under the Warrant remain subject to adjustment as provided in Section 4 of the Warrant.

Executed this ___ day of ___, 200_.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____

Name: _____

Title: _____

EXHIBIT "E"

FORM OF LANDLORD WAIVER

Recording Requested By: Venture Lending & Leasing III, Inc.
and When Recorded Return to:

Venture Lending & Leasing III, Inc.
2010 North First Street, Suite 310
San Jose, CA 95131

LANDLORD/MORTGAGEE WAIVER

In order to induce VENTURE LENDING & LEASING III, INC. ("Lender") to provide financing for certain equipment (the "Equipment") to OCULUS INNOVATIVE SCIENCES, INC., a California corporation ("Tenant"), pursuant to that certain Loan and Security Agreement dated March___, 2004, between Lender and Tenant, and any supplements, extensions, renewals and replacements thereof (the "Loan Agreement"), some or all of which Equipment may be located upon that certain real property located at 1 129 North McDowell Blvd., Petaluma, CA 94954., more particularly described on Exhibit "A" attached hereto (the "Real Property"), the undersigned declares and agrees as follows:

1. The undersigned has an interest in the Real Property as (as indicated):

_____ Landlord
_____ Mortgagee or Beneficiary under a Deed of Trust; or
_____ Other (describe): _____
_____

2. The undersigned agrees that the Equipment shall at all times be deemed personal property, even though it maybe placed on or affixed to the Real Property. Lender shall have the right, at all reasonable times, to enter upon the Real Property to take possession and dispose of the Equipment pursuant to the terms of the Loan Agreement or otherwise, free of any claim to, interest in, or lien on the Equipment in favor of the undersigned; provided that if Lender, in removing the Equipment damages any improvements of the undersigned on the Real Property, Lender will, at its own expense, cause the same to be repaired.

3. Any right or interest in the Equipment that the undersigned now has or may hereafter acquire because of the location or installation of the Equipment on the Real Property or otherwise is hereby made subject, subordinate and inferior to the rights of Lender to the Equipment under the terms of the Loan Agreement; provided, that the undersigned shall continue to retain all rights to bring an action in unlawful detainer and trespass against Tenant for nonpayment of its (lease / mortgage] or any other breaches of agreements with the undersigned, subject to Lender's rights with respect to the Equipment.

4. Each reference herein to Lender and the undersigned shall be deemed to include their respective successors and assigns, all of whom shall be bound by and entitled to the benefits of the provisions hereof.

EXHIBIT "F"
FORM OF LEGAL OPINION

Exhibit 10.13

LOAN AND SECURITY AGREEMENT

Dated as of June14, 2006

among

OCULUS INNOVATIVE SCIENCES, INC.
a California corporation,

and

OCULUS TECHNOLOGIES OF MEXICO, S.A. de C.V.
a corporation organized under the laws of Mexico,

and

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.
a corporation organized under the laws of The Netherlands

each individually as a "Borrower" and collectively, as the "Borrowers"

and

VENTURE LENDING & LEASING IV, INC.,
a Maryland corporation,

as "Lender"

LOAN AND SECURITY AGREEMENT

The Borrowers and Lender identified on the cover page of this document have entered or anticipate entering into one or more transactions pursuant to which Lender agrees to make available to Borrowers a loan facility governed by the terms and conditions set forth in this document and one or more Supplements executed by Borrowers and Lender which incorporate this document by reference. Each Supplement constitutes a supplement to and forms part of this document, and will be read and construed as one with this document, so that this document and the Supplement constitute a single agreement between the parties (collectively referred to as this "Agreement").

Accordingly, the parties agree as follows:

ARTICLE 1 — INTERPRETATION

1.1 Definitions. The terms defined in Article 11 and in the Supplement will have the meanings therein specified for purposes of this Agreement.

1.2 Inconsistency. In the event of any inconsistency between the provisions of any Supplement and this document, the provisions of the Supplement will be controlling for the purpose of all relevant transactions.

ARTICLE 2 — THE COMMITMENT AND LOANS

2.1 The Commitment. Subject to the terms and conditions of this Agreement, Lender agrees to make term loans to Borrowers from time to time from the Closing Date and to, but not including, the Termination Date in an aggregate principal amount not exceeding the Commitment. The Commitment is not a revolving credit commitment, and no Borrower has the right to repay and reborrow hereunder. Each Loan requested by a Borrower to be made on a single Business Day shall be for a minimum principal amount set forth in the Supplement, except to the extent the remaining Commitment is a lesser amount.

2.2 Notes Evidencing Loans; Repayment. Each Loan shall be evidenced by a separate Note executed by Borrowers payable to the order of Lender, in the total principal amount of the Loan. Principal and interest of each Loan shall be payable at the times set forth in the Note and regularly scheduled payments thereof and each Final Payment shall be effected by automatic debit of the appropriate funds from Borrowers' Primary Operating Account as specified in the Supplement hereto.

2.3 Procedures for Borrowing.

(a) At least five (5) Business Days' prior to a proposed Borrowing Date, Lender shall have received a written notice of any request for borrowing hereunder (a "Borrowing Request"). Each Borrowing Request shall be in substantially the form of Exhibit "B" to the Supplement, shall be executed by a responsible executive or financial officer of the Parent on behalf of the Borrowers, and shall state how much is requested, and shall be accompanied by such other information and documentation as Lender may reasonably request, including the original executed Note(s) for the Loan(s) covered by the Borrowing Request.

(b) No later than 1:00 p.m. Pacific Standard Time on the Borrowing Date, if Borrowers have satisfied the conditions precedent in Article 4, Lender shall make the Loan available to each such applicable Borrower in immediately available funds.

2.4 Interest. Except as otherwise specified in the applicable Note and/or the Supplement, Basic Interest on the outstanding principal balance of each Loan shall accrue daily at the Designated Rate from the Borrowing Date. If the outstanding principal balance of such Loan is not paid at maturity, interest shall accrue at the Default Rate until paid in full, as further set forth herein.

2.5 Final Payment. Borrowers shall pay the Final Payment with respect to each Loan on the date set forth in the Note evidencing such Loan.

2.6 Interest Rate Calculation. Basic Interest, along with charges and fees under this Agreement and any Loan Document, shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall a Borrower be obligated to pay Lender interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

2.7 Default Interest. Any unpaid payments of principal or interest or the Final Payment with respect to any Loan shall bear interest from their respective

maturities, whether scheduled or accelerated, at the Designated Rate for such Loan plus five percent (5.00%) per annum, until paid in full, whether before or after judgment (the "Default Rate"). Each Borrower shall pay such interest on demand.

2.8 Late Charges. If Borrowers are late in making any payment of principal or interest or Final Payment under this Agreement by more than five (5) days, Borrowers agree to pay a late charge of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrowers acknowledge that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Agreement and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrowers to make timely payments. Borrowers further agree that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Agreement or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

2.9 Lender's Records. Principal, Basic Interest, Final Payments and all other sums owed under any Loan Document shall be evidenced by entries in records maintained by Lender for such purpose. Each payment on and any other credits with respect to principal, Basic Interest, Final Payments and all other sums outstanding under any Loan Document shall be evidenced by entries in such records. Absent manifest error, Lender's records shall be conclusive evidence thereof.

2.10 Grant of Security Interests; Filing of Financing Statements.

(a) To secure the timely payment and performance of all of the Obligations, subject to the terms of the Supplement, each Borrower hereby grants to Lender a continuing security interest in, , all of the Collateral of such Borrower. In connection with the foregoing, each Borrower (i) authorizes Lender to prepare and file any financing statements in the United States of America describing the Collateral without otherwise obtaining such Borrower's signature or consent with respect to the filing of such financing statements; and (ii) agrees to assist in the filing or recordation of such other documents or instruments as may be customary or reasonably required by Lender in accordance with the laws of the jurisdiction where the Borrower or its Collateral is located in order to create, maintain and/or perfect Lender's Lien on such Collateral.

(b) In furtherance of the Parent's grant of the security interests in the Collateral pursuant to Section 2.10(a) above, Parent hereby pledges, assigns and grants to Lender a security interest in all the Shares, together with all proceeds and substitutions thereof, all cash, stock and other moneys and property paid thereon, all rights to subscribe for securities declared or granted in connection therewith, and all other cash and noncash proceeds of the foregoing, as security for the performance of the Obligations. On the Closing Date, the certificate or certificates for the Shares will be delivered to Lender, accompanied by an instrument of assignment duly executed in blank by Parent, if and to the extent such Shares have been certificated. To the extent required by the terms and conditions governing the Shares, Parent shall cause the books of each entity whose Shares are part of the Collateral and any transfer agent to reflect the pledge of the Shares. Upon the occurrence and during the continuance of an Event of Default, Lender may effect the transfer of any securities included in the Collateral (including but not limited to the Shares) into the name of Lender and cause new certificates representing such securities to be issued in the name of Lender or its transferee(s). Parent will execute and deliver such documents, and take or cause to be taken such actions, as Lender may reasonably request to perfect or continue the perfection of Lender's security interest in the Shares, including delivering to Lender the certificate or certificates for any Shares of any Subsidiary that were not certificated as of the Closing Date or previously delivered to Lender. Unless and until an Event of Default shall have occurred and be continuing, Parent shall be entitled to exercise any voting rights with respect to the Shares and to give consents, waivers and ratifications in respect thereof, provided that no vote shall be cast or consent, waiver or ratification given or action taken which would be inconsistent with any of the terms of this Agreement or which would constitute or create any violation of any of such terms. All such rights to vote and give consents, waivers and ratifications shall terminate upon the occurrence and continuance of an Event of Default.

(c) Each Borrower is and shall remain absolutely and unconditionally liable, on a joint and several basis, for the payment and performance of the Obligations under the Loan Documents, including,

without limitation, any deficiency by reason of the failure of the Collateral to satisfy all amounts due Lender under any of the Loan Documents.

(d) All Collateral pledged by each Borrower under this Agreement and any Supplement shall secure the timely payment and performance of all Obligations under this Agreement, the Notes and the other Loan Documents. Except as expressly provided in this Agreement, no Collateral pledged under this Agreement or any Supplement shall be released until such time as all Obligations under this Agreement and the other Loan Documents have been satisfied and paid in full.

2.11 Withholding Adjustment. In the event any Borrower is required to deduct or withhold any Taxes (hereinafter defined) from any Loan payment or other amount payable to Lender hereunder, Borrowers agree to pay timely such additional amount as may be necessary to ensure that Lender receives a net amount, free and clear of all Taxes, equal to the full amount which Lender would have received had no such withholding been made. "Taxes" includes any present or future tax, levy import, duty, charge, fee, deduction or withholding of any nature and whatever called, by a government or other fiscal authority of any country, including any province thereof or subdivision thereof, on whomever and whatever imposed, levied, collected, withheld or assessed, in any event from or with respect of any amount payable to Lender. Borrowers shall, from time to time and promptly after paying, depositing and/or filing such Tax, deliver to Lender receipts, certificates or other proof evidencing the amounts (if any) paid or payable to the relevant government or other fiscal authority in respect of such Taxes.

ARTICLE 3 — REPRESENTATIONS AND WARRANTIES

Each Borrower represents and warrants that, except as set forth in the Supplement or any schedule of exceptions executed by the parties, as of the Closing Date and each Borrowing Date:

3.1 Due Organization. Each Borrower is a company or corporation duly organized and validly existing in good standing under the laws of the jurisdiction (where such standing is legally recognized) of its organization or incorporation, and is duly qualified to conduct business and is in good standing in each other jurisdiction (where such standing is legally recognized) in which its business is conducted or its properties are located, except where the failure to be in good standing or so qualified would not reasonably be expected to have a Material Adverse Effect..

3.2 Authorization, Validity and Enforceability. The execution, delivery and performance of all Loan Documents executed by each Borrower are within each such Borrower's corporate or company powers, have been duly authorized, and are not in conflict with any Borrower's certificate of incorporation or by-laws, articles of association, or the terms of any charter or other organizational document of any Borrower (each to the extent applicable), as amended from time to time; and all such Loan Documents constitute valid and binding obligations of each Borrower, enforceable in accordance with their terms (except as may be limited by bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights in general, and subject to general principles of equity and subject to the satisfaction of the post-closing requirements set forth in that certain side letter of Lender to Parent regarding the pledge of shares in Oculus Technologies of Mexico, S.A. de C.V. and Oculus Innovative Sciences Netherlands B.V.)

3.3 Compliance with Applicable Laws. Each Borrower has complied with all licensing, permit and fictitious name requirements necessary to lawfully conduct the business in which it is engaged, and to any sales, leases or the furnishing of services by each Borrower, including without limitation those requiring consumer or other disclosures, the noncompliance with which would have a Material Adverse Effect.

3.4 No Conflict. The execution, delivery, and performance by each Borrower of all Loan Documents are not in conflict with any law, rule, regulation, order or directive, or any indenture, agreement, or undertaking to which each Borrower is a party or by which each Borrower may be bound or affected. Without limiting the generality of the foregoing: the issuance of the Warrant to Lender (or its designee) by Parent and the grant of registration rights in connection therewith do not violate any agreement or instrument by which Parent is bound or require the consent of any holders of Parent's securities other than consents which have been obtained prior to the Closing Date; and the grant by each Borrower of Liens in favor of Lender pursuant to Section 2.10 of this Agreement does not violate any laws applicable to such Borrower or require the consent or approval or any governmental authority having jurisdiction over such Borrower.

3.5 No Litigation, Claims or Proceedings. There is no litigation, tax claim, proceeding or dispute pending, or, to the knowledge of any Borrower,

threatened against or affecting any Borrower, its property or the conduct of its business.

3.6 Correctness of Financial Statements. The consolidated and consolidating financial statements of Parent and its Subsidiaries which have been delivered to Lender fairly and accurately reflect the financial condition of Parent and its Subsidiaries in accordance with GAAP as of the latest date of such financial statements; and, since that date there has been no Material Adverse Change.

3.7 No Subsidiaries. Except as set forth on Schedule 3.7 hereto, no Borrower is a majority owner of or in a control relationship with any other business entity.

3.8 Environmental Matters. To its knowledge each Borrower has concluded that such Borrower is in compliance with Environmental Laws, except to the extent a failure to be in such compliance could not reasonably be expected to have a Material Adverse Effect.

3.9 No Event of Default. No Default or Event of Default has occurred and is continuing.

3.10 Full Disclosure. None of the representations or warranties made by any Borrower in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of any Borrower in connection with the Loan Documents (including disclosure materials delivered by or on behalf of any Borrower to Lender prior to the Closing Date or pursuant to Section 5.2 hereof), contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

3.11 Specific Representations Regarding Collateral.

(a) Title. Except for the security interests created by this Agreement and Permitted Liens, (i) each Borrower is and will be the unconditional legal and beneficial owner of the Collateral, and (ii) the Collateral is genuine and subject to no Liens, rights or defenses of others. There exist no prior assignments or encumbrances of record with the U.S. Patent and Trademark Office or U.S. Copyright Office, or such other applicable offices where such assignments or encumbrances of record are filed within the respective jurisdictions of the Borrowers affecting any Collateral in favor of any third party other than Lender.

(b) Rights to Payment. The names of the obligors, amount owing to each Borrower, due dates and all other information with respect to the Rights to Payment are and will be correctly stated in all material respects in all Records relating to the Rights to Payment. Each Borrower further represents and warrants, to its knowledge, that each Person appearing to be obligated on a Right to Payment has authority and capacity to contract and is bound as it appears to be.

(c) Location of Collateral. Each Borrower's chief executive office, Inventory, Records, Equipment, and any other offices or places of business are located at the address(es) shown on the Supplement.

(d) Business Names. Other than its full corporate name, no Borrower has conducted business using any trade names or fictitious business names except as shown on the Supplement.

3.12 Copyrights, Patents, Trademarks and Licenses.

(a) Each Borrower owns or is licensed or otherwise has the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other similar rights that are reasonably necessary for the operation of its respective business, without conflict with the rights of any other Person.

(b) To each Borrower's knowledge, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by any Borrower infringes upon any rights held by any other Person.

(c) No claim or litigation regarding any of the foregoing is pending or, to each Borrower's knowledge, threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or proposed which, in either case, could reasonably be expected to have a Material Adverse Effect.

3.13 Regulatory Compliance. To the extent applicable to such Borrower, Borrower has met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from such Borrower's failure to comply with ERISA that is

reasonably likely to result in such Borrower's incurring any liability that could have a Material Adverse Effect. No Borrower is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. No Borrower is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T and U of the Board of Governors of the Federal Reserve System). Each Borrower has complied with all the provisions of the Federal Fair Labor Standards Act.

3.14 Shares. Parent has full power and authority to create a first priority Lien on the Shares, and no disability or contractual obligation exists that would prohibit Parent from pledging the Shares pursuant to this Agreement. To Parent's knowledge, there are no subscriptions, warrants, rights of first refusal or other restrictions on transfer relative to, or options exercisable with respect to the Shares. The Shares have been and will be duly authorized and validly issued, and are fully paid and non-assessable. To Parent's knowledge, the Shares are not the subject of any present or threatened suit, action, arbitration, administrative or other proceeding, and Parent knows of no reasonable grounds for the institution of any such proceedings.

3.15 Survival. The representations and warranties of the Borrowers as set forth in this Agreement survive the execution and delivery of this Agreement.

ARTICLE 4 — CONDITIONS PRECEDENT

4.1 Conditions to First Loan. The obligation of Lender to make its first Loan hereunder is, in addition to the conditions precedent specified in Section 4.2 and in any Supplement, subject to the fulfillment of the following conditions and to the receipt by Lender of the documents described below, duly executed and in form and substance satisfactory to Lender and its counsel:

(a) Resolutions. A certified copy of the resolutions of the Board of Directors and shareholders of each Borrower, as applicable, of each Borrower authorizing the execution, delivery and performance by each such Borrower of the Loan Documents.

(b) Incumbency and Signatures. A certificate of the secretary of each Borrower certifying the names of the officer or officers of each Borrower authorized to sign the Loan Documents, together with a sample of the true signature of each such officer.

(c) Legal Opinion. The opinion of legal counsel for Parent in the form of Exhibit H attached to the Supplement.

(d) Organizational Documents. Copies of the charter and organizational documents (e.g., certificate or articles of incorporation or association and bylaws) of each Borrower, as amended through the Closing Date, certified by each Borrower as being true, correct and complete.

(e) This Agreement. Original counterparts of this Agreement and an initial Supplement, with all schedules completed and attached thereto, and disclosing such information as is acceptable to Lender.

(f) Lien Perfection Documents. Filing copies (or other evidence of filing satisfactory to Lender and its counsel) of such UCC financing statements, foreign lien/charge registrations, collateral assignments, account control agreements, and termination statements, with respect to the Collateral as Lender shall request.

(g) Intentionally Omitted.

(h) Lien Searches. UCC lien, judgment, bankruptcy and tax lien searches of each Borrower from such jurisdictions or offices as Lender may reasonably request, all as of a date reasonably satisfactory to Lender and its counsel.

(i) Good Standing Certificate. A certificate of status or good standing of each Borrower as of a date acceptable to Lender from the jurisdiction of each Borrower's organization and any foreign jurisdictions where each such Borrower is qualified to do business.

(j) Warrant. A warrant issued by Parent to Lender (or its designee) exercisable for such number, type and class of shares of such issuer's capital stock, and for an initial exercise price as is specified in the Supplement.

(k) Pledge by Aquamed. The pledge agreement by Aquamed Technologies, Inc., a California corporation of its shares of stock in Oculus Technologies of Mexico S.A. de C.V.

(l) Other Documents. Such other documents and instruments as Lender may reasonably request to effectuate the intents and purposes of this Agreement,

including the certificate or certificates for the Shares, accompanied by an instrument of assignment or stock power duly executed in blank.

4.2 Conditions to All Loans. The obligation of Lender to make its initial Loan and each subsequent Loan is subject to any additional conditions precedent specified in the Supplement and the following further conditions precedent that:

(a) No Default. No Default or Event of Default has occurred and is continuing or will result from the making of any such Loan, and the representations and warranties of Borrowers contained in Article 3 of this Agreement and Part 3 of the Supplement are true and correct as of the Borrowing Date of such Loan.

(b) No Material Adverse Change. No event has occurred that has had or could reasonably be expected to have a Material Adverse Change.

(c) Borrowing Request. Borrowers shall have delivered to Lender a Borrowing Request for such Loan.

(d) Note. Each Borrower shall have delivered an original executed Note evidencing such Loan, substantially in the form attached to the Supplement.

(e) Supplemental Lien Filings. Each Borrower shall have executed and delivered such amendments or supplements to this Agreement and additional Security Documents, any required filings or registrations for lien perfection under foreign law, financing statements and third party waivers as Lender may reasonably request in connection with the proposed Loan, in order to create, protect or perfect or to maintain the perfection of Lender's Liens on the Collateral.

(f) VCOC Limitation. Lender shall not be obligated to make any Loan under its Commitment if at the time of or after giving effect to the proposed Loan Lender would no longer qualify as: (A) a "venture capital operating company" under U.S. Department of Labor Regulations Section 2510.3-101(d), Title 29 of the Code of Federal Regulations, as amended; and (B) a "business development company" under the provisions of federal Investment Company Act of 1940, as amended; and (C) a "regulated investment company" under the provisions of the Internal Revenue Code of 1986, as amended.

(g) Financial Projections. Parent shall have delivered to Lender each such Borrower's business plan and/or financial projections or forecasts as most recently approved by Parent's Board of Directors.

ARTICLE 5 — AFFIRMATIVE COVENANTS

During the term of this Agreement and until its performance of all Obligations, each Borrower will:

5.1 Notice to Lender. Promptly give written notice to Lender of:

(a) Any litigation or administrative or regulatory proceeding affecting any Borrower where the amount claimed against any Borrower is at the Threshold Amount or more, or where the granting of the relief requested could have a Material Adverse Effect; or of the acquisition by any Borrower of any commercial tort claim, including brief details of such claim and such other information as Lender may reasonably request to enable Lender to better perfect its Lien in such commercial tort claim as Collateral.

(b) Any substantial dispute which may exist between any Borrower or any governmental or regulatory authority.

(c) The occurrence of any Default or any Event of Default.

(d) Any change in the location of any of Borrowers' places of business or Collateral at least thirty (30) days in advance of such change, or of the establishment of any new, or the discontinuance of any existing, place of business.

(e) Any dispute or default by any Borrower or any other party under any joint venture, partnering, distribution, cross-licensing, strategic alliance, collaborative research or manufacturing, license or similar agreement which could reasonably be expected to have a Material Adverse Effect.

(f) Any other matter which has resulted or might reasonably result in a Material Adverse Change.

5.2 Financial Statements. Deliver to Lender or cause to be delivered to Lender, in form and detail satisfactory to Lender the following financial and other information, which each Borrower warrants shall be accurate and complete in all material respects:

(a) Monthly Financial Statements. As soon as available but no later than thirty (30) days after the end of each month, Parent's and its Subsidiaries' unaudited

balance sheet as of the end of such period, and Parent's and its Subsidiaries' unaudited income statement and unaudited cash flow statement for such period and for that portion of Parent's and its Subsidiaries' financial reporting year ending with such period, on a consolidated and consolidating basis, prepared in accordance with GAAP, and attested by a responsible financial officer of Parent as being complete and correct and fairly presenting the consolidated financial condition and the results of operations of Parent and its Subsidiaries.

(b) Year-End Financial Statements. As soon as available but no later than one hundred twenty (120) days after and as of the end of each financial reporting year, starting on the financial reporting year ending March 31, 2006 or any prior year that Parent's Board of Director's directs audited statements to be produced a complete copy of Parent's and its Subsidiaries' audit report, which shall include balance sheet, income statement, statement of changes in equity and statement of cash flows for such year, on a consolidated and consolidating basis, prepared in accordance with GAAP and certified by an independent certified public accountant selected by Parent and satisfactory to Lender (the "Accountant"). The Accountant's certification shall not be qualified or limited due to a restricted or limited examination by the Accountant of any material portion of Parent's records or otherwise. For its financial reporting year ended March 31, 2005, if applicable, Parent shall furnish company prepared annual financial statements to Lender as otherwise required above.

(c) Compliance Certificates. Simultaneously with the delivery of each set of financial statements referred to in paragraphs (a) and (b) above, a certificate of the chief financial officer of each Borrower substantially in the form of Exhibit "C" to the Supplement, (i) setting forth in reasonable detail any calculations required to establish whether Borrowers are in compliance with any financial covenants or tests set forth in the Supplement, and (ii) stating whether any Default or Event of Default exists on the date of such certificate, and if so, setting forth the details thereof and the action which each such Borrower is taking or proposes to take with respect thereto.

(d) Government Required Reports; Press Releases. Promptly after sending, issuing, making available, or filing, copies of all statements released to any news media for publication, all reports, proxy statements, and financial statements that any Borrower sends or makes available to its stockholders, and, not later than five (5) days after actual filing or the date such filing was first due, all registration statements and reports that Borrower files or is required to file with the Securities and Exchange Commission, or any other governmental or regulatory authority.

(e) Other Information. Such other statements, lists of property and accounts, budgets, forecasts, sales projections, operating plans, reports, or other financial information as Lender may from time to time reasonably request.

5.3 Managerial Assistance from Lender. Permit Lender to substantially participate in, and substantially influence the conduct of management of Parent through the exercise of "management rights," as that term is defined in 29 C.F.R. § 2510.3-101(d), including without limitation the following rights:

(a) Each Borrower agrees that (i) it will make its officers, directors, employees and affiliates available at such times as Lender may reasonably request for Lender to consult with and advise as to the conduct of Borrower's business, its equipment and financing plans, and its financial condition and prospects, (ii) Lender shall have the right to inspect Borrowers' books, records, facilities and properties at reasonable times during normal business hours on reasonable advance notice, and (iii) Lender shall be entitled to recommend prospective candidates for election or nomination for election to Parent's Board of Directors and Parent shall give due consideration to (but shall not be bound by) such recommendations, it being the intention of the parties that Lender shall be entitled through such rights, *inter alia*, to furnish "significant managerial assistance", as defined in Section 2(a)(47) of the Investment Company Act of 1940, to each Borrower.

(b) Without limiting the generality of (a) above, if Lender reasonably believes that financial or other developments affecting any Borrower have impaired or are likely to impair such Borrower's ability to perform its obligations under this Agreement, permit Lender reasonable access to such Borrower's management and/or Board of Directors and opportunity to present Lender's views with respect to such developments.

Lender shall cooperate with each Borrower to ensure that the exercise of Lender's rights shall not disrupt the business of such Borrower. The rights enumerated above shall not be construed as giving Lender control over any Borrower's management or policies.

5.4 Existence. Maintain and preserve each Borrower's existence, present form of business, and all rights and privileges necessary or desirable in the normal course of its business; and keep all Borrowers' property in good working order and condition, ordinary wear and tear excepted.

5.5 Insurance. Obtain and keep in force insurance in such amounts and types as is usual in the type of business conducted by each Borrower, with insurance carriers having a policyholder rating of not less than "A" and financial category rating of Class VII in "Best's Insurance Guide," unless otherwise approved by Lender. Such insurance policies must be in form and substance satisfactory to Lender, and shall list Lender as an additional insured or loss payee, as applicable, on endorsement(s) in form reasonably acceptable to Lender. Each Borrower shall furnish to Lender such endorsements, and upon Lender's request, copies of any or all such policies.

5.6 Accounting Records. Maintain adequate books, accounts and records, and prepare all financial statements in accordance with GAAP (or similar standards under foreign law or practice applicable to Borrower), and in compliance with the regulations of any governmental or regulatory authority having jurisdiction over any Borrower or any such Borrower's business; and permit employees or agents of Lender at such reasonable times as Lender may request, During such Borrower's normal business hours, to inspect each Borrower's properties, and to examine, and make copies and memoranda of each Borrower's books, accounts and records if Lender reasonably believes the Collateral has been impaired.

5.7 Compliance With Laws. Comply with all laws (including Environmental Laws), rules, regulations applicable to, and all orders and directives of any governmental or regulatory authority having jurisdiction over, any Borrower or any such Borrower's business, and with all material agreements to which any Borrower is a party, except where the failure to so comply would not have a Material Adverse Effect.

5.8 Taxes and Other Liabilities. Pay all of each Borrower's Indebtedness when due; pay all taxes and other governmental or regulatory assessments before delinquency or before any penalty attaches thereto, except as may be contested in good faith by the appropriate procedures and for which such Borrower shall maintain appropriate reserves; and timely file all required tax returns.

5.9 Special Collateral Covenants.

(a) Maintenance of Collateral; Inspection. Do all things reasonably necessary to maintain, preserve, protect and keep all Collateral in good working order and salable condition, ordinary wear and tear excepted, deal with the Collateral in all ways as are considered good practice by owners of like property, and use the Collateral lawfully and, to the extent applicable, only as permitted by each Borrower's insurance policies. Maintain, or cause to be maintained, complete and accurate Records relating to the Collateral. Upon reasonable prior notice at reasonable times during normal business hours, each Borrower hereby authorizes Lender's officers, employees, representatives and agents to inspect the Collateral and to discuss the Collateral and the Records relating thereto with each such Borrower's officers and employees, and, in the case of any Right to Payment, with any Person which is or may be obligated thereon.

(b) Ownership of Subsidiaries. Not sell, transfer, encumber or otherwise dispose of all or any portion of Parent's ownership interest in any Subsidiary.

(c) Liens. Not create, incur, assume or permit to exist any Lien or grant any other Person a negative pledge on any Collateral, except Permitted Liens.

(d) Documents of Title. Not sign or authorize the signing of any financing statement or other document naming any Borrower as debtor or obligor, or acquiesce or cooperate in the issuance of any bill of lading, warehouse receipt or other document or instrument of title with respect to any Collateral, except those negotiated to Lender, or those naming Lender as secured party, or if solely to create, perfect or maintain a Permitted Lien.

(e) Change in Location or Name. Without at least 30 days' prior written notice to Lender: (a) not relocate any Collateral or Records, its chief executive office, or establish a place of business at a location other than as specified in the Supplement; and (b) not change its name, mailing address, location of Collateral, jurisdiction of incorporation or its legal structure.

(f) Decals, Markings. At the request of Lender, firmly affix a decal, stencil or other marking to designated items of Equipment, indicating thereon the security interest of Lender.

(g) Agreement With Real Property Owner/Landlord. Obtain and maintain such

acknowledgments, consents, waivers and agreements (each, a "Waiver") from the owner, lienholder, mortgagee and landlord (each, a "Landlord") with respect to any real property on which Collateral is located as Lender may require, all in form and substance satisfactory to Lender, if Lender advises Borrower that such real property is located in a jurisdiction that provides for statutory landlord's liens or where the lease for such real property grants to the Landlord a Lien on such Borrower's personal property. In all other cases, each Borrower agrees it will use commercially reasonable efforts to obtain a Waiver from the Landlord if requested by Lender.

(h) Certain Agreements on Rights to Payment. Other than in the ordinary course of business, not make any material discount, credit, rebate or other reduction in the original amount owing on a Right to Payment or accept in satisfaction of a Right to Payment less than the original amount thereof.

5.10 Authorization for Automated Clearinghouse Funds Transfer. (i) Authorize Lender to initiate debit entries to the Primary Operating Account, specified in the Supplement hereto, through Automated Clearinghouse ("ACH") transfers, in order to satisfy the Obligations; (ii) provide Lender at least thirty (30) days notice of any change in the Primary Operating Account; and (iii) grant Lender any additional authorizations necessary to begin ACH debits from a new account which becomes the Primary Operating Account.

ARTICLE 6 — NEGATIVE COVENANTS

During the term of this Agreement and until the performance of all Obligations, each Borrower will not, and will not permit any Subsidiary to:

6.1 Indebtedness. Be indebted for borrowed money, the deferred purchase price of property, or leases which would be capitalized in accordance with GAAP; or become liable as a surety, guarantor, accommodation party or otherwise for or upon the obligation of any other Person, except:

(a) Indebtedness incurred for the acquisition of supplies or inventory on normal trade credit;

(b) Indebtedness incurred pursuant to one or more transactions permitted under Section 6.4;

(c) Indebtedness of any Borrower under this Agreement;

(d) Indebtedness in the form of bridge loans, provided such Indebtedness shall be subordinated to the Obligations on terms and conditions acceptable to Lender, including without limiting the generality of the foregoing, subordination of such Indebtedness in right of payment to the prior payment in full of the Obligations, and the subordination of the priority of any Lien at any time securing such Indebtedness to the Liens of Lender in the collateral covered thereby;

(e) Subordinated Debt;

(f) Intercompany Indebtedness among Borrowers;

(g) any Indebtedness existing on the Closing Date as shown on Schedule 6.1, and

(h) Indebtedness permitted under the terms of the Supplement.

6.2 Liens. Create, incur, assume or permit to exist any Lien, or grant any other Person a negative pledge, on any of Borrowers' or such Subsidiary's property, except Permitted Liens. Each Borrower and Lender agree that this covenant is not intended to constitute a lien, deed of trust, equitable mortgage, or security interest of any kind on any of each Borrower's real property, and this Agreement shall not be recorded or recordable. Notwithstanding the foregoing, however, violation of this covenant by any Borrower shall constitute an Event of Default. Without limiting the generality of the foregoing, and as a material inducement to the Lender's making of the Commitment and entering into the Loan Documents, each Borrower agrees that (i) it shall not assign, mortgage, pledge, grant a security interest in, or encumber any of such Borrower's Intellectual Property, and (ii) it shall not permit the inclusion in any agreement, document, instrument or other arrangement with any Person (except with or in favor of Lender) which directly or indirectly prohibits or has the effect of prohibiting such Borrower from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of such Borrower's Intellectual Property, except as is otherwise permitted in Section 6.5(i) or (ii) of this Agreement, or would otherwise be a "Permitted Lien" hereunder.

6.3 Dividends. Except after a Qualified Public Offering, pay any dividends or purchase, redeem or

otherwise acquire or make any other distribution with respect to any of each Borrower's capital stock, except: (a) dividends or other distributions solely of capital stock of each such Borrower; (b) so long as no Event of Default has occurred and is continuing, (i) repurchases of Parent's stock from its employees upon termination of employment under reverse vesting or similar repurchase plans not to exceed $100,000 in any calendar year; (ii) dividends required to be paid to the Parent's Series A Preferred Stockholders pursuant to the Amended and Restated Articles of Incorporation in force at the time of the execution of this Agreement and (c) any Subsidiary of Parent may pay dividends to Parent from time to time so long as such funds are not further distributed to any equity holders of Parent.

6.4 Changes/Mergers. Liquidate or dissolve; or enter into any consolidation, merger or other combination in which the stockholders of any Borrower immediately prior to the first such transaction own less than 50% of the voting stock of any such Borrower immediately after giving effect to such transaction or related series of such transactions, except that any such Borrower may consolidate or merge so long as: (A) the entity that results from such merger or consolidation (the "Surviving Entity") shall have executed and delivered to Lender an agreement in form and substance reasonably satisfactory to Lender, containing an assumption by the Surviving Entity of the due and punctual payment and performance of all Obligations and performance and observance of each covenant and condition of such Borrower in the Loan Documents; (B) all such obligations of the Surviving Entity to Lender shall be guaranteed by any entity that directly or indirectly owns or controls more than 50% of the voting stock of the Surviving Entity; (C) immediately after giving effect to such merger or consolidation, no Event of Default or, event which with the lapse of time or giving of notice or both, would result in an Event of Default shall have occurred and be continuing; and (D) the credit risk to Lender, in its reasonable discretion, of the Surviving Entity shall not be increased. In determining whether the proposed merger or consolidation would result in an increased credit risk, Lender may consider, among other things, changes in such Borrower's management team, employee base, access to equity markets, venture capital support, financial position and/or disposition of intellectual property rights which may reasonably be anticipated as a result of the transaction.

Notwithstanding anything to the contrary in this Section 6.4, (i) changes in ownership resulting from additional bona fide private equity financings by financial investors shall be permitted (subject to the covenants of Section 6.13 hereof), and (ii) Parent shall be permitted (A) to liquidate or dissolve any Subsidiary in a transaction pursuant to which all of the assets of such Subsidiary are transferred to Parent, and (B) merge with or into a Subsidiary in a transaction in which Parent is the surviving entity

6.5 Sales of Assets. Sell, transfer, lease, license or otherwise dispose of (a "Transfer") any Borrower's or Subsidiary's assets (including, without limitation, shares of stock and indebtedness of any Subsidiary) except: (i) non-exclusive licenses of Intellectual Property in the ordinary course of business consistent with industry practice or as permitted elsewhere in this Agreement or the other Loan Documents**;** (ii) exclusive licenses of Intellectual Property granted by Borrower in the ordinary course of business to a distributor or licensee with respect to one or more fields of use which when taken alone or together do not constitute a major portion of the existing uses of Grantor's Intellectual Property and approved by the Board of Directors; (iii) Transfers of worn-out, obsolete or surplus property (each as determined by each Borrower in its reasonable judgment); (iv) Transfers of Inventory; (v) Transfers constituting Permitted Liens; (vi) Transfers permitted in Section 6.6 hereunder; and (vii) Transfers of Collateral (other than Intellectual Property) for fair consideration and in the ordinary course of its business.

6.6 Loans/Investments. Make or suffer to exist any loans, guaranties, advances, or investments, except:

(a) accounts receivable in the ordinary course of business;

(b) investments in domestic certificates of deposit issued by, and other domestic investments with, financial institutions organized under the laws of the United States or a state thereof, having at least One Hundred Million Dollars ($100,000,000) in capital and a rating of at least "investment grade" or "A" by Moody's or any successor rating agency;

(c) investments in marketable obligations of the United States of America and in open market commercial paper rated A1 or P1 and floating rate preferred rated AAA by a national credit agency and maturing not more than one year from the creation thereof;

(d) temporary advances to cover incidental expenses to be incurred in the ordinary course of business;

(e) investments in joint ventures, strategic alliances, licensing and similar arrangements customary in each Borrower's industry and which do not require such Borrower to assume or otherwise become liable for the obligations of any third party not directly related to or arising out of such arrangement or, without the prior written consent of Lender, require such Borrower to transfer ownership of non-cash assets to such joint venture or other entity; and

(f) Investments in and loans to Subsidiaries of Parent**.**

6.7 Transactions With Related Persons. Directly or indirectly enter into any transaction with or for the benefit of a Related Person on terms more favorable to the Related Person than would have been obtainable in an "arms' length" dealing.

6.8 Other Business. Engage in any material line of business other than the business any Borrower conducts or contemplates conducting as of the Closing Date.

6.9 Compliance. Become an "investment company" or controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Loan for such purpose. Fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to comply with the Federal Fair Labor Standards Act or violate any law or regulation, which violation could have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Lender's Lien on the Collateral, or permit any of its subsidiaries to do any of the foregoing.

6.10 Other Deposit and Securities Accounts. Maintain any Deposit Accounts or accounts holding securities except (i) Deposit Accounts and investment/securities accounts as set forth in the Supplement, and (ii) other Deposit Accounts and securities/investment accounts, in each case, with respect to which each Borrower and Lender shall have taken such action as Lender reasonably deems necessary to obtain a perfected first security interest therein.

6.11 Subsidiaries. Cause or permit a Subsidiary to issue any additional Shares, unless the same have been pledged to Lender as part of the Collateral. In addition, Parent will not allow its wholly owned subsidiary Aquamed Technologies, Inc., a California corporation, to engage in any business or incur any Indebtedness after the Closing Date.

6.12 Financing Statements and Other Actions. Fail to execute and deliver to Lender all financing statements, account control agreements, notices and other documents (including, without limitation, any filings with the United States Patent and Trademark Office,) from time to time reasonably requested by Lender or as necessary in order to maintain either (i) a first priority fixed or floating security interest in the Collateral, or (ii) a first perfected security interest in the Collateral, in favor of Lender, except in each case to the extent a Permitted Lien is permitted to be senior to Lender's security interests; perform such other acts, and execute and deliver to Lender such additional conveyances, assignments, agreements and instruments, as Lender may at any time reasonably request.

6.13 Stock Ownership Allow any Person or two or more Persons acting in concert to acquire beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission) of fifty percent (50%) or more of the outstanding shares of voting stock of Borrower.

ARTICLE 7 — EVENTS OF DEFAULT

7.1 Events of Default; Acceleration. Upon the occurrence and during the continuation of any Default, the obligation of Lender to make any additional Loan shall be suspended. The occurrence of any of the following (each, an "Event of Default") shall terminate any obligation of Lender to make any additional Loan; and shall, at the option of Lender (1) make all sums of Basic Interest and principal, all Final Payments and any Obligations and other amounts owing under any Loan Documents immediately due and payable without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor or any other notices or demands, and (2) give Lender the right to exercise any other right or remedy provided by contract or applicable law:

(a) Borrowers shall fail to pay any principal, interest or Final Payment under this Agreement or any Note, or fail to pay any fees or other charges when due under any Loan Document, and such failure continues for five (5) Business Days or more after the same first

becomes due; or an Event of Default as defined in any other Loan Document shall have occurred.

(b) Any representation or warranty made, or financial statement, certificate or other document provided, by any Borrower under any Loan Document shall prove to have been false or misleading in any material respect when made or deemed made herein.

(c) Any Borrower shall fail to pay its debts generally as they become due or shall commence any Insolvency Proceeding with respect to itself; an involuntary Insolvency Proceeding shall be filed against any Borrower, or a custodian, receiver, trustee, assignee for the benefit of creditors, or other similar official, shall be appointed to take possession, custody or control of the properties of any Borrower, and such involuntary Insolvency Proceeding, petition or appointment is acquiesced to by any Borrower or is not dismissed within sixty (60) days; or the dissolution or termination of the business of any Borrower.

(d) Any Borrower shall be in default beyond any applicable period of grace or cure under any other agreement involving the borrowing of money, the purchase of property, the advance of credit or any other monetary liability of any kind to Lender or to any Person which results in the acceleration of payment of such obligation in an amount in excess of the Threshold Amount.

(e) Any governmental or regulatory authority shall take any judicial or administrative action, or any defined benefit pension plan maintained by any Borrower shall have any unfunded liabilities, any of which, in the reasonable judgment of Lender, might have a Material Adverse Effect.

(f) Any sale, transfer or other disposition of all or a substantial or material part of the assets of any Borrower, including without limitation to any trust or similar entity, shall occur, except as permitted by Section 6.5.

(g) Any judgment(s) singly or in the aggregate in excess of the Threshold Amount shall be entered against any Borrower which remain unsatisfied, unvacated or unstayed pending appeal for ten (10) or more days after entry thereof.

(i) Any Borrower shall fail to perform or observe any covenant contained in Article 6 of this Agreement.

(h) (Intentionally Omitted.)

(j) Any Borrower shall fail to perform or observe any material covenant contained in Article 5 or elsewhere in this Agreement or any other Loan Document (other than a covenant which is dealt with specifically elsewhere in this Article 7) and, if capable of being cured, the breach of such covenant is not cured within 30 days after the sooner to occur of such Borrower's receipt of notice of such breach from Lender or the date on which such breach first becomes known to any officer of such Borrower; provided, however that if such breach is not capable of being cured within such 30-day period and such Borrower timely notifies Lender of such fact and such Borrower diligently pursues such cure, then the cure period shall be extended to the date requested in such Borrower's notice but in no event more than 90 days from the initial breach; provided, further, that such additional 60-day opportunity to cure shall not apply in the case of any failure to perform or observe any covenant which has been the subject of a prior failure within the preceding 180 days or which is a willful and knowing breach by Borrower.

7.2 Remedies Upon Default. Upon the occurrence and during the continuance of an Event of Default, Lender shall be entitled to, at its option, exercise any or all of the rights and remedies available to a secured party under the UCC or any other applicable law, and exercise any or all of its rights and remedies provided for in this Agreement and in any other Loan Document. The obligations of Borrowers under this Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any Obligations is rescinded or must otherwise be returned by Lender upon, on account of, or in connection with, the insolvency, bankruptcy or reorganization of any Borrower or otherwise, all as though such payment had not been made.

7.3 Sale of Collateral. Upon the occurrence and during the continuance of an Event of Default, Lender may, subject to the provisions contained in the UCC and other applicable law, rules or regulations, sell all or any part of the Collateral, at public or private sales, to itself, a wholesaler, retailer or investor, for cash, upon credit or for future delivery, and at such price or prices as are commercially reasonable. Any such public or private sales shall be held at such times and at such place(s) as Lender may determine. In case of the sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by Lender until the selling price is paid by the purchaser, but Lender shall not incur any liability in case of the failure of such purchaser to pay for the Collateral and,

in case of any such failure, such Collateral may be resold. Lender may, instead of exercising its power of sale, proceed to enforce its security interest in the Collateral by seeking a judgment or decree of a court of competent jurisdiction. Without limiting the generality of the foregoing, if an Event of Default is in effect,

(1) Subject to the rights of any third parties, Lender may license, or sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any Copyrights, Patents or Trademarks included in the Collateral throughout the world for such term or terms, on such conditions and in such manner as Lender shall in its sole discretion determine;

(2) Lender may (without assuming any obligations or liability thereunder), at any time and from time to time, enforce (and shall have the exclusive right to enforce) against any licensee or sublicensee all rights and remedies of any Borrower in, to and under any Copyright Licenses, Patent Licenses or Trademark Licenses and take or refrain from taking any action under any thereof, and each Borrower hereby releases Lender from, and agrees to hold Lender free and harmless from and against any claims arising out of, any lawful action so taken or omitted to be taken with respect thereto other than claims arising out of Lender's gross negligence or willful misconduct; and

(3) Upon request by Lender, each Borrower will execute and deliver to Lender a power of attorney, in form and substance reasonably satisfactory to Lender for the implementation of any lease, assignment, license, sublicense, grant of option, sale or other disposition of a Copyright, Patent or Trademark. In the event of any such disposition pursuant to this clause 3, Borrowers shall supply their know-how and expertise relating to the products or services made or rendered in connection with Patents, the manufacture and sale of the products bearing Trademarks, and its customer lists and other records relating to such Copyrights, Patents or Trademarks and to the distribution of said products, to Lender.

(4) If, at any time when Lender shall determine to exercise its right to sell the whole or any part of the Shares hereunder, such Shares or the part thereof to be sold shall not, for any reason whatsoever, be effectively registered under the Securities Act (or any similar statute), then Lender may, in its discretion (subject only to applicable requirements of law), sell such Shares or part thereof by private sale in such manner and under such circumstances as Lender may deem necessary or advisable, but subject to the other requirements of this Article 7, and shall not be required to effect such registration or to cause the same to be effected. Without limiting the generality of the foregoing, in any such event, Lender in its discretion may (i) in accordance with applicable securities laws proceed to make such private sale notwithstanding that a registration statement for the purpose of registering such Shares or part thereof could be or shall have been filed under the Securities Act (or similar statute), (ii) approach and negotiate with a single possible purchaser to effect such sale, and (iii) restrict such sale to a purchaser who is an accredited investor under the Securities Act and who will represent and agree that such purchaser is purchasing for its own account, for investment and not with a view to the distribution or sale of such Shares or any part thereof. In addition to a private sale as provided above in this Article 7, if any of the Shares shall not be freely distributable to the public without registration under the Securities Act (or similar statute) at the time of any proposed sale pursuant to this Article 7, then Lender shall not be required to effect such registration or cause the same to be effected but, in its discretion (subject only to applicable requirements of law), may require that any sale hereunder (including a sale at auction) be conducted subject to restrictions:

(A) as to the financial sophistication and ability of any Person permitted to bid or purchase at any such sale;

(B) as to the content of legends to be placed upon any certificates representing the Shares sold in such sale, including restrictions on future transfer thereof;

(C) as to the representations required to be made by each Person bidding or purchasing at such sale relating to such Person's access to financial information about Parent or any of its Subsidiaries and such Person's intentions as to the holding of the Shares so sold for investment for its own account and not with a view to the distribution thereof; and

(D) as to such other matters as Lender may, in its discretion, deem necessary or appropriate in order that such sale (notwithstanding any failure so to register) may be effected in compliance with the Bankruptcy Code and other laws affecting the enforcement of creditors' rights and the Securities Act and all applicable state

securities laws.

(5) Borrowers recognize that Lender may be unable to effect a public sale of any or all the Shares and may be compelled to resort to one or more private sales thereof in accordance with clause (4) above. Borrowers also acknowledge that any such private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by virtue of such sale being private. Lender shall be under no obligation to delay a sale of any of the Shares for the period of time necessary to permit the applicable Subsidiary to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if such Borrower and/or the Subsidiary would agree to do so

7.4 Borrowers' Obligations Upon Default. Upon the request of Lender after the occurrence and during the continuance of an Event of Default, each Borrower will:

(a) Assemble and make available to Lender the Collateral at such place(s) as Lender shall reasonably designate, segregating all Collateral so that each item is capable of identification; and

(b) Subject to the rights of any lessor, permit Lender, by Lender's officers, employees, agents and representatives, to enter any premises where any Collateral is located, to take possession of the Collateral, to complete the processing, manufacture or repair of any Collateral, and to remove the Collateral, or to conduct any public or private sale of the Collateral, all without any liability of Lender for rent or other compensation for the use of Borrowers' premises.

ARTICLE 8 — SPECIAL COLLATERAL PROVISIONS

8.1 Intentionally Omitted.

8.2 Performance of Borrowers' Obligations. Without having any obligation to do so, upon reasonable prior notice to any Borrower, Lender may perform or pay any obligation which any Borrower has agreed to perform or pay under this Agreement, including, without limitation, the payment or discharge of taxes or Liens levied or placed on or threatened against the Collateral. In so performing or paying, Lender shall determine the action to be taken and the amount necessary to discharge such obligations. Borrowers shall reimburse Lender on demand for any amounts paid by Lender pursuant to this Section, which amounts shall constitute Obligations secured by the Collateral and shall bear interest from the date of demand at the Default Rate.

8.3 Power of Attorney. For the purpose of protecting and preserving the Collateral and Lender's rights under this Agreement, each Borrower hereby irrevocably appoints Lender, with full power of substitution, as its attorney-in-fact with full power and authority, after the occurrence and during the continuance of an Event of Default, to do any act which each such Borrower is obligated to do hereunder; to exercise such rights with respect to the Collateral as each such Borrower might exercise; to use such Inventory, Equipment, Fixtures or other property as each such Borrower might use; to enter each Borrower's premises; to give notice of Lender's security interest in, and to collect the Collateral; and before or after Default, to execute and file in each such Borrower's name any financing statements, amendments and continuation statements necessary or desirable to perfect or continue the perfection of Lender's security interests in the Collateral. Each Borrower hereby ratifies all that Lender shall lawfully do or cause to be done by virtue of this appointment.

8.4 Authorization for Lender to Take Certain Action. The power of attorney created in Section 8.3 is a power coupled with an interest and shall be irrevocable. The powers conferred on Lender hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon Lender to exercise such powers. Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and in no event shall Lender or any of its directors, officers, employees, agents or representatives be responsible to any Borrower for any act or failure to act, except for gross negligence or willful misconduct. After the occurrence and during the continuance of an Event of Default, Lender may exercise this power of attorney without notice to or assent of any Borrower, in the name of each Borrower, or in Lender's own name, from time to time in Lender's sole discretion and at Borrowers' expense. To further carry out the terms of this Agreement, after the occurrence and during the continuance of an Event of Default, Lender may:

(a) Execute any statements or documents or take possession of, and endorse and collect and receive delivery or payment of, any checks, drafts, notes, acceptances or other instruments and documents constituting Collateral, or constituting the payment of

amounts due and to become due or any performance to be rendered with respect to the Collateral.

(b) Sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts; drafts, certificates and statements under any commercial or standby letter of credit relating to Collateral; assignments, verifications and notices in connection with Accounts; or any other documents relating to the Collateral, including without limitation the Records.

(c) Use or operate Collateral or any other property of any Borrower for the purpose of preserving or liquidating Collateral.

(d) File any claim or take any other action or proceeding in any court of law or equity or as otherwise deemed appropriate by Lender for the purpose of collecting any and all monies due or securing any performance to be rendered with respect to the Collateral.

(e) Commence, prosecute or defend any suits, actions or proceedings or as otherwise deemed appropriate by Lender for the purpose of protecting or collecting the Collateral.

(f) Prepare, adjust, execute, deliver and receive payment under insurance claims, and collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and apply such amounts at Lender's sole discretion, toward repayment of the Obligations or replacement of the Collateral.

8.5 Application of Proceeds. Any Proceeds and other monies or property received by Lender pursuant to the terms of this Agreement or any Loan Document may be applied by Lender first to the payment of expenses of collection, including without limitation reasonable attorneys' fees, and then to the payment of the Obligations in such order of application as Lender may elect.

8.6 Deficiency. If the Proceeds of any disposition of the Collateral are insufficient to cover all costs and expenses of such sale and the payment in full of all the Obligations, plus all other sums required to be expended or distributed by Lender, then each Borrower shall be liable for any such deficiency.

8.7 Lender Transfer. Upon the transfer of all or any part of the Obligations, Lender may transfer all or part of the Collateral and shall be fully discharged thereafter from all liability and responsibility with respect to such Collateral so transferred, and the transferee shall be vested with all the rights and powers of Lender hereunder with respect to such Collateral so transferred, but with respect to any Collateral not so transferred, Lender shall retain all rights and powers hereby given.

8.8 Lender's Duties.

(a) Lender shall use reasonable care in the custody and preservation of any Collateral in its possession. Without limitation on other conduct which may be considered the exercise of reasonable care, Lender shall be deemed to have exercised reasonable care in the custody and preservation of such Collateral if such Collateral is accorded treatment substantially equal to that which Lender accords its own property, it being understood that Lender shall not have any responsibility for ascertaining or taking action with respect to calls, conversions, exchanges, maturities, declining value, tenders or other matters relative to any Collateral, regardless of whether Lender has or is deemed to have knowledge of such matters; or taking any necessary steps to preserve any rights against any Person with respect to any Collateral. Under no circumstances shall Lender be responsible for any injury or loss to the Collateral, or any part thereof, arising from any cause beyond the reasonable control of Lender.

(b) Lender may at any time deliver the Collateral or any part thereof to any Borrower and the receipt of such Borrower shall be a complete and full acquittance for the Collateral so delivered, and Lender shall thereafter be discharged from any liability or responsibility therefor.

(c) Neither Lender, nor any of its directors, officers, employees, agents, attorneys or any other person affiliated with or representing Lender shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by any Borrower or any other party through the ordinary negligence of Lender, or any of its directors, officers, employees, agents, attorneys or any other person affiliated with or representing Lender.

8.9 Termination of Security Interests. Upon the payment in full of the Obligations and satisfaction of all Borrowers' obligations under this Agreement and the other Loan Documents, and if Lender has no further obligations under its Commitment, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to Borrowers. Upon any such

termination, the Lender shall, at Borrowers' expense, execute and deliver to Borrowers such documents as Borrowers shall reasonably request to evidence such termination.

ARTICLE 9 — GENERAL PROVISIONS

9.1 Notices. Any notice given by any party under any Loan Document shall be in writing and personally delivered, sent by overnight courier, or United States mail, postage prepaid, or sent by facsimile, or other authenticated message, charges prepaid, to the other party's or parties' addresses shown on the Supplement. Each party may change the address or facsimile number to which notices, requests and other communications are to be sent by giving written notice of such change to each other party. Notice given by hand delivery shall be deemed received on the date delivered; if sent by overnight courier, on the next Business Day after delivery to the courier service; if by first class mail, on the third Business Day after deposit in the U.S. Mail; and if by facsimile, on the date of transmission.

9.2 Binding Effect. The Loan Documents shall be binding upon and inure to the benefit of each Borrower and Lender and their respective successors and permitted assigns; provided, however, that no Borrower nor Lender may assign or transfer such Borrower's rights or obligations under any Loan Document without the other party's prior written consent, provided that Lender may (i) transfer its rights under any of the Loan Documents to an affiliate of Lender and, (ii) may grant a security interest in its rights and obligations under the Loan Documents. Lender shall at all times maintain the confidentiality of all documents and information which Lender now or hereafter may have relating to the Loans, any Borrower, or its business. It is the intention of the parties that, as a "venture capital operating company," Venture Lending & Leasing IV, LLC ("LLC"), the parent and sole owner of Venture Lending & Leasing IV, Inc., shall have the benefit of, and the power to independently exercise, those "management rights" provided in Section 5.3. To that end, the references to Lender in Sections 4.2(f), 5.1, 5.2, 5.3 and 5.9(a) hereof shall include LLC, and LLC shall have the right to exercise the advisory, inspection, information and other rights given to lender under those Sections independently of Lender. No amendment or modification of this Agreement shall alter or diminish LLC's rights under the preceding sentence without the consent of LLC.

9.3 No Waiver. Any waiver, consent or approval by Lender of any Event of Default or breach of any provision, condition, or covenant of any Loan Document must be in writing and shall be effective only to the extent set forth in writing. No waiver of any breach or default shall be deemed a waiver of any later breach or default of the same or any other provision of any Loan Document. No failure or delay on the part of Lender in exercising any power, right, or privilege under any Loan Document shall operate as a waiver thereof, and no single or partial exercise of any such power, right, or privilege shall preclude any further exercise thereof or the exercise of any other power, right or privilege. Lender has the right at its sole option to continue to accept interest and/or principal payments due under the Loan Documents after default, and such acceptance shall not constitute a waiver of said default or an extension of the maturity of any Loan unless Lender agrees otherwise in writing.

9.4 Rights Cumulative. All rights and remedies existing under the Loan Documents are cumulative to, and not exclusive of, any other rights or remedies available under contract or applicable law.

9.5 Unenforceable Provisions. Any provision of any Loan Document executed by any Borrower which is prohibited or unenforceable in any jurisdiction, shall be so only as to such jurisdiction and only to the extent of such prohibition or unenforceability, but all the remaining provisions of any such Loan Document shall remain valid and enforceable.

9.6 Accounting Terms. Except as otherwise provided in this Agreement, accounting terms and financial covenants and information shall be determined and prepared in accordance with GAAP.

9.7 Indemnification; Exculpation. Each Borrower shall pay and protect, defend and indemnify Lender and Lender's employees, officers, directors, shareholders, affiliates, correspondents, agents and representatives (other than Lender, collectively "Agents") against, and hold Lender and each such Agent harmless from, all claims, actions, proceedings, liabilities, damages, losses, expenses (including, without limitation, attorneys' fees and costs) and other amounts incurred by Lender and each such Agent, arising from (i) the matters contemplated by this Agreement or any other Loan Documents, (ii) any dispute between any Borrower and a third party, or (iii) any contention that any Borrower has failed to comply with any law, rule, regulation, order or directive applicable to such Borrower's business; provided, however, that this indemnification shall not

apply to any of the foregoing incurred solely as the result of Lender's or any Agent's gross negligence or willful misconduct. This indemnification shall survive the payment and satisfaction of all of Borrowers' Obligations to Lender.

9.8 Reimbursement. Borrowers shall reimburse Lender for all costs and expenses, including without limitation reasonable attorneys' fees and disbursements expended or incurred by Lender in any arbitration, mediation, judicial reference, legal action or otherwise in connection with (a) the preparation and negotiation of the Loan Documents, (b) the amendment and enforcement of the Loan Documents, including without limitation during any workout, attempted workout, and/or in connection with the rendering of legal advice as to Lender's rights, remedies and obligations under the Loan Documents, (c) collecting any sum which becomes due Lender under any Loan Document, (d) any proceeding for declaratory relief, any counterclaim to any proceeding, or any appeal, or (e) the protection, preservation or enforcement of any rights of Lender. For the purposes of this section, attorneys' fees shall include, without limitation, fees incurred in connection with the following: (1) contempt proceedings; (2) discovery; (3) any motion, proceeding or other activity of any kind in connection with an Insolvency Proceeding; (4) garnishment, levy, and debtor and third party examinations; and (5) postjudgment motions and proceedings of any kind, including without limitation any activity taken to collect or enforce any judgment. All of the foregoing costs and expenses shall be payable upon demand by Lender, and if not paid within forty-five (45) days of presentation of invoices shall bear interest at the highest applicable Default Rate.

9.9 Execution in Counterparts. This Agreement may be executed in any number of counterparts which, when taken together, shall constitute but one agreement.

9.10 Entire Agreement. The Loan Documents are intended by the parties as the final expression of their agreement and therefore contain the entire agreement between the parties and supersede all prior understandings or agreements concerning the subject matter hereof. This Agreement may be amended only in a writing signed by each Borrower and Lender.

9.11 Governing Law and Jurisdiction.

(a) EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, THIS AGREEMENT AND THE LOAN DOCUMENTS SHALL BE GOVERNED EXCLUSIVELY BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAWS.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT EXCLUSIVELY IN THE COURTS OF THE STATE OF CALIFORNIA OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF CALIFORNIA, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE BORROWERS AND LENDER CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE BORROWERS AND LENDER IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. EACH OF THE BORROWERS AND LENDER EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY CALIFORNIA LAW.

9.12 Waiver of Jury Trial. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW, BORROWERS AND LENDER EACH WAIVES ITS RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. BORROWERS AND LENDER EACH AGREES THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL

BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEMS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

ARTICLE 10 — CROSS-CORPORATE GUARANTEES

10.1 Guaranty. In consideration of the execution and delivery by Lender of this Agreement and the making of Loans to Borrowers hereunder, each Borrower hereby jointly and severally guarantees absolutely and unconditionally to Lender the due and punctual payment, when and as due (whether upon demand, at maturity, by reason of acceleration or otherwise), of all liabilities and obligations of each other Borrower under this Agreement and the other Loan Documents, and agrees to pay any and all expenses (including reasonable legal fees and disbursements) which may be incurred by Lender in enforcing its rights under this guaranty. The liability of Borrowers under this guaranty shall be joint and several, unlimited and unconditional, and this guaranty shall be a continuing guaranty of any and all Notes given as evidence of or in extension or renewal of any of the Obligations.

10.2 Waivers. Each Borrower, to the fullest extent permitted by applicable law, hereby waives (i) diligence, presentment, demand and protest with respect to any instrument at any time evidencing any of the Obligations, (ii) any requirement that Lender exhaust any right or take any action against any other Person or any of the Collateral or other property at any time securing any of the Obligations, (iii) the benefit of all principles or provisions of applicable law which are or might be in conflict with the terms of this guaranty, (iv) notice of acceptance hereof, (v) notice of the occurrence of a Default or Event of Default,(vi) notice of any and all favorable and unfavorable information, financial or other, about any other Borrower, heretofore, now or hereafter learned or acquired by a Borrower, (vii) notice of the existence or creation of any of the Obligations, (viii) notice of any alterations, amendments, increase, extension or exchange of any of the Obligations; (ix) notice of any amendments, modifications or supplements of or to this Agreement or any of the other Loan Documents, and (x) the right to require Lender to proceed against the Borrowers or any Borrower on any of the Obligations. Each Borrower hereby further agrees that the time of payment of any of the Obligations may be extended and the Borrowers will remain bound under this guaranty notwithstanding such extensions, whether or not referred to above, which might otherwise constitute a legal or equitable discharge of a guaranty.

10.3 Subrogation; Subordination. No Borrower shall have any right of subrogation, contribution, reimbursement or indemnity whatsoever, nor any right of recourse to security for any of the Obligations, and nothing shall discharge or satisfy the liability of any Borrower hereunder, until the termination of this Agreement and the irrevocable satisfaction in full of, or provision for, the Obligations; and any and all present and future debts and obligations of each Borrower to the others are hereby postponed in favor of and subordinated to the full payment and performance of all present and future Obligations.

10.4 Release of Collateral. The joint and several liability of Borrowers shall continue notwithstanding and shall not be impaired and affected by any release of any Collateral or by the release of any one or more Persons liable for any of the Obligations, whether as principal, surety, guarantor, indemnitor or otherwise.

10.5 Other Waivers. To the extent permitted by law, each Borrower hereby waives any right of set-off and any and all other rights, benefits, protections and other defenses available to a surety or guarantor now or at any time hereafter, including, without limitation, under California Civil Code 2787 to 2855, inclusive.

10.6 Statutory Waiver of Rights and Defenses Regarding Election of Remedies. Each Borrower hereby waives all rights and defenses arising out of the election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed such Borrower’s rights of subrogation and reimbursement against the other Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise.

10.7 Financial Condition of Borrowers. Each Borrower represents and warrants that it is fully aware of the financial condition of the other Borrower, and each Borrower delivers its guarantee based solely upon its own independent investigation of such other

Borrower's financial condition and in no part upon any representation or statement of Lender with respect thereto. Each Borrower further represents and warrants that it is in a position to and hereby does assume full responsibility for obtaining such additional information concerning the other Borrower's financial condition as such Borrower may deem material to its obligations hereunder, and such Borrower is not relying upon, nor expecting Lender to furnish it any information in Lender's possession concerning the other Borrower's financial condition or concerning any circumstances bearing on the existence or creation, or the risk of nonpayment or nonperformance of the Obligations.

10.8 Advice of Counsel. Each Borrower acknowledges that it has either obtained the advice of counsel or has had the opportunity to obtain such advice in connection with the terms and provisions of this Section 10.

10.9 Limitation of Guarantee Obligations. In any action or proceeding involving any state corporate law, or any state or federal bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of a Borrower under its guarantee in this Section 10 would otherwise be held or determined to be void, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under its guarantee, then, notwithstanding, any other provision of this Section 10 to the contrary, the amount of such liability shall, without further action of such Borrower, Lender or any other person, be automatically limited and reduced to the highest amount which is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding.

ARTICLE 11 — DEFINITIONS

The definitions appearing in this Agreement or any Supplement shall be applicable to both the singular and plural forms of the defined terms:

"Account" means any "account," as such term is defined in the UCC now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest and, in any event, shall include, without limitation, all accounts receivable, book debts and other forms of obligations (other than forms of obligations evidenced by Chattel Paper, Documents or Instruments) now owned or hereafter received or acquired by or belonging or owing to any Borrower (including, without limitation, under any trade name, style or division thereof) whether arising out of goods sold or services rendered by any Borrower or from any other transaction, whether or not the same involves the sale of goods or services by any Borrower (including, without limitation, any such obligation that may be characterized as an account or contract right under the UCC) and all of any Borrower's rights in, to and under all purchase orders or receipts now owned or hereafter acquired by it for goods or services, and all of any Borrower's rights to any goods represented by any of the foregoing (including, without limitation, unpaid seller's rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), and all monies due or to become due to any Borrower under all purchase orders and contracts for the sale of goods or the performance of services or both by any Borrower or in connection with any other transaction (whether or not yet earned by performance on the part of any Borrower), now in existence or hereafter occurring, including, without limitation, the right to receive the proceeds of said purchase orders and contracts, and all collateral security and guarantees of any kind given by any Person with respect to any of the foregoing.

"Affiliate" means any Person which directly or indirectly controls, is controlled by, or is under common control with any Borrower. "Control," "controlled by" and "under common control with" mean direct or indirect possession of the power to direct or cause the direction of management or policies (whether through ownership of voting securities, by contract or otherwise); provided, that control shall be conclusively presumed when any Person or affiliated group directly or indirectly owns five percent (5%) or more of the securities having ordinary voting power for the election of directors of a corporation.

"Agreement" means this Loan and Security Agreement and each Supplement thereto, as each may be amended or supplemented from time to time.

"Bankruptcy Code" means the Federal Bankruptcy Reform Act of 1978 (11 U.S.C. §101, et seq.), as amended.

"Basic Interest" means the fixed rate of interest payable on the outstanding balance of each Loan at the applicable Designated Rate.

"Borrowing Date" means the Business Day on which the proceeds of a Loan are disbursed by Lender.

"Borrowing Request" means a written request from Borrowers in substantially the form of Exhibit "B" to the Supplement, requesting the funding of one or more Loans on a particular Borrowing Date.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in New York City or San Francisco are authorized or required by law to close.

"**Chattel Paper"** means any "chattel paper," as such term is defined in the UCC now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Closing Date" means the date of this Agreement.

"Collateral" means all of Borrowers' right, title and interest in and to the following property, whether now owned or hereafter acquired and wherever located: (a) all Receivables; (b) all Equipment; (c) all Fixtures; (d) all General Intangibles; (e) all Inventory; (f) all Investment Property; (g) all Deposit Accounts; (h) all Shares, (i) all other Goods and personal property of any Borrower, whether tangible or intangible and whether now or hereafter owned or existing, leased, consigned by or to, or acquired by, any Borrower and wherever located; (j) all Records; and (k) all Proceeds of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and products of each of the foregoing.

"Commitment" means the obligation of Lender to make Loans to Borrowers up to the aggregate principal amount set forth in the Supplement.

"Copyright License" means any written agreement granting any right to use any Copyright or Copyright registration now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Copyrights" means all of the following now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest: (i) all copyrights, whether registered or unregistered, held pursuant to the laws of the United States, any State thereof or of any other country; (ii) all registrations, applications and recordings in the United States Copyright Office or in any similar office or agency of the United States, any State thereof or any other country; (iii) all continuations, renewals or extensions thereof; and (iv) any registrations to be issued under any pending applications.

"Default" means an event which with the giving of notice, passage of time, or both would constitute an Event of Default.

"Default Rate" is defined in Section 2.7.

"Deposit Accounts" means any "deposit accounts," as such term is defined in the UCC, now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Designated Rate" means the rate of interest per annum described in the Supplement as being applicable to an outstanding Loan from time to time.

"Documents" means any "documents," as such term is defined in the UCC, now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Environmental Laws" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any governmental authorities, in each case relating to environmental, health, or safety matters.

"Equipment" means any "equipment," as such term is defined in the UCC now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

"Event of Default" means any event described in Section 7.1.

"Final Payment" means, with respect to a Loan, an amount equal to that percentage of the original principal amount of such Loan and payable at the time specified in the Supplement or the Note evidencing such Loan.

"Fixtures" means any "fixtures," as such term is defined in the UCC, now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"GAAP" means generally accepted accounting principles and practices consistent with those principles and practices promulgated or adopted by the Financial

Accounting Standards Board and the Board of the American Institute of Certified Public Accountants, their respective predecessors and successors. Each accounting term used but not otherwise expressly defined herein shall have the meaning given it by GAAP.

"General Intangibles" means any "general intangibles," as such term is defined in the UCC now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest and, in any event, shall include, without limitation, all right, title and interest that any Borrower may now or hereafter have in or under any contract, all customer lists, Copyrights, Trademarks, Patents, websites, domain names, and all applications therefor and reissues, extensions, or renewals thereof, other rights to Intellectual Property, interests in partnerships, joint ventures and other business associations, Licenses, permits, trade secrets, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, recipes, experience, processes, models, drawings, materials and records, goodwill (including, without limitation, the goodwill associated with any Trademark, Trademark registration or Trademark licensed under any Trademark License), claims in or under insurance policies, including unearned premiums, uncertificated securities, money, cash or cash equivalents, deposit, checking and other bank accounts, rights to sue for past, present and future infringement of Copyrights, Trademarks and Patents, rights to receive tax refunds and other payments and rights of indemnification.

"Goods" means any "goods," as such term is defined in the UCC now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Indebtedness" of any Person means at any date, without duplication and without regard to whether matured or unmatured, absolute or contingent: (i) all obligations of such Person for borrowed money; (ii) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments; (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business; (iv) all obligations of such Person as lessee under capital leases; (v) all obligations of such Person to reimburse or prepay any bank or other Person in respect of amounts paid under a letter of credit, banker's acceptance, or similar instrument, whether drawn or undrawn; (vi) all obligations of such Person to purchase securities which arise out of or in connection with the sale of the same or substantially similar securities; (vii) all obligations of such Person to purchase, redeem, exchange, convert or otherwise acquire for value any capital stock of such Person or any warrants, rights or options to acquire such capital stock, now or hereafter outstanding, except to the extent that such obligations remain performable solely at the option of such Person; (viii) all obligations to repurchase assets previously sold (including any obligation to repurchase any accounts or chattel paper under any factoring, receivables purchase, or similar arrangement); (ix) obligations of such Person under interest rate swap, cap, collar or similar hedging arrangements (other than foreign exchange hedging arrangements); and (x) all obligations of others of any type described in clause (i) through clause (ix) above guaranteed by such Person.

"Insolvency Proceeding" means with respect to a Person (a) any case, action or proceeding before any court or other governmental authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors with respect to such Person, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of such Person's creditors generally or any substantial portion of its creditors, undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code, but in each case, excluding any avoidance or similar action against such Person commenced by an assignee for the benefit of creditors, bankruptcy trustee, debtor in possession, or other representative of another Person or such other Person's estate.

"Instruments" means any "instrument," as such term is defined in the UCC now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Intellectual Property" means all Copyrights, Trademarks, Patents, Licenses, trade secrets, source codes, customer lists, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, skill, expertise, experience, processes, models, drawings, materials, records and goodwill associated with the foregoing.

"Intellectual Property Security Agreement" means any Intellectual Property Security Agreement

executed and delivered by a Borrower in favor of Lender, as the same may be amended, supplemented, or restated from time to time.

"Inventory" means any "inventory," as such term is defined in the UCC wherever located, now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest, and, in any event, shall include, without limitation, all inventory, goods and other personal property that are held by or on behalf of any Borrower for sale or lease or are furnished or are to be furnished under a contract of service or that constitute raw materials, work in process or materials used or consumed or to be used or consumed in any Borrower's business, or the processing, packaging, promotion, delivery or shipping of the same, and all finished goods, whether or not the same is in transit or in the constructive, actual or exclusive possession of any Borrower or is held by others for any Borrower's account, including, without limitation, all goods covered by purchase orders and contracts with suppliers and all goods billed and held by suppliers and all such property first may be in the possession or custody of any carriers, forwarding agents, truckers, warehousemen, vendors, selling agents or other Persons.

"Investment Property" means any "investment property," as such term is defined in the UCC, now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Letter of Credit Rights" means any "letter of credit rights," as such term is defined in the UCC, now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest, including any right to payment under any letter of credit.

"License" means any Copyright License, Patent License, Trademark License or other license of rights or interests now held or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and any renewals or extensions thereof.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment for security, security interest, encumbrance, levy, lien or charge of any kind, whether voluntarily incurred or arising by operation of law or otherwise, against any property, any conditional sale or other title retention agreement, any lease in the nature of a security interest, and the filing of any financing statement (other than a precautionary financing statement with respect to a lease that is not in the nature of a security interest) under the UCC or comparable law of any jurisdiction.

"Loan" means an extension of credit by Lender under this Agreement.

"Loan Documents" means, individually and collectively, this Loan and Security Agreement, each Supplement, each Note, the Intellectual Property Security Agreement and any other security or pledge agreement(s), any Warrants issued by Borrower to Lender (or its designee) in connection with this Agreement, and all other contracts, instruments, addenda and documents executed in connection with this Agreement or the extensions of credit which are the subject of this Agreement.

"Material Adverse Effect" or "**Material Adverse Change**" means, with respect to all Borrowers and their respective Subsidiaries, if any, on a consolidated basis (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of the Borrowers, (b) a material impairment of the ability of the Borrowers to perform under any Loan Document; (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Borrowers of any Loan Document; or (d) a material adverse effect on, or a material adverse change in, the Borrowers' interest in, or the value, perfection or priority of Lender's security interest in the Collateral.

"Note" means a promissory note substantially in the form attached to the Supplement as Exhibit "A-1", "A-2" and "A-3", executed by Borrowers evidencing each Loan.

"Obligations" means all debts, obligations and liabilities of Borrowers to Lender currently existing or now or hereafter made, incurred or created under, pursuant to or in connection with this Agreement or any other Loan Document, whether voluntary or involuntary and however arising or evidenced, whether direct or acquired by Lender by assignment or succession, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether a Borrower may be liable individually or jointly, or whether recovery upon such debt may be or become barred by any statute of limitations or otherwise unenforceable; and all renewals, extensions and modifications thereof; and all attorneys' fees and costs incurred by Lender in

connection with the collection and enforcement thereof as provided for in any Loan Document.

"Patent License" means any written agreement granting any right with respect to any invention on which a Patent is in existence now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Patents" means all of the following property now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest: (a) all letters patent of, or rights corresponding thereto in, the United States or any other country, all registrations and recordings thereof, and all applications for letters patent of, or rights corresponding thereto in, the United States or any other country, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country; (b) all reissues, continuations, continuations-in-part or extensions thereof; (c) all petty patents, divisionals, and patents of addition; and (d) all patents to be issued under any such applications.

"Parent" means Oculus Innovative Sciences, Inc., a California corporation.

"Permitted Lien" means:

(a) involuntary Liens which, in the aggregate, would not have a Material Adverse Effect and which in any event would not exceed, in the aggregate, the Threshold Amount;

(b) Liens for current taxes or other governmental or regulatory assessments which are not delinquent, or which are contested in good faith by the appropriate procedures and for which appropriate reserves are maintained;

(c) security interests on any property held or acquired by any Borrower in the ordinary course of business securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; provided, that such Lien attaches solely to the property acquired with such Indebtedness and that the principal amount of such Indebtedness does not exceed one hundred percent (100%) of the cost of such property;

(d) Liens in favor of Lender;

(e) bankers' liens, rights of setoff and similar Liens incurred on deposits made in the ordinary course of business;

(f) materialmen's, mechanics', repairmen's, employees' or other like Liens arising in the ordinary course of business and which are not delinquent for more than 45 days or are being contested in good faith by appropriate proceedings;

(g) any judgment, attachment or similar Lien, unless the judgment it secures has not been discharged or execution thereof effectively stayed and bonded against pending appeal within 30 days of the entry thereof;

(h) licenses or sublicenses of Intellectual Property granted in accordance with Sections 6.5(i) and 6.5(ii) hereof;

(i) Liens in favor of Venture Lending & Leasing III, LLC, and

(j) Liens which have been approved by Lender in writing prior to the Closing Date, including the following: CIT Commercial (Avaya phone system); Exchange Bank (office furniture); Cupertino National Bank (forklift); Bank of Petaluma (network cabling).

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, other entity or government (whether federal, state, county, city, municipal, local, foreign, or otherwise, including any instrumentality, division, agency, body or department thereof).

"Primary Operating Account" is set forth in Section 8 of Part 2 of the Supplement.

"Proceeds" means "proceeds," as such term is defined in the UCC and, in any event, shall include, without limitation, (a) any and all Accounts, Chattel Paper, Instruments, cash or other forms of money or currency or other proceeds payable to any Borrower from time to time in respect of the Collateral, (b) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to any Borrower from time to time with respect to any of the Collateral, (c) any and all payments (in any form whatsoever) made or due and payable to any Borrower from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part

of the Collateral by any governmental authority (or any Person acting under color of governmental authority), (d) any claim of any Borrower against third parties (i) for past, present or future infringement of any Copyright, Patent or Patent License or (ii) for past, present or future infringement or dilution of any Trademark or Trademark License or for injury to the goodwill associated with any Trademark, Trademark registration or Trademark licensed under any Trademark License and (e) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Qualified Public Offering" means the closing of a firmly underwritten public offering of any Borrower's common stock with aggregate proceeds of not less than $20,000,000 (prior to underwriting expenses and commissions).

"Receivables" means all of Borrowers' Accounts, Instruments, Documents, Chattel Paper, Supporting Obligations, and letters of credit and Letter of Credit Rights.

"Records" means all Borrowers' computer programs, software, hardware, source codes and data processing information, all written documents, books, invoices, ledger sheets, financial information and statements, and all other writings concerning Borrower's business.

"Related Person" means any Affiliate of any Borrower, or any officer, employee, director or equity security holder of any Borrower or any Affiliate.

"Rights to Payment" means all Borrower's accounts, instruments, contract rights, documents, chattel paper and all other rights to payment, including, without limitation, the Accounts, all negotiable certificates of deposit and all rights to payment under any Patent License, any Trademark License, or any commercial or standby letter of credit.

"Securities Act" means the Securities Act of 1933, as amended.

"Security Documents" means this Loan and Security Agreement, the Supplement hereto, the Intellectual Property Security Agreement, and any and all account control agreements, collateral assignments, chattel mortgages, financing statements, amendments to any of the foregoing and other documents from time to time executed or filed to create, perfect or maintain the perfection of Lender's Liens on the Collateral.

"Shares" means one hundred percent (100%) of the issued and outstanding capital stock, membership units or other securities owned or held of record by Parent in any Subsidiary of Parent, including the other Borrowers.

"Subordinated Debt" means Indebtedness (i) approved by Lender and (ii) subordinated to the Obligations on terms and conditions acceptable to Lender, including without limiting the generality of the foregoing, subordination of such Indebtedness in right of payment to the prior payment in full of the Obligations, the subordination of the priority of any Lien at any time securing such Indebtedness to the Liens of Lender in the collateral covered thereby, and the subordination of the rights of the holder of such Indebtedness to enforce its junior Lien following an Event of Default hereunder pursuant to a written subordination agreement approved by Lender in its sole and good faith discretion.

"Subsidiary" means any Person a majority of the equity ownership or voting stock of which is at the time owned, directly or indirectly, by a Borrower or by one or more other Subsidiaries or by a Borrower and one or more other Subsidiaries.

"Supplement" means that certain supplement to the Loan and Security Agreement, as the same may be amended or restated from time to time, and any other supplements entered into among Borrowers and Lender, as the same may be amended or restated from time to time.

"Supporting Obligations" means any "supporting obligations," as such term is defined in the UCC, now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Termination Date" has the meaning specified in the Supplement.

"Threshold Amount" has the meaning specified in the Supplement.

"Trademark License" means any written agreement granting any right to use any Trademark or Trademark registration now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires any interest.

"Trademarks" means all of the following property now owned or hereafter acquired by any Borrower or in which any Borrower now holds or hereafter acquires

any interest: (a) all trademarks, tradenames, corporate names, business names, trade styles, service marks, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and any applications in connection therewith, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof and (b) reissues, extensions or renewals thereof.

"UCC" means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of California; provided, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, Lender's Lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of California, the term "UCC" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions. Unless otherwise defined herein, terms that are defined in the UCC and used herein shall have the meanings given to them in the UCC.

11.2 Construction of Collateral Definitions. In the definition of Collateral and in all terms defined directly or indirectly within the definition of Collateral, all references to "Borrower" or "Borrower's" shall be interpreted as referring to "any Borrower" or to "each Borrower," as the context may require for purposes of any Loan Document, including any security agreement, charge registration or financing statement executed by any Borrower from time to time pursuant to this Agreement.

[Signature page to Loan and Security Agreement]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BORROWERS:

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/ Hojabr Alimi
Name: Hojabr Alimi
Title: President/CEO

OCULUS TECHNOLOGIES OF MEXICO, S.A. de C.V.

By: /s/ Bruce Thornton
Name: Bruce Thornton
Title: VP Global Ops and Sales

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.

By: /s/ Bruce Thornton
Name: Bruce Thornton
Title: VP Global Ops and Sales

LENDER:

VENTURE LENDING & LEASING IV, INC.

By: /s/ Ronald W. Swenson
Name: Ronald W. Swenson
Title: CEO

Schedules to Loan and Security Agreement
dated as of June 14, 2006
among

Oculus Innovative Sciences, Inc.

Oculus Technologies of Mexico, S.A. De C.V.

Oculus Innovative Sciences Netherlands B.V.
Co-Borrowers

and

Venture Lending & Leasing IV, Inc.
Lender

LSA 3.5 — Litigation, Claims, Proceedings

(1) A former director and chief operating officer filed an action against Oculus in the Superior Court of the State of California, Sonoma County, alleging breach of employment contract. In the complaint, the plaintiff claims $300,000 and the right to purchase approximately 600,000 shares of the Company's common stock at $0.75 per share. The Company has tendered the claims to the Company's Employment Practice Liability insurance carrier, but it expects the insurance carrier to deny coverage to all or a portion of the claim.

(2) On March 14, 2006, the Company filed suit in the Northern District of California Federal Court against Nofil Corporation and Naoshi Kono, CEO of Nofil, for breach of contract, misappropriation of trade secrets and trademark infringement. The Company believes that Nofil Corporation violated key terms of both an exclusive purchase agreement and non-disclosure agreement by contacting and working with a potential competitor in Mexico.

(3) A company in Mexico filed a complaint against the Company and Oculus Mexico alleging infringement by the Company's trademark Microcyn in Mexico. The Company has filed a registration for "Oculus Microcyn" with the Mexican authorities.

LSA 3.7 Subsidiaries

Parent owns 100% of the shares of Oculus Innovative Sciences Netherlands, B.V.

Parent owns 1% of the shares of Oculus Technologies of Mexico, C.A. de C.V.

Aquamed Technologies, Inc., a California corporation wholly-owned by Parent, owns 99% of the shares of Oculus Technologies of Mexico, C.A. de C.V.

LSA 3.11 — Title

(1) The Company licenses certain technology under six issued Japanese patents relating to Microcyn products and the Company's proprietary super-oxidized water.

LSA 3.12(b)

(1) see disclosure in 3.5(3).

LSA 5.1(b) — Dispute with governmental agency.

As a cautionary measure, the Company discloses that in its communications with the FDA, contrary to information previously received from the FDA, the FDA has suggested that an additional pivotal study could be required. If the additional study is required in connection with the pre-operative skin treatment trials. IF such additional trials are required, such trials could cost as much as $500,000. The matter is not a controversy or dispute but merely part of the regulatory clearance process.

LSA 5.1(d) — Change in locations

Notice is hereby given that the Company closed its Morelia, Mexico operations in September, 2005.

LSA 5.19(h) — Certain agreements on rights to payment

Notice is hereby given that the Company intends to take a non-cash accounting charge to write down any assets related to the termination of the Company's relationship with Quimica Pasteur. The charge will be approximately $2.4 million.

Notice is hereby given that the Company, form time to time, exchanges product for inventory if the shelf-life of product held by customers/distributors drops below limits specified in the Company's arrangement with the customer/distributor.

LSA 6.1(g) Indebtedness

Equipment line and notes payable

In March of 2004, the Company obtained an equipment line of credit. The Company could borrow an amount not to exceed $1,000,000, available in minimum monthly installments of $50,000 until March 31, 2005, upon which the line expired. The Company was required to pledge fixed assets equal to the amount of each draw as collateral. In 2005, the Company made four draws on this line of credit for $494,000, $203,000, $181,000, $116,000 with effective interest rates of 13.5% and maturities of December 1, 2006, January 1, 2007, April 1, 2007, and May 1, 2007, respectively. All these loans are payable in 36 monthly installments with a 5% terminal payment due on maturity date. Associated with this line was short-term notes payable at March 31, 2005 and 2006 of $337,439 and $331,922. Additionally, associated with this line was long-term notes payable at March 31, 2005 and 2006 of $350,759 and $18,563, respectively. Also in connection with this line the Company issued 66,667 warrants to purchase preferred series A shares (Note 6).

The Company had a note payable in the amount of $100,000 and which incurred interest at 8% with a final payment due on April 1, 2004. Associated with this note was short-term notes payable at March 31, 2005 and 2006 of $0 and $0 respectively. Additionally, associated with this note was long-term notes payable at March 31, 2005 and 2006 of $0 and $0 respectively. This note was associated with the financing of general operations. This note was paid in full in April, 2004.

The Company had a note payable in the amount of $15,000 and which incurred interest at 8% with a final payment due on November 30, 2004. Associated with this note was short-term notes payable at March 31, 2005 and 2006 of $0 and $0 respectively. Additionally, associated with this note was long-term notes payable at March 31, 2005 and 2006 of $0 and $0 respectively. This note was associated with the financing of general operations. This note was paid in full in November, 2004.

The Company had a note payable in the amount of $200,000 and which incurred interest at 8% with a final payment due on November 1, 2004. Associated with this note was short-term notes payable at March 31, 2005 and

2006 of $0 and $0 respectively. Additionally, associated with this note was long-term notes payable at March 31, 2005 and 2006 of $0 and $0 respectively. This note was associated with the financing of general operations. This note was paid in full in November, 2004.

The Company has a note payable in the amount of $64,086 and which incurred interest at 8% with a final payment due on December 31, 2009. The note payable was amended in February 2005 to $95,000 with a final payment date of December 31, 2005, contingent upon the Company receiving institutional funding of $15,000,000 by December 31, 2005. In the event institutional funding was not received the maturity date reverts back to December 31, 2009. The funding was not received and the maturity date reverted back to December 31, 2009. Associated with this note was short-term notes payable at March 31, 2005 and 2006 of $95,000 and $0 respectively. Additionally, associated with the note was long-term notes payable at March 31, 2005 and 2006 of $0 and $68,334 respectively. This note was established for services rendered by a consultant.

The Company had a note payable in the amount of $91,073 and which incurred interest at 8% with a final payment due on January 1, 2010. Associated with this note was short-term notes payable at March 31, 2005 and 2006 of $16,171 and $17,316, respectively. Additionally, associated with this note was long-term notes payable at March 31, 2005 and 2006 of $72,673 and $56,811, respectively. This note was associated with the purchase of software, and was secured by the related software.

The Company had a note payable in the amount of $44,102 and which incurred interest at 6% with a final payment due on March 2, 2010. Associated with this note was short-term notes payable at March 31, 2005 and 2006 of $7,754 and $8,319, respectively. Additionally, associated with this note was long-term notes payable at March 31, 2005 and 2006 of $36,348 and $27,444, respectively. This note was associated with the purchase of a company automobile, and was secured by the related automobile.

The Company had a note payable in the amount of $158,063 and which incurred interest at 8.2% with a final payment due on January 1, 2007. Associated with this note was short-term notes payable at March 31, 2005 and 2006 of $0 and $130,513, respectively. Additionally, associated with this note was long-term notes payable at March 31, 2005 and 2006, of $0 and $0, respectively. This note was associated with the financing of company insurance premiums.

The Company had a note payable in the amount of $26,928 and which incurred interest at 4.9% with a final payment due on February 14, 2011. Associated with this note was short-term notes payable at March 31, 2005 and 2006 of $0 and $4,890, respectively. Additionally, associated with this note was long-term notes payable at March 31, 2005 and 2006, of $0 and $21,756, respectively. This note was associated with the purchase of a company automobile, and was secured by the related automobile.

The Company had a note payable in the amount of $19,661 and which incurred interest at 14.440% with a final payment due on March 14, 2011. Associated with this note was short-term notes payable at March 31, 2005 and 2006 of $0 and $2,664, respectively. Additionally, associated with this note was long-term notes payable at March 31, 2005 and 2006, of $0 and $16,997, respectively. This note was associated with the purchase of a company automobile, and was secured by the related automobile.

The Company has outstanding obligations in the amount of $68,651.95 to Hansel-Prestige, Inc. in connection with the lease of a car. The Company makes installment pagyments that are scheduled to continue through May 2012.

The Company has entered into various note agreements that expire over the next five years from March 31, 2006. Minimum payments for notes are as follows (in thousands):

For years ending March 31,	
2007	$ 546
2008	63
2009	44

For years ending March 31,	
2010	109
2011	11
Total minimum maturity payments	773
Less: amounts representing interest	(58)
Present value of minimum maturity payments	714
Less: current portion	(504)
Long-term portion	$ 210

SUPPLEMENT
to the
Loan and Security Agreement
Dated as of June 14, 2006
among
Oculus Innovative Sciences, Inc.,
Oculus Technologies of Mexico S.A. de C.V., and
Oculus Innovative Sciences Netherlands B.V.
(each individually a "Borrower" and collectively "Borrowers")
and
Venture Lending & Leasing IV, Inc. ("Lender")

This is a Supplement identified in the document entitled Loan and Security Agreement dated as of June 14, 2006, among Borrowers and Lender. All capitalized terms used in this Supplement and not otherwise defined in this Supplement have the meanings ascribed to them in Article 11 of the Loan and Security Agreement, which is incorporated in its entirety into this Supplement. In the event of any inconsistency between the provisions of that document and this Supplement, this Supplement is controlling. Execution of this Supplement by the Lender and Borrowers shall constitute execution of the Loan and Security Agreement.

In addition to the provisions of the Loan and Security Agreement, the parties agree as follows:

Part 1. — Additional Definitions:

"Average Expenses" means, as of any date of determination, an amount equal to the quotient of (i) the aggregate dollar amount of operating and other expenses paid (excluding non-cash expenses, amortization, depreciation, and deferred rent) by Borrowers during each of the four (4) full calendar months most recently ended prior to such date of determination, divided by (ii) four (4). For the avoidance of doubt, "Average Expenses" shall exclude extraordinary expenses related to the closure (prior to the date hereof) of the business in Mexico (including accounting and legal expenses) and extraordinary expenses related to Parent's initial public offering process.

"Borrowing Base" means, as of any date of determination, a dollar amount equal to the sum of (A) eighty percent (80%) of the sum of Eligible Accounts Receivable with respect to which the principal place of business and chief executive office of the account debtor obligated thereon is located within the United States of America, plus (B) sixty percent (60%) of the sum of Eligible Accounts Receivable with respect to which the principal place of business and chief executive office of the account debtor obligated thereon is located outside the United States of America, including where the account debtor is the Mexican Ministry of Health, and amounts available for drawing by any Borrower as beneficiary under letters of credit issued by foreign banks.

"Borrowing Base Certificate" is defined in Section 2(c) of Part 2 of this Supplement.

"Cash Equivalents" means, as of any date of determination, the following assets or rights of Borrowers: (i) marketable direct obligations issued or unconditionally guaranteed by the United States government having maturities of not more than 12 months from the date of acquisition; (ii) domestic certificates of deposit and time deposits having maturities of not more than 12 months from the date of acquisition, and overnight bank deposits, in each case issued by a commercial bank organized under the laws of the United States or any state thereof which at the time of acquisition are rated A-1 or better by Standard & Poor's Corporation (or equivalent), and not subject to any offset rights in favor of such bank arising from any banking relationship with such bank; and (iii) commercial paper which at the time of acquisition is rated A-1 or better by Standard & Poor's Corporation (or equivalent), and Floating Rate Preferred issues which at the time of acquisition is rated AAA or better.

"Combined Working Capital Loans" means, as of any date of determination, the aggregate outstanding principal balance of all Working Capital Loans advanced by Lender hereunder.

"Commitment": Subject to the terms and conditions set forth in the Loan and Security Agreement and this Supplement, Lender commits to make:

(i) Growth Capital Loans to Borrowers up to the aggregate original principal amount of Two Million Seven Hundred Fifty Thousand Dollars ($2,750,000) for general corporate purposes (the **"Growth Capital Loan Commitment"**),

(ii) Equipment Loans to Borrowers up to the aggregate original principal amount of One Million Dollars ($1,000,000.00) to finance the acquisition of Eligible Equipment and Soft Costs (the **"Equipment Loan Commitment"**). As a sub-facility of the Equipment Loan Commitment, Lender commits to make Soft Cost Loans to Borrowers in an aggregate original principal amount not to exceed One Million Dollars ($1,000,000.00), i.e., the entire amount of the Equipment Loan Commitment without duplication (the **"Soft Cost Loan Sublimit"**); and

(iii) Working Capital Loans to Borrowers up to the aggregate original principal amount of One Million Two Hundred Fifty Thousand Dollars ($1,250,000) for working capital financing (the **"Working Capital Loan Commitment"**).

As used herein, the term "**Commitment**" shall mean the Equipment Loan Commitment, the Growth Capital Loan Commitment, the Working Capital Loan Commitment, or any combination or all of them, as the context requires; and Equipment Loans, Soft Cost Loans, Growth Capital Loans, and Working Capital Loans are sometimes referred to herein individually as a "**Loan**" or collectively as "**Loans**".

"Designated Rate": The Designated Rate for each Loan shall be a fixed rate of interest per annum equal to the Prime Rate as published on the Business Day on which Lender prepares the Note for such Loan following Borrowers' submission of the Borrowing Request for such Equipment Loan, plus one-half of one percent (0.50%); provided, however, that in no event shall the Designated Rate for a Loan be less than eight percent (8.00%).

"Eligible Accounts Receivable" means an Account which meets each of the following requirements: (i) arises in the ordinary course of Borrowers' business (which shall be deemed to include government contracts); (ii) upon which Borrowers' right to payment is absolute, subject to Borrowers' standard terms and conditions, and not contingent on the fulfillment of any conditions (other than customary conditions such as acceptance by the obligor and final payment due upon acceptance; provided that aggregate contingent payments shall equal no more than twenty percent (20%) of the value of the Accounts); (iii) against which there has not been asserted any defense, offset or discount; (iv) is owned by Borrower free and clear of Liens except for Permitted Liens; (v) is not more than 90 days past due; and (vi) the principal place of business and chief executive office of the account debtor obligated thereon is located within the United States or in a foreign jurisdiction approved by Lender, or the account debtor is the Mexican Ministry of Health or a foreign bank as issuer of a letter of credit issued for the benefit of Borrower.

"Eligible Equipment" means manufacturing equipment, computer equipment, lab and shop equipment, test equipment, office equipment and other standard hardware approved by Lender in writing and that is not the subject of a license agreement(s) between Borrower and any Person.

"Equipment Loan" means any Loan requested by Borrowers and funded by Lender to finance Borrowers' acquisition or carrying of specific items of Eligible Equipment.

"Final Payment": Each Equipment Loan and Soft Cost Loan shall have a Final Payment equal to six and 581/1000 percent (6.581%) of the original principal amount of such Loan. Each Growth Capital Loan and each Working Capital Loan shall have a Final Payment equal to six and 59/1000 percent (6.059%) of the original principal amount of such Loan.

"Growth Capital Loan" means any Loan requested by Borrowers and funded by Lender under the Growth Capital Loan Commitment for general working capital purposes of Borrowers.

"Prime Rate" means the "prime rate" of interest, as published from time to time by The Wall Street Journal in the "Money Rates" section of its Western Edition newspaper.

"Soft Costs" " means, with respect to amounts to be financed hereunder with proceeds of a Soft Cost Loan, Borrowers' costs of acquiring or licensing non-standard equipment (not otherwise approved by Lender as Eligible Equipment). Equipment located outside of the United States, perpetual software license fees, tenant improvements and other items of personal property approved in writing by Lender.

"Soft Cost Loan" means any Loan requested by Borrowers and funded by Lender to finance Soft Costs.

"Termination Date": The Termination Date of a Commitment means the earlier of:

(i) the date Lender may terminate making Loans or extending other credit pursuant to the rights of Lender under Article 7 of the Loan and Security Agreement, or

(ii) (A) *with respect to the Growth Capital Loan Commitment*, June 16, 2006,

(B) *with respect to the Equipment Loan Commitment*, December 31, 2006, or

(C) *with respect to the Working Capital Loan Commitment*, December 31, 2006, provided however, that to the extent that there remains an unfunded portion of Working Capital Loan Commitment on December 31, 2006, Borrowers may continue to draw upon up to $500,000 of the unfunded portion of the Working Capital Loan Commitment through March 31, 2007.

"Unrestricted Cash" means, as of any date of determination, Borrowers' cash on hand and Cash Equivalents which are not subject to a Lien of any Person other than Lender.

"Working Capital Loan" means any Loan requested by Borrowers and funded by Lender for general working capital purposes of Borrowers.

"Working Capital Loan Coverage Ratio" means, as of any date of determination, the ratio of the (a) Borrowing Base to (b) the Combined Working Capital Loans.

"Threshold Amount": Seventy-Five Thousand Dollars ($75,000.00).

Part 2. — Additional Covenants and Conditions:

1. Limitation on Loans; Use of Proceeds.

(a) Equipment Loan Facility and Soft Cost Loan Sub-facility. Subject to the terms and conditions of the Loan and Security Agreement:

(i) Equipment Loans. Lender agrees to make Equipment Loans to Borrowers from time to time from the Closing Date and to and including the Termination Date in an aggregate original principal amount up to but not exceeding the lesser of (A) the then unfunded portion of the Equipment Loan Commitment, and (B) an amount equal to 100% of the amount paid or payable by Borrowers to a manufacturer, vendor or dealer who is not an Affiliate of Borrowers for each item of Eligible Equipment being financed with the proceeds of such Loan as shown on an invoice therefor (excluding any commissions and any portion of the amount invoiced which relates to servicing of the Eligible Equipment, delivery, freight and installation charges or sales taxes payable upon acquisition) ("Original Cost"). Notwithstanding the foregoing, no item of Eligible Equipment shall be eligible to be financed with the proceeds of an Equipment Loan if such item was acquired or first placed in service by Borrowers earlier than 90 days prior to the Borrowing Date of such Equipment Loan; provided, however, that so long as the Borrowing Date of the initial Equipment Loan occurs prior to June 30, 2006, Borrowers may finance Eligible Equipment acquired or first placed in service after July 1, 2005, at Original Cost.

(ii) Soft Cost Loans. Lender agrees to make Soft Cost Loans to Borrowers from time to time from the Closing Date and to and including the Termination Date in an aggregate original principal amount up to but not exceeding the lowest of (A) the then unfunded portion of the Equipment Loan Commitment; (B) the then unfunded portion of the Soft Cost Loan Sublimit; and (C) an amount equal to 100% of the Soft Costs proposed to be financed under the related Borrowing Request. Notwithstanding the foregoing, no item of Soft Costs shall be eligible to be financed with the proceeds of a Soft Cost Loan if such Soft Cost was first expended or incurred by Borrowers earlier than 90 days prior to the Borrowing Date of such Soft Cost Loan; provided, however, that so long as the Borrowing Date of the initial Soft Cost Loan occurs prior to June 30, 2006, Borrowers may finance Soft Costs incurred, acquired or first placed in service after July 1, 2005, at Original Cost subject to Lender's approval of such Soft Costs.

(iii) Location of Equipment. All Eligible Equipment financed hereunder shall be located at all times at Parent's principal place of business in Petaluma, California, or such other place of business located within the United States as may be consented to by Lender in writing.

(b) Growth Capital Loans.

(i) **Growth Capital Loan Facility**. Subject to the terms and conditions of the Loan and Security Agreement and the Supplement, Lender agrees to make Growth Capital Loans to Borrowers at any time from and after the Closing Date up to and including the Termination Date in an aggregate original principal amount up to but not exceeding the Growth Capital Loan Commitment.

(ii) **Use of Proceeds.** The proceeds of the Growth Capital Loan shall not be restricted and may be used by Borrowers for general corporate and operating purposes.

(c) Working Capital Loans; Mandatory Prepayment to Comply with Coverage Ratio. Subject to the terms and conditions of the Loan and Security Agreement and this Supplement, Lender agrees to make Working Capital Loans to Borrowers from time to time from the Closing Date and to and including the Termination Date in an aggregate original principal amount up to but not exceeding the lesser of (i) the Borrowing Base, and (ii) then unfunded portion of Lender's Working Capital Loan Commitment.

(i) Borrowing Base Limitation; Mandatory Prepayment. At all times after the initial Working Capital Loan is advanced, Borrowers shall maintain a Working Capital Loan Coverage Ratio of not less than 1.0 to 1.0 (provided that failure to maintain such ratio shall not, by itself, constitute an Event of Default). No later than five (5) days after the end of each month, Borrowers shall deliver to Lender a certificate of the chief financial officer or other authorized representative of Parent substantially in the form of Exhibit "D" to this Supplement (**"Borrowing Base Certificate"**), setting forth a calculation of the Working Capital Loan Coverage Ratio. Subject to Section 1(c)(ii) below, if as of such date of determination the Working Capital Loan Coverage Ratio is less than 1.0 to 1.0, then Borrowers shall immediately prepay outstanding principal of Working Capital Loans in an amount necessary to restore compliance with such Ratio, without premium or penalty. Such mandatory principal prepayments shall be applied to the most remote installments of such Loans so that the dollar amounts of previously scheduled monthly payments remains unchanged and the outstanding Loans are repaid sooner.

(ii) Catch-Up Provision. Notwithstanding anything to the contrary in Section 1(c)(i) above, if as of the end of any month that the Working Capital Loan Coverage Ratio is less than 1.0 to 1.0, and if as of such date of determination no Event of Default has occurred and is continuing, then Borrowers may, without penalty, delay prepaying the Loans as required by Section 1(c)(i) above for up to 30 days after the date on which the related Borrowing Base Certificate was or should have been delivered. If as of the end of such 30-day period the Borrowing Base has not increased in a sufficient amount to restore compliance with the Working Capital Loan Coverage Ratio, then pursuant to Section 1(c)(i) above Borrowers shall immediately prepay, in cash, outstanding principal of Working Capital Loans in an amount necessary to restore compliance with the Working Capital Loan Coverage Ratio as of the end of the most recent month-end. Such mandatory principal prepayments shall be applied to the most remote installments of such Loans so that the dollar amounts of previously scheduled monthly payments remains unchanged and the outstanding Loans are repaid sooner.

(d) Minimum Funding Amount. Except to the extent the remaining Commitment is a lesser amount each Loan or Loans requested by Borrowers to be made on a single Business Day shall be for a minimum aggregate principal amount of One Hundred Thousand Dollars ($100,000). Borrowers shall not submit a Borrowing Request more frequently than once each month, provided that a Borrowing Request may request more than one type of Loan.

(e) Repayment of Loans.

(i) Repayment of Equipment and Soft Cost Loans. Principal of and interest on each Equipment Loan and each Soft Cost Loan shall be payable as set forth in the Note (substantially in the form of Exhibit "A-1") evidencing such Loan, which Note shall provide substantially as follows. Principal and interest at the Designated Rate shall be fully amortized over a period of 32 months in equal, monthly installments. In particular, on the Borrowing Date applicable to the Loan evidenced by such Note, Borrowers shall pay to Lender (i) if the Borrowing Date is not the first day of the month, interest only at 1.00% per month, in advance, on the principal balance of the Loan evidenced by such Note, for the period from such Borrowing Date through the last day of the calendar month in which such Borrowing Date occurs, and (ii) the first amortization installment of principal and interest. Commencing on the first day of the second full month after the Borrowing Date, and continuing on the first day of each consecutive calendar month thereafter, principal and interest at the Designated Rate shall be payable, in advance, in thirty-one (31) equal consecutive monthly installments. Borrowers shall pay the Final Payment one month later. The rates for each Equipment Loan and each Soft Cost Loan will be determined prior to funding and shall be fixed for the term of each such Loan. The payment factors for the amortizing payments are based on a Prime Rate of 7.50% (the **"Base Rate"**) and will be indexed so that the all in yield (inclusive of any interest-only and Final Payments) of the Loan shall be increased or decreased by any change in the Prime Rate from the Base Rate, subject to a minimum Prime Rate of 7.50%.

(ii) Repayment of Growth Capital Loans. Principal of and interest on each Growth Capital Loan shall be payable as set forth in the Note, substantially in the form attached hereto as Exhibit "A-2", evidencing such Loan, which Note shall provide substantially as follows. Principal and interest at the Designated Rate shall be fully amortized over a period of 30 months in equal, monthly installments, commencing after an initial 2 and one-half months period of interest-only monthly payments which shall commence on June 15, 2006. In particular, if the Borrowing Date is on June 15, 2006, then on that date Borrowers shall pay to Lender a first (1st) interest-only installment at a rate of 1.00% per month on the outstanding principal balance of the Note for the period from June 15, 2006 through June 30, 2006. If the Borrowing Date is prior to June 15, 2006, then on the first day of the first full calendar month after such Borrowing Date, Borrowers shall pay to Lender interest only at a rate of 1.00% per month on the outstanding principal balance of the Loan for the period from such Borrowing Date through June 30, 2006. Commencing on July 1, 2006 after the Borrowing Date, and continuing on August 1, 2006, Borrowers shall pay interest only, in advance, at a rate of 1.00% per month on the outstanding principal balance of the Note for the ensuing month. Commencing on September 1, 2006, and continuing on the first day of each consecutive calendar month thereafter, principal and interest shall be payable, in advance, in thirty (30) equal consecutive installments in an amount sufficient to fully amortize the Loan evidenced by such Note. Borrowers shall pay the Final Payment on each Loan within 30 days of the last amortization payment. The payment factors for the amortizing payments are based on a Prime Rate of 7.50% (the **"Base Rate"**) and will be indexed so that the all in yield (inclusive of any interest-only and Final Payments) of the Loan shall be increased or decreased by any change in the Prime Rate from the Base Rate, subject to a minimum Prime Rate of 7.50%.

(iii) Repayment of Working Capital Loans. Principal of and interest on each Working Capital Loan shall be payable as set forth in the Note, substantially in the form attached hereto as Exhibit "A-3", evidencing such Loan, which Note shall provide substantially as follows. Principal and interest at the Designated Rate shall be fully amortized over a period of 30 months in equal, monthly installments, commencing after an initial 3-month period of interest-only monthly payments. In particular, if the Borrowing Date is the first day of the month, then on that date Borrowers shall pay to Lender a first (1st) interest-only installment at a rate of 1.00% per month on the outstanding principal balance of the Note for the ensuing month; and if the Borrowing Date is not the first day of the month, then on the first day of first full calendar month after such Borrowing Date, Borrowers shall pay to Lender interest only at a rate of 1.00% per month on the outstanding principal balance of the Loan for the period from such Borrowing Date through the last day of the calendar month in which such Borrowing Date

occurs. Commencing on the first day of the second full month after the Borrowing Date, and continuing on the first day of each of the next two succeeding months, Borrowers shall pay interest only, in advance, at a rate of 1.00% per month on the outstanding principal balance of the Note for the ensuing month. Commencing on the first day of the fourth (4th) full calendar month after the Borrowing Date, and continuing on the first day of each consecutive calendar month thereafter, principal and interest shall be payable, in advance, in thirty (30) equal consecutive installments in an amount sufficient to fully amortize the Loan evidenced by such Note. Borrowers shall pay the Final Payment on each Loan within 30 days of the last amortization payment. The payment factors for the amortizing payments are based on a Prime Rate of 7.50% (the **"Base Rate"**) and will be indexed so that the all in yield (inclusive of any interest-only and Final Payments) of the Loan shall be increased or decreased by any change in the Prime Rate from the Base Rate, subject to a minimum Prime Rate of 7.50%.

(f) Additional Condition Precedent to Loans in Excess of $4,000,000. In addition to the satisfaction of all the other conditions precedent specified in Sections 4.1 and 4.2 of the Loan and Security Agreement, Lender's obligation to fund any Equipment, Soft Cost or Working Capital Loan once Lender has advanced $4,000,000 in aggregate original principal amount of Loans (of any type) is subject to the completion by Parent's auditors, Marcum & Kliegman LLP, of its audit of Borrowers' 2006 financial reporting year without a "going concern" qualification.

2. Voluntary Prepayment. No Loan may be prepaid voluntarily except as provided in this Section. Borrowers may voluntarily prepay all Loans in whole but not in part at any time by tendering to Lender cash payment in respect of such Loans in an amount equal to the sum of: (i) all accrued and unpaid Basic Interest on each such Loan as of the date of prepayment; (ii) the undiscounted Final Payment on each such Loan; and (iii) an amount equal to the undiscounted, total amount of all installment payments of principal and Basic Interest that would have accrued and been payable from the date of prepayment through the stated Maturity Date of each Loan had it remained outstanding and been paid in accordance with the terms of the related Note.

3. Special Provisions Relating to Lien on Intellectual Property; Scope of Collateral Security for Loans; Negative Pledge on Intellectual Property.

(a) Initial Exclusion of IP from "Collateral." In reliance on Borrowers' covenant in Section 6.2 of the Loan and Security Agreement to keep all of their Intellectual Property assets free and clear of Liens other than as set forth in Section 6.2, Lender has agreed, subject to the provisions of this Supplement, to exclude Intellectual Property from the Collateral over which each Borrower has granted to Lender a Lien to secure the Obligations; *provided* that Collateral shall include Accounts and General Intangibles that consist of rights to payment and proceeds from the sale, licensing or disposition of all or any part, or rights in, the Intellectual Property (the **"IP Rights to Payment"**); and *further provided*, that if at any time while the Obligations are outstanding a judicial authority (including a U.S. Bankruptcy Court) determines that a security interest in intellectual property is necessary to the creation or perfection of Lender's Lien in the IP Rights to Payment, then the Collateral shall automatically, retroactive to the Closing Date, include the Intellectual Property solely to the extent necessary to permit perfection of Lender's security interest in the IP Rights to Payment. Consistent with the foregoing, notwithstanding anything to the contrary in Section 2.10 of the Loan and Security Agreement, or in the definition of "Collateral" or elsewhere in Article 11 of the Loan and Security Agreement, Borrower's initial grant and the perfection of security interests in its assets as security for the Obligations and the definition of "Collateral" shall be limited to the following:

> **"Collateral"** means all of Borrowers' right, title and interest in and to the following property, whether now owned or hereafter acquired and wherever located: (a) all Receivables; (b) all Equipment; (c) all Fixtures; (d) all General Intangibles (subject to the exclusion described below with respect to Intellectual Property); (e) all Inventory; (f) all Investment Property; (g) all Deposit Accounts; (h) all other Goods and personal property of Borrowers *(subject to the exclusion described below with respect to Intellectual Property)* , whether tangible or intangible and whether now or hereafter owned or existing, leased, consigned by or to, or acquired by, Borrowers and wherever located; (i) all Records; and (j) all Proceeds of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and products of each of the

foregoing. Notwithstanding the foregoing, the Collateral shall not include Intellectual Property; provided, however, that the Collateral shall include all Accounts and General Intangibles that consist of rights to payment and proceeds from the sale, licensing or disposition of all or any part, or rights in, the Intellectual Property (the **"IP Rights to Payment"**); provided, further, that if at any time while the Obligations are outstanding a judicial authority (including a U.S. Bankruptcy Court) determines that a security interest in the intellectual property is necessary to the creation or perfection of Lender's Lien in the IP Rights to Payment, then the Collateral shall automatically, retroactive to the Closing Date, include the Intellectual Property solely to the extent necessary to permit perfection of Lender's security interest in the IP Rights to Payment.

(b) IP Lien Upon Reduced Liquidity; Release of IP Lien Upon Equity Funding. Borrowers agree that if at any time its Unrestricted Cash is less than 600% of Average Expenses, then the definition of Collateral in Article 11 of the Loan and Security Agreement shall be amended automatically and immediately, without any further action or writing required by the parties, to read as stated in Article 11 of the Loan and Security Agreement without reference to Section 4(a) above, such that all of Borrowers' Intellectual Property then owned and thereafter arising or acquired becomes part of the Collateral for all purposes of the Loan and Security Agreement. In connection therewith: (A) Lender may file an amendment to its UCC-1 financing statement to reflect the broader scope of the Collateral to cover Intellectual Property; (B) Borrowers shall execute and deliver, at Borrowers' sole cost and expense, all documents and instruments reasonably necessary to perfect such Lien, including an Intellectual Property Security Agreement, substantially the form attached hereto as Exhibit "E"; and (C) Lender shall have verified by customary lien searches that upon filing such amendment to its financing statement and other perfection documents Lender will have a perfected Lien of first priority against all Intellectual Property Collateral subject only to Permitted Liens. If after the Lien upon the Borrowers' Intellectual Property in favor of the Lender has been put in place, Parent completes one or more rounds of equity financing (including convertible, subordinated debt) from which Parent receives aggregate proceeds of at least $10 million, then so long no Event of Default has occurred and is then continuing, Lender agrees upon written request of Parent to partially release its Lien with respect to that portion of the Collateral consisting of Intellectual Property, and upon such partial release of Lien the provisions of Section 3(a) above shall become applicable.

4. Subordination of Funded Debt. During the term of the Loan and Security Agreement and until performance of all Obligations to Lender, Borrowers shall not incur or permit to exist any Indebtedness for borrowed money (excluding Indebtedness permitted under Section 6.1 of the Loan and Security Agreement), unless (a) approved by Lender and (b) where the holder's right to repayment of such Indebtedness, the priority of any Lien on the Collateral securing the same, and the rights of the holder thereof to enforce remedies against Borrowers following default have been made subordinate to the Liens of Lender and the prior payment of the Obligations to Lender under the Loan Documents pursuant to a written subordination agreement approved by Lender in its sole discretion, which agreement may provide that regularly scheduled payments of accrued interest on such subordinated Indebtedness may be paid by Borrowers and retained by the holder so long as no Event of Default has occurred and is continuing. Notwithstanding the foregoing, if Parent (a) has successfully concluded an initial public offering of its common stock, and (b) Borrowers' have Unrestricted Cash greater than two times the aggregate principal amount of outstanding Loans from Lender, Borrowers may enter into additional credit facilities with third parties upon the prior written consent of Lender, which shall not be unreasonably withheld.

5. **Factoring of Mexican Ministry of Health Accounts Receivables**. The portion of the Collateral consisting of Mexican Ministry of Health accounts receivable owed to Oculus Technologies of Mexico S.A. de C.V. shall be included in the Borrowing Base (to the extent that such accounts receivable otherwise satisfy each of the elements of the definition of Eligible Accounts Receivable) until such time as Oculus Technologies of Mexico S.A. de C.V. enters into an agreement with NAFINSA for the factoring of a portion of such accounts receivable. Subsequent to the effective date of such agreement, such portion of the accounts receivable factored to NAFINSA shall not be deemed to be Eligible Accounts Receivable for purposes of calculation of Borrowing Base.

6. Issuance of Warrant to Lender. As additional consideration for the making of the Commitment, Lender has earned and is entitled to receive immediately upon the execution of the Loan and Security Agreement and this Supplement, a warrant instrument issued by Parent substantially the form attached hereto as Exhibit "E" (the

"Warrant"), exercisable for 215,000 of fully paid and nonassessable shares of Parent's Series B convertible preferred stock ("Preferred Stock") at an initial exercise price per share of $4.50 per share, provided, however, if Parent does not complete an initial public offering of its common stock ("IPO") prior to March 31, 2007, then the initial exercise price per share shall be adjusted to 75% of either the Next Round Price, as defined in the Warrant, or a subsequent IPO completed after March 31, 2007 (the "Stock Purchase Price"). The Warrant shall be immediately vested and exercisable with respect to such shares.

In addition thereto, Lender shall be entitled to purchase under the Warrant at the Stock Purchase Price up to 85,000 additional fully paid and nonassessable shares of the Parent's Preferred Stock pro rata with the aggregate original principal amount of all Loans advanced by Lender (the "Additional Shares"). (For example, if Borrowers draw $1,000,000 of the $5,000,000 Commitment, Lender will be entitled to purchase an additional 17,000 Additional Shares, calculated as follows: 1,000,000/5,000,000=.20*85,000 shares=17,000 shares). The Additional Shares shall vest pro rata upon each advance by the Lender of a Loan to Borrowers.

The Warrant shall include piggyback and S-3 registration rights, anti-dilution protections and other rights and protections equivalent to those rights and protections granted to the holders of the series of preferred stock for which the Warrant is exercisable, and shall remain exercisable beyond any public offering of Parent's securities or merger transaction, and shall not be subject to any "pay to play" provisions in Parent's charter documents. The Warrant shall be exercisable at any time and from time to time through March 31, 2017. Parent acknowledges that Lender has assigned its rights to receive the Warrant to its parent, Venture Lending & Leasing IV, LLC; in connection therewith, Parent shall issue the Warrant directly to Venture Lending & Leasing IV, LLC. Lender shall furnish to Parent a copy of the agreement in which Lender assigned the Warrant to Venture Lending & Leasing IV, LLC.

7. Completion of Due Diligence; Payment and Disposition of Commitment Fee. As an additional condition precedent under Section 4.1 of the Loan and Security Agreement, Lender shall have completed to its satisfaction its due diligence review of Borrowers' business and financial condition and prospects, and Lender's credit committee shall have approved the Commitment. If this condition is not satisfied, Lender shall refund to Borrowers the Twenty-Five Thousand Dollar ($25,000.00) commitment fee previously paid to Lender on account of the Commitment. Lender agrees that with respect to each Loan advanced, on the Borrowing Date applicable to such Loan, Lender shall credit against the payments due from Borrowers on such date in respect of such Loan an amount equal to the product of Twenty-Five Thousand Dollars ($25,000.00) and a fraction the numerator of which is the principal amount of such Loan and the denominator of which is Five Million Dollars ($5,000,000.00), until the aggregate amount of such credits equals but does not exceed Twenty-Five Thousand Dollars ($25,000.00).

8. Debits to Account for ACH Transfers. For purposes of Section 2.2 and 5.10 of the Loan and Security Agreement, Borrower's Primary Operating Account is:

Cupertino National Bank
3 Palo Alto Square, Suite 150
Palo Alto, CA 94306

Account No.: 3115895
Routing No.: 121141534 — for credit to Greater Bay Bank, Account # 3115895
Contact: Tod Racine Tel: 650-813-3800

Loans will be advanced to the account specified above and payments will be automatically debited from the same account.

Part 3. — Additional Representations:

Borrowers represent and warrant that as of the Closing Date and each Borrowing Date:

a) Its chief executive office is located at:

(i) Parent: 1129 North McDowell Blvd., Petaluma, CA 94954

(ii) Oculus Technologies of Mexico S.A. de C.V.: Industria Vidriera 81

Fracc Industrial Zapopan Norte, Zapopan, Jalisco, México, 45130

(iii) Oculus Innovative Sciences Netherlands B.V.:
Nusterweg 123, 6136 KT Sittard, P.O. Box 5056, 6130 PB Sittard, The Netherlands

b) Its Equipment is located at:

(i) Parent: 1129 North McDowell Blvd., Petaluma, CA 94954

(ii) Oculus Technologies of Mexico S.A. de C.V.: Industria Vidriera 81

Fracc Industrial Zapopan Norte, Zapopan, Jalisco, México, 45130

Oculus Innovative Sciences Netherlands B.V.: Nusterweg 123, 6136 KT
Sittard, P.O. Box 5056, 6130 PB Sittard, The Netherlands

c) Its Records are located at:

(i) Parent: 1129 North McDowell Blvd., Petaluma, CA 94954

(ii) Oculus Technologies of Mexico S.A. de C.V.: Industria Vidriera 81

Fracc Industrial Zapopan Norte, Zapopan, Jalisco, México, 45130

(ii) Oculus Innovative Sciences Netherlands B.V.:
Nusterweg 123, 6136 KT Sittard, P.O. Box 5056, 6130 PB Sittard, The Netherlands

d) Its Inventory is located at various distributor warehouse sites and at the Borrowers' premises, as referenced below:

(i) Parent: 1129 North McDowell Blvd., Petaluma, CA 94954

(ii) Oculus Technologies of Mexico S.A. de C.V.: Pedro Martinez Rivas 861

Parque Industrial Belenes Norte, Zapopan, Jalisco, México, 45150

(iii) Oculus Innovative Sciences Netherlands B.V.: Nusterweg 123, 6136 KT Sittard, P.O. Box 5056, 6130 PB Sittard, The Netherlands

e) In addition to its chief executive office, Borrowers maintain offices or operates its business at the following locations:

Aquamed Technologies
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA

MicroMed Laboratories, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA

L3 Pharmaceuticals, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA

Oculus Technologies of Mexico S.A. de C.V.
Industria Vidriera 81
Fracc Industrial Zapopan Norte
Zapopan, Jalisco
México
45130 (manufacturing and adminsitration)

Pedro Martinez Rivas 861
Parque Industrial Belenes Norte
Zapopan, Jalisco
México
45150 (warehouse)

Oculus Innovative Sciences Netherlands B.V.
Nusterweg 123
6136 KT Sittard
P.O. Box 5056
6130 PB Sittard
The Netherlands

f) Other than its full corporate name, Parent has conducted business using the following trade names or fictitious business names: Micromed Laboratories

g) Parent's Federal Tax I.D. number is: 680423298

h) Parent's California state corporation I.D. number is: C2160639

i) Parent is a majority owner of or in a control relationship with the following business entities:

Aquamed Technologies
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA

MicroMed Laboratories, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA
(corporation formed but shares not yet issued)

L3 Pharmaceuticals, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
USA
(corporation formed but shares not yet issued)

Oculus Technologies of Mexico S.A. de C.V.
Industria Vidriera 81
Fracc Industrial Zapopan Norte
Zapopan, Jalisco
México
45130 [to be clarified]

Oculus Innovative Sciences Netherlands B.V.
Nusterweg 123
6136 KT Sittard
P.O. Box 5056
6130 PB Sittard
The Netherlands

i) Borrower's Other Deposit and Investment Accounts: Including Borrower's Primary Operating Account identified in Section 8 of Part 2 above, Borrowers maintain the following other deposit and investment accounts located within the United States:

Merrill Lynch

600 California Street, 8th Floor San Francisco, CA 94108

Mellon Bank N.A. One Mellon Bank Center, Pittsburgh, PA 15258
ABA# 043000261
For Credit to Merrill Lynch, Account 1011730
For further credit to Oculus Innovative Sciences Acct 6CA-07225

David Bell

415-955-3700

Financial Advisor

6CA-07225

Part 4. — Additional Loan Documents:

Form of Note for Equipment and Soft Cost Loans	Exhibit "A-1"
Form of Note for Growth Capital Loans	Exhibit "A-2"
Form of Note for Working Capital Loans	Exhibit "A-3"
Form of Borrowing Request	Exhibit "B"
Form of Compliance Certificate	Exhibit "C"
Form of Borrowing Base Certificate	Exhibit "D"
Form of Intellectual Property Security Agreement	Exhibit "E"
Form of Warrant	Exhibit "F"
Form of Landlord Waiver	Exhibit "G"
Form of Legal Opinion	Exhibit "H"

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties have executed this Supplement as of the date first above written.

BORROWERS:

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/ Hojabr Alimi
Name: Hojabr Alimi
Title: President/CEO

Address for Notices:

Attn: General Counsel
1129 North McDowell Blvd., Petaluma, CA 94954
Fax #: (707) 283-0551

OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

By: /s/ Bruce Thornton
Name: Bruce Thornton
Title: VP Global Ops and Sales

Address for Notices:

Attn: General Counsel, Oculus Innovative Sciences, Inc.
1129 North McDowell Blvd., Petaluma, CA 94954
Fax #: (707) 283-0551

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.

By: /s/ Bruce Thornton
Name: Bruce Thornton
Title: VP Global Ops and Sales

Address for Notices:

Attn: General Counsel, Oculus Innovative Sciences, Inc.
1129 North McDowell Blvd., Petaluma, CA 94954
Fax #: (707) 283-0551

Copy of any Notice to Borrowers:

Attn: Sylvia K. Burks
Pillsbury Winthrop Shaw Pittman LLP
2475 Hanover Street, Palo Alto, CA 94304-1114
Fax: (650) 233 4545

LENDER:

VENTURE LENDING & LEASING IV, INC.

By: /s/ Ronald W. Swenson
Name: Ronald W. Swenson
Title: CEO

Address for Notices:

Attn: Chief Financial Officer
2010 North First Street, Suite 310
San Jose, California 95131
Fax #: (408) 436-8625

EXHIBIT "A-1"

FORM OF PROMISSORY NOTE
[Equipment and Soft Cost Loans]

[Note No. X-XXX**]**

$_____ _____, 200___
San Jose, California

Each of the undersigned ("Borrowers") jointly and severally promises to pay to the order of VENTURE LENDING & LEASING IV, INC., a Maryland corporation ("Lender"), at its office at 2010 North First Street, Suite 310, San Jose, California 95131, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of _____ Dollars ($_____), with Basic Interest thereon (except as otherwise provided herein) from the date hereof until maturity, whether scheduled or accelerated, at a fixed rate per annum equal to **[the Prime Rate on the Business Day Lender prepares the Note plus 0.50%, but in no event less than 8.00%;** (the "Designated Rate"), and a Final Payment in the sum of **[6.581% of face amount]** Dollars ($_____) payable on the Maturity Date.**]**

This Note is one of the Notes referred to in, and is entitled to all the benefits of, a Loan and Security Agreement dated as of June 14, 2006, between Borrowers and Lender (the "Loan Agreement"). Each capitalized term not otherwise defined herein shall have the meaning set forth in the Loan Agreement. The Loan Agreement contains provisions for the acceleration of the maturity of this Note upon the happening of certain stated events.

Principal of and interest on this Note shall be payable as follows:

On the Borrowing Date, Borrowers shall pay [*if the Borrowing Date is not the first day of the month:* (i) interest at the rate of 1.00% per month on the outstanding principal balance of this Note for the period from the Borrowing Date through **[the last day of the same month]_____,** in the amount of $___; and (ii)] a first (1st) amortization installment of principal and interest at the Designated Rate in the amount of _____, in advance for the month of [**first full month after Borrowing Date**].

Commencing on the first day of the second full month after the Borrowing Date, and continuing on the first day of each consecutive month thereafter, principal and interest at the Designated Rate shall be payable, in advance, in thirty (30) equal consecutive installments of _____ Dollars ($_____) each, with a thirty-first (31st) installment on _____, 200__ equal to the entire unpaid principal balance and accrued interest at the Designated Rate and any unpaid expenses and fees. The Final Payment in the amount of $_____ shall be due and payable on **[one month later] ,** 200_.]

This Note may be voluntarily prepaid only as permitted under Section 2 of Part 2 of the Supplement to the Loan Agreement.

Any unpaid payments of principal or interest on this Note shall bear interest from their respective maturities, whether scheduled or accelerated, at a rate per annum equal to the Default Rate. Borrowers shall pay such interest on demand.

Interest, charges and fees shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrowers be

obligated to pay interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

If Borrowers are late in making any payment under this Note by more than five (5) days, Borrowers agree to pay a "late charge" of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrowers acknowledge that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrowers to make timely payments. Borrowers further agree that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Note or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: _____
Its: _____

OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

By: _____
Name: _____
Its: _____

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.

By: _____
Name: _____
Its: _____

EXHIBIT "A-2"

FORM OF PROMISSORY NOTE
[Growth Capital Loans]

[Note No. X-XXX**]**

$_____ _____, 200___
San Jose, California

Each of the undersigned ("Borrowers") jointly and severally promises to pay to the order of VENTURE LENDING & LEASING IV, INC., a Maryland corporation ("Lender"), at its office at 2010 North First Street, Suite 310, San Jose, California 95131, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of ___Dollars ($_____), with Basic Interest thereon (except as otherwise provided herein) from the date hereof until maturity, whether scheduled or accelerated, at a fixed rate per annum equal to **[the Prime Rate on the Business Day Lender prepares the Note plus 0.50%, but in no event less than 8.00%;** (the "Designated Rate"), and a Final Payment in the sum of **[6.059% of face amount]** Dollars ($_____) payable on the Maturity Date.**]**

This Note is one of the Notes referred to in, and is entitled to all the benefits of, a Loan and Security Agreement dated as of June 14, 2006, between Borrowers and Lender (the "Loan Agreement"). Each capitalized term not otherwise defined herein shall have the meaning set forth in the Loan Agreement. The Loan Agreement contains provisions for the acceleration of the maturity of this Note upon the happening of certain stated events.

Principal of and interest on this Note shall be payable as follows:

On the Borrowing Date, Borrowers shall pay interest only at the rate of 1.00% per month on the outstanding principal balance of this Note for the period from the Borrowing Date through June 30, 2006, in the amount of $_____.

Commencing on July 1, 2006, and continuing on August 1, 2006, Borrowers shall make payments in advance of interest only at the rate of 1.00% per month on the principal balance outstanding hereunder, in the amount of $_____ each.

Commencing on September 1,2006, and continuing on the first day of each consecutive month thereafter, principal and interest at the Designated Rate shall be payable, in advance, in twenty-nine (29) equal consecutive installments of _____ Dollars ($_____) each, with a thirtieth (30th) installment on _____, 200__, equal to the entire unpaid principal balance and accrued interest at the Designated Rate and any unpaid expenses and fees. The Final Payment in the amount of $_____ shall be due and payable on [**one month later]** , 200_.]

This Note may be voluntarily prepaid only as permitted under Section 2 of Part 2 of the Supplement to the Loan Agreement.

Any unpaid payments of principal or interest on this Note shall bear interest from their respective maturities, whether scheduled or accelerated, at a rate per annum equal to the Default Rate. Borrowers shall pay such interest on demand.

Interest, charges and fees shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrowers be

obligated to pay interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

If Borrowers are late in making any payment under this Note by more than five (5) days, Borrowers agree to pay a "late charge" of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrowers acknowledge that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrowers to make timely payments. Borrowers further agree that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Note or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: _____
Its: _____

OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

By: _____
Name: _____
Its: _____

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.

By: _____
Name: _____
Its: _____

EXHIBIT "A-3"
FORM OF PROMISSORY NOTE
[Working Capital Loans]

[Note No. X-XXX**]**

$_____ _____, 200__
San Jose, California

Each of the undersigned ("Borrowers") jointly and severally promises to pay to the order of VENTURE LENDING & LEASING IV, INC., a Maryland corporation ("Lender"), at its office at 2010 North First Street, Suite 310, San Jose, California 95131, or at such other place as Lender may designate in writing, in lawful money of the United States of America, the principal sum of _____ Dollars ($_____), with Basic Interest thereon (except as otherwise provided herein) from the date hereof until maturity, whether scheduled or accelerated, at a fixed rate per annum equal to **[the Prime Rate on the Business Day Lender prepares the Note plus 0.50%, but in no event less than 8.00%;** (the "Designated Rate"), and a Final Payment in the sum of **[6.059% of face amount]** Dollars ($_____) payable on the Maturity Date.**]**

This Note is one of the Notes referred to in, and is entitled to all the benefits of, a Loan and Security Agreement dated as of June 14, 2006, between Borrowers and Lender (the "Loan Agreement"). Each capitalized term not otherwise defined herein shall have the meaning set forth in the Loan Agreement. The Loan Agreement contains provisions for the acceleration of the maturity of this Note upon the happening of certain stated events.

Principal of and interest on this Note shall be payable as follows:

On the Borrowing Date, Borrowers shall pay **[***if the Borrowing Date is not the first day of the month:* (i) interest only at the rate of 1.00% per month on the outstanding principal balance of this Note for the period from the Borrowing Date through **[the last day of the same month]_____**, in the amount of $_____; and (ii)**]** interest only at the rate of 1.00% per month, in the amount of $_____, for the month of **[date of first regular interest-only installment]**.

Commencing on the first day of the second full month after the Borrowing Date, and continuing on the first day of the third full month after the Borrowing Date, Borrowers shall make payments in advance of interest only at the rate of 1.00% per month on the principal balance outstanding hereunder, in the amount of $_____ each.

Commencing on the first day of the fourth full month after the Borrowing Date, and continuing on the first day of each consecutive month thereafter, principal and interest at the Designated Rate shall be payable, in advance, in twenty-nine (29) equal consecutive installments of _____ Dollars ($_____) each, with a thirtieth (30th) installment on _____, 200__,equal to the entire unpaid principal balance and accrued interest at the Designated Rate and any unpaid expenses and fees. The Final Payment in the amount of $___shall be due and payable on [**one month later]** , 200_.]

This Note may be voluntarily prepaid only as permitted under Section 2 of Part 2 of the Supplement to the Loan Agreement.

Any unpaid payments of principal or interest on this Note shall bear interest from their respective maturities, whether scheduled or accelerated, at a rate per annum equal to the Default Rate. Borrowers shall pay such interest on demand.

Interest, charges and fees shall be calculated for actual days elapsed on the basis of a 360-day year, which results in higher interest, charge or fee payments than if a 365-day year were used. In no event shall Borrowers be obligated to pay interest, charges or fees at a rate in excess of the highest rate permitted by applicable law from time to time in effect.

If Borrowers are late in making any payment under this Note by more than five (5) days, Borrowers agree to pay a "late charge" of five percent (5%) of the installment due, but not less than fifty dollars ($50.00) for any one such delinquent payment. This late charge may be charged by Lender for the purpose of defraying the expenses incidental to the handling of such delinquent amounts. Borrowers acknowledge that such late charge represents a reasonable sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that will be sustained by Lender due to the failure of Borrowers to make timely payments. Borrowers further agree that proof of actual damages would be costly and inconvenient. Such late charge shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid or to declare a default under this Note or any of the other Loan Documents or from exercising any other rights and remedies of Lender.

This Note shall be governed by, and construed in accordance with, the laws of the State of California.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: _____
Its: _____

OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

By: _____
Name: _____
Its: _____

OCULUS INNOVATIVE SCIENCES NETHERLANDS B.V.

By: _____
Name: _____
Its: _____

EXHIBIT "B"

FORM OF BORROWING REQUEST

[Date]

Venture Lending & Leasing IV, Inc.
2010 North First Street, Suite 310
San Jose, CA 95131

Re: **Oculus Innovative Sciences, Inc.**

Gentlemen:

Reference is made to the Loan and Security Agreement dated as of June 14, 2006 (as amended from time to time, the "Loan Agreement", the capitalized terms used herein as defined therein), between Venture Lending & Leasing IV, Inc. and Oculus Innovative Sciences, Inc.. (the "Company"), Oculus Technologies of Mexico S.A. de C.V. and Oculus Innovative Sciences Netherlands B.V., as borrowers (together with the Company, "Borrowers").

The undersigned is the ___of the Company, and hereby requests on behalf of Borrowers a Loan under the Loan Agreement, and in that connection certifies as follows:

1. The type(s) of the proposed Loan is/are **[an Equipment Loan][a Soft Cost Loan][Growth Capital Loan][Working Capital Loan].** The amount of the proposed Loan is _____ and _____/100 Dollars ($___). The Borrowing Date of the proposed Loan is _____ ___, 200___.

2. **[If an Equipment Loan and/or Soft Cost Loan]** The Eligible Equipment and/or Soft Costs to be financed with the proceeds of the Loan(s) is or will be located at the address(es) shown on the attached **Schedule 1** or amendment or supplement to **Schedule 1**, which is hereby incorporated by reference in and made a part of the Loan Agreement. The requested amount of the Equipment Loan does not exceed the aggregate of one hundred percent (100%) of the amount paid or payable by a Borrower to a non-affiliated manufacturer, vendor or dealer for such items of Equipment as shown on an invoice therefor (excluding any commissions and any portion of the payment which relates to the servicing of the equipment and sales taxes payable by a Borrower upon acquisition, and delivery charges). No item of Equipment or Soft Costs was expended, first placed in service or acquired by a Borrower earlier than ninety (90) days before the proposed Borrowing Date **[***or, in the case of Eligible Equipment to be financed with an Equipment Loan, on or after July 1, 2005 for the initial Equipment Loan, if such Loan is funded prior to March 31, 2006***] [***or, in the case of Soft Costs to be financed with a Soft Cost Loan, on or after July 1, 2005 for the initial Soft Cost Loan, if such Loan is funded prior to March 31, 2006***]**.

3. **[If a Working Capital Loan].** The proposed Working Capital Loan is not in excess of the Borrowing Base, and after giving effect to the proposed Working Capital Loan, the outstanding balance of all Working Capital Loans will not exceed the Borrowing Base. The Borrowing Base as of _____, is calculated as follows:

Borrowing Base:

(a) Eligible Accounts Receivable — U.S. account debtors	$_____
(b) 80% of (a)	$_____
(c) Eligible Accounts Receivable — foreign account debtors (including foreign bank LCs and accounts from Mexican Ministry of Health	$_____

(d) 60% of (c) $_____

(e) does total of lines (b) and (d) equal or exceed the amount of proposed Working Capital Loan? YES / NO

(d) does total of lines (b) and (d) equal or exceed the amount of all Working Capital Loans outstanding plus the amount of the proposed Loan? YES/NO

4. As of this date, no Default or Event of Default has occurred and is continuing, or will result from the making of the proposed Loan, the representations and warranties of Borrowers contained in Article 3 of the Loan Agreement are true and correct, and the conditions precedent described in Article 4 of the Loan Agreement have been met.

5. No event that has had, or could reasonably be expected to have, a Material Adverse Change has occurred.

6. The Company's most recent [financial projections or business plan] dated ___, are enclosed herewith.

The Company shall notify you promptly before the funding of the Loan if any of the matters to which I have certified above shall not be true and correct on the Borrowing Date

Very truly yours,

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: _____
Title: _____

Schedule 1 to the Loan and Security Agreement

Description of Equipment/Soft Costs

Quantity	Article	Make	Year Mfg.	Model/ Serial #	Location	* if Soft Cost

See attached continuation to Schedule 1

together with all improvements, replacements, accessions and additions thereto, wherever located, and all Proceeds thereof arising from the sale, lease, rental or other use or disposition of any such property, including all rights to payment with respect to insurance or condemnation, returned premiums, or any cause of action relating to any of the foregoing.

(E) OCULUS INNOVATIVE SCIENCES, INC.

By: _____

Name: _____

Its: _____

VENTURE LENDING & LEASING IV, INC.

By: _____

Name: _____

Its: _____

EXHIBIT "C"

2 COMPLIANCE CERTIFICATE

Venture Lending & Leasing IV, Inc.
2010 North First Street, Suite 310
San Jose, CA 95131

Re: **Oculus Innovative Sciences, Inc.**

Gentlemen:

Reference is made to the Loan and Security Agreement dated as of June 14, 2006 (as the same have been and may be amended from time to time, the "Loan Agreement", the capitalized terms used herein as defined therein), between Venture Lending & Leasing IV, Inc. and Oculus Innovative Sciences, Inc. (the "Company"), Oculus Technologies of Mexico S.A. de C.V. and Oculus Innovative Sciences Netherlands B.V., as borrowers (together with the Company, "Borrowers").

The undersigned authorized representative of the Company hereby certifies that in accordance with the terms and conditions of the Loan Agreement, Borrowers are in complete compliance for the financial reporting period ending ___with all required financial reporting under the Loan Agreement, except as noted below. Attached herewith are the required documents supporting the foregoing certification. The undersigned further certifies that the accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles, and are consistent from one period to the next, except as explained below. These financial statements have been prepared on a consolidated and consolidating basis for both the Company and its Subsidiaries

Indicate compliance status by circling Yes/No under "Complies"

REPORTING REQUIREMENT	REQUIRED	COMPLIES
Interim Financial Statements	Monthly within 30 days	YES/NO
Annual Financial Statements	FYE within 150 days	YES/NO

Ratio of Unrestricted Cash to Average Expenses:

(i) Unrestricted Cash as of ___: _____

(ii) Average Expenses for the month ended ___: _____

(iii) Ratio of (i) to (ii): _____ [*if less than 6:1, then Lien against IP springs*]

Business Plan or Projections dated ___	With each Borrowing Request	YES/NO
Any change in budget since prior Borrowing Request		YES/NO

[If Lender's Lien on Borrowers' Intellectual Property is then in effect:]

PATENTS, TRADEMARKS AND COPYRIGHTS

Patents, Trademarks and Copyrights applied and/or filed with the U.S. Patent & Trademark Office or U.S. Copyright Office during the quarter ending _____	Quarterly within 30 days	YES*/NO

*** if "YES" then please list by application/registration number and title**

Pursuant to Section 6.11 of the Loan Agreement, Parent represents and warrants that: (i) as of the date hereof, Borrowers maintains in the United States only those Deposit Accounts and investment/securities accounts set forth below; and (ii) a control agreement has been executed and delivered to Lender with respect to each such account *[Note: If a Borrower has established any new account(s) since the date of the last compliance certificate, please so indicate]*.

(A) Deposit Accounts
(B)

	Name of Institution	Account Number	Control Agt. In place?	Complies	New Account
1.)			YES/NO	YES/NO	YES/NO
2.)			YES/NO	YES/NO	YES/NO
3.)			YES/NO	YES/NO	YES/NO
4.)			YES/NO	YES/NO	YES/NO

(C) Investment Accounts

	Name of Institution	Account Number	Control Agt. In place?	Complies	New Account
1.)			YES/NO	YES/NO	YES/NO
2.)			YES/NO	YES/NO	YES/NO
3.)			YES/NO	YES/NO	YES/NO
4.)			YES/NO	YES/NO	YES/NO

(D)

(E)

EXPLANATIONS

Very truly yours,

OCULUS INNOVATIVE SCIENCES, INC

Name: _____

Title:* _____

* Must be executed by Borrower's Chief Financial Officer or other executive officer.

EXHIBIT "D"

3 FORM OF BORROWING BASE CERTIFICATE

[to be delivered if Working Capital Loans are outstanding]

Venture Lending & Leasing IV, Inc.
2010 North First Street, Suite 310
San Jose, CA 95131

Re: **Oculus Innovative Sciences, Inc.**

Reference is made to the Loan and Security Agreement dated as of June 14, 2006 (as the same have been and may be amended from time to time, the "Loan Agreement", the capitalized terms used herein as defined therein), between Venture Lending & Leasing IV, Inc. and Oculus Innovative Sciences, Inc. (the "Company"), Oculus Technologies of Mexico S.A. de C.V. and Oculus Innovative Sciences Netherlands B.V., as borrowers (together with the Company, "Borrowers").

The undersigned authorized representative of Company hereby certifies that in accordance with the terms and conditions of the Loan Agreement, Borrowers are in complete compliance for the financial reporting period ending ___with the borrowing base requirements with respect to Working Capital Loans set forth in the Supplement to the Loan Agreement, except as noted below. Attached herewith are the required documents supporting the foregoing certification.

BORROWING BASE REQUIREMENT

Working Capital Loan Coverage Ratio as of _____, 200 *Line12 must equal or exceed Line 2* YES/NO

	Borrowing Base:	
1.	(a) Eligible Accounts Receivable — U.S. account debtors	$_____
	(b) 80% of (a)	$_____
	(c) Eligible Accounts Receivable — foreign account debtors (including foreign bank LCs and accounts from Mexican Ministry of Health)	$_____
	(d) 60% of (c)	$_____
	(e) Total of lines (b) and (d)	$_____

2. Aggregate outstanding balance of Combined Working Capital Loans $___

If Line 2 exceeds Line 1, then Borrowers shall promptly restore compliance by prepaying principal of Working Capital Loans in an amount necessary to restore compliance.

EXPLANATIONS

_____

_____

_____

_____

Very truly yours,

OCULUS INNOVATIVE SCIENCES, INC.

By: _____

Name: _____

Title:* _____

* Must be executed by Company's Chief Financial Officer or other executive officer.

EXHIBIT “E”

FORM OF INTELLECTUAL PROPERTY SECURITY AGREEMENT

INTELLECTUAL PROPERTY SECURITY AGREEMENT

This Intellectual Property Security Agreement (this "Agreement") is made as of ___, 200_, by and between OCULUS INNOVATIVE SCIENCES, INC., a California corporation ("Grantor"), and VENTURE LENDING & LEASING IV, INC., a Maryland corporation ("Secured Party").

RECITALS

A. Pursuant to a Loan and Security Agreement of dated as of June ___, 2006 (the "Loan Agreement") between Grantor, as borrower, and Secured Party, as lender, Secured Party has agreed to make certain advances of money and to extend certain financial accommodations to Grantor (the "Loans") in the amounts and manner set forth in the Loan Agreement. All capitalized terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

B. Secured Party is willing to make the Loans to Grantor, but only upon the condition, among others, that Grantor shall grant to Secured Party a security interest in substantially all of Grantor's personal property whether presently existing or hereafter acquired. To that end, Grantor has executed in favor of Secured Party the Loan Agreement granting a security interest in all Collateral, and is executing this Agreement with respect to certain items of Intellectual Property, in particular.

NOW, THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:

1. Grant of Security Interest. As collateral security for the prompt and complete payment and performance of all of Grantor's present or future Obligations, Grantor hereby grants a security interest and mortgage to Secured Party, as security, in and to Grantor's entire right, title and interest in, to and under the following Intellectual Property, now owned or hereafter acquired by Grantor or in which Grantor now holds or hereafter acquires any interest (all of which shall collectively be called the "Collateral" for purposes of this Agreement):

(a) Any and all copyrights, whether registered or unregistered, held pursuant to the laws of the United States, any State thereof or of any other country; all registrations, applications and recordings in the United States Copyright Office or in any similar office or agency of the United States, and State thereof or any other country; all continuations, renewals, or extensions thereof; and any registrations to be issued under any pending applications, including without limitation those set forth on Exhibit A attached hereto (collectively, the "Copyrights");

(b) All letters patent of, or rights corresponding thereto in, the United States or any other country, all registrations and recordings thereof, and all applications for letters patent of, or rights corresponding thereto in, the United States or any other country, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country; all reissues, continuations, continuations-in-part or extensions thereof; all petty patents, divisionals, and patents of addition; and all patents to be issued under any such applications, including without limitation the patents and patent applications set forth on Exhibit B attached hereto (collectively, the "Patents");

(c) All trademarks, trade names, corporate names, business names, trade styles, service marks, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and any applications in connection therewith, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, and reissues, extensions or renewals thereof, and the entire goodwill of the business of Grantor connected with and symbolized by such trademarks, including without limitation those set forth on Exhibit C attached hereto (collectively, the "Trademarks");

(d) Any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(e) All licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(f) All amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and

(g) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

Notwithstanding the foregoing the term "Collateral" shall not include: (a) "intent-to-use" trademarks at all times prior to the first use thereof, whether by the actual use thereof in commerce, the recording of a statement of use with the United States Patent and Trademark Office or otherwise, but only to the extent the granting of a security interest in such "intent to use" trademarks would be contrary to applicable law or (b) any contract, instrument or chattel paper in which Grantor has any right, title or interest if and to the extent such contract, instrument or chattel paper includes a provision containing a restriction on assignment such that the creation of a security interest in the right, title or interest of Grantor therein would be prohibited and would, in and of itself, cause or result in a default thereunder enabling another person party to such contract, instrument or chattel paper to enforce any remedy with respect thereto; provided, however, that the foregoing exclusion shall not apply if (i) such prohibition has been waived or such other person has otherwise consented to the creation hereunder of a security interest in such contract, instrument or chattel paper, or (ii) such prohibition would be rendered ineffective pursuant to Sections 9-407(a) or 9-408(a) of the UCC, as applicable and as then in effect in any relevant jurisdiction, or any other applicable law (including the Bankruptcy Code) or principles of equity); provided further that immediately upon the ineffectiveness, lapse or termination of any such provision, the term "Collateral" shall include, and Grantor shall be deemed to have granted a security interest in, all its rights, title and interests in and to such contract, instrument or chattel paper as if such provision had never been in effect; and provided further that the foregoing exclusion shall in no way be construed so as to limit, impair or otherwise affect Secured Party's unconditional continuing security interest in and to all rights, title and interests of Grantor in or to any payment obligations or other rights to receive monies due or to become due under any such contract, instrument or chattel paper and in any such monies and other proceeds of such contract, instrument or chattel paper.

2. Covenants and Warranties. Grantor represents, warrants, covenants and agrees as follows:

(a) Grantor is now the sole owner of the Collateral, except for licenses granted by Grantor to its customers in the ordinary course of business;

(b) During the term of this Agreement, Grantor will not transfer or otherwise encumber any interest in the Collateral, except for (i) exclusive licenses granted by Grantor in the ordinary course of business to a distributor or licensee with respect to one or more fields of use which when taken alone or together do not constitute a major portion of the existing uses of Grantor's intellectual property rights, and (ii) non-exclusive licenses granted by Grantor in the ordinary course of business; or as permitted elsewhere in this Agreement or the Loan Agreement;

(c) To its knowledge, each of the Patents is valid and enforceable, and no part of the Collateral has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Collateral violates the rights of any third party;

(d) Grantor shall deliver to Secured Party within thirty (30) days of the last day of each fiscal quarter, a report signed by Grantor, in form reasonably acceptable to Secured Party, listing any applications or registrations that Grantor has made or filed in respect of any patents, copyrights or trademarks and the status of any outstanding applications or registrations. Grantor shall promptly advise Secured Party of any material change in the composition of the Collateral, including but not limited to any subsequent ownership right of the Grantor in or to any Trademark, Patent or Copyright not specified in this Agreement;

(e) Grantor shall use reasonable commercial efforts to (i) protect, defend and maintain the validity and enforceability of the Trademarks, Patents and Copyrights (ii) detect infringements of the Trademarks, Patents and Copyrights and promptly advise Secured Party in writing of material infringements detected and (iii) not allow

any material Trademarks, Patents or Copyrights to be abandoned, forfeited or dedicated to the public without the written consent of Secured Party, which consent shall not be unreasonably withheld;

(f) Grantor shall apply for registration (to the extent not already registered) with the United States Patent and Trademark Office or the United States Copyright Office, as applicable: (i) those intellectual property rights listed on Exhibits A, B and C hereto within thirty (30) days of the date of this Agreement; and (ii) those additional intellectual property rights developed or acquired by Grantor from time to time in connection with any product or service, prior to the sale or licensing of such product or the rendering of such service to any third party (including without limitation revisions or additions to the intellectual property rights listed on such Exhibits A, B and C), except with respect to such rights that Grantor determines in its sole but reasonable commercial judgment need not be filed in order to avoid a material adverse impact on the business and prospects of Grantor. Grantor shall, from time to time, execute and file such other instruments, and take such further actions as Secured Party may reasonably request from time to time to perfect or continue the perfection of Secured Party's interest in the Collateral. Grantor shall give Secured Party notice of all such applications or registrations; and

(g) Grantor shall not enter into any agreement that would materially impair or conflict with Grantor's obligations hereunder without Secured Party's prior written consent, which consent shall not be unreasonably withheld. Grantor shall not permit the inclusion in any material contract to which it becomes a party of any provisions that could or might in any way prevent the creation of a security interest in Grantor's rights and interests in any property included within the definition of the Collateral acquired under such contracts.

3. Further Assurances; Attorney in Fact.

(a) On a continuing basis, Grantor will make, execute, acknowledge and deliver, and file and record in the proper filing and recording places in the United States, all such instruments, including appropriate financing and continuation statements and collateral agreements and filings with the United States Patent and Trademark Office and the Register of Copyrights, and take all such action as may reasonably be deemed necessary or advisable, or as reasonably requested by Secured Party, to perfect Secured Party's security interest in all Copyrights, Patents and Trademarks and otherwise to carry out the intent and purposes of this Agreement, or for assuring and confirming to Secured Party the grant or perfection of a security interest in all Collateral.

(b) Grantor hereby irrevocably appoints Secured Party as Grantor's attorney-in-fact, with full authority in the place and stead of Grantor and in the name of Grantor, from time to time in Secured Party's discretion, to take any action and to execute any instrument which Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including (i) to modify, in its sole discretion, this Agreement without first obtaining Grantor's approval of or signature to such modification by amending Exhibits A, B and C, hereof, as appropriate, to include reference to any right, title or interest in any Copyrights, Patents or Trademarks acquired by Grantor after the execution hereof or to delete any reference to any right, title or interest in any Copyrights, Patents or Trademarks in which Grantor no longer has or claims any right, title or interest, (ii) to file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of Grantor where permitted by law, and (iii) after the occurrence of an Event of Default, to transfer the Collateral into the name of Secured Party or a third party to the extent permitted under the California Uniform Commercial Code.

4. Events of Default. The occurrence of any of the following shall constitute an Event of Default under this Agreement:

(a) An Event of Default under the Loan Agreement; or

(b) Grantor breaches any warranty or agreement made by Grantor in this Agreement and, as to any breach that is capable of cure, Grantor fails to cure such breach within thirty (30) days of the sooner to occur of Grantor's receipt of notice of such breach from Secured Party or the date on which such breach first becomes known to Grantor.

5. Amendments. This Agreement may be amended only by a written instrument signed by both parties hereto, except for amendments permitted under Section 3 hereof to be made by Secured Party alone.

6. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute the same instrument.

[Signature Pages Follow]

[Signature page to Intellectual Property Security Agreement]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

GRANTOR:

Address of Grantor:

OCULUS INNOVATIVE SCIENCES, INC.,

1129 N. McDowell Blvd.
Petaluma, CA 94954
Attn: _____

By: _____

Name: _____

Its: _____

SECURED PARTY:

Address of Secured Party:

VENTURE LENDING & LEASING IV, INC.

2010 North First Street, Suite 310
San Jose, CA 95131
Attn: President

By: _____

Name: _____

Its: _____

[EXHIBITS A, B AND C TO BE COMPLETED BY GRANTOR]

EXHIBIT A

Copyrights

Description	Registration Number	Registration Date

EXHIBIT B

Patents

Description	Registration/Serial Number	Registration/Application Date

EXHIBIT C

Trademarks

Description	U.S. Registration/Application Number	Registration/Application Date

EXHIBIT “F”

FORM OF WARRANT

EXHIBIT "G"

FORM OF LANDLORD WAIVER

EXHIBIT "H"

FORM OF LEGAL OPINION

Exhibit 10.14

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Hojabr Alimi (the "Executive"), and Oculus Innovative Sciences, Inc., a California corporation (the "Corporation"), as of January 1, 2004 (the "Effective Date").

THE PARTIES ENTER THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. The Corporation desires that the Executive be employed by the Corporation to carry out the duties and responsibilities described below, all on the terms and conditions hereinafter set forth.

B. The Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the parties, the parties hereto agree as follows:

1. Retention and Duties.

1.1 Retention. The Corporation does hereby hire, engage and employ the Executive for the Period of Employment (as defined in Section 2) on the terms and conditions expressly set forth in this Agreement. The Executive does hereby accept and agree to such hiring, engagement and employment, on the terms and conditions expressly set forth in this Agreement.

1.2 Duties. During the Period of Employment, the Executive shall serve the Corporation as its President and Chief Executive Officer. The Executive shall, without limitation and without limiting the Executive's other duties to the Corporation, and without limiting the authority of the Corporation's Board of Directors (the "Board"), be responsible for the general supervision, direction and control of the business and affairs of the Corporation and have such other duties and responsibilities as the Board shall designate that are consistent with the Executive's position as Chief Executive Officer and President of the Corporation. The Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the Board and in accordance with the practices and policies of the Corporation as in effect from time to time throughout the Period of Employment (including, without limitation, the Corporation's insider trading and ethics policies, as they may change from time to time). While employed as Chief Executive Officer and President of the Corporation, the Executive shall report exclusively to the Board. Throughout the Period of Employment, the Executive shall not serve on the boards of directors or advisory boards of any other entity unless such service is expressly approved by the Board.

1.3 No Other Employment; Minimum Time Commitment. Throughout the Period of Employment, the Executive shall both (i) devote substantially all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Corporation, and (ii) hold no other job. The Executive agrees that any investment or direct involvement in, or any appointment to or continuing service on the board of directors or similar body of, any corporation or other entity must be first approved in writing by the Corporation. The foregoing

provisions of this Section 1.3 shall not prevent the Executive from investing in non-competitive publicly-traded securities to the extent permitted by Section 7(b). The Executive agrees that, as of the Effective Date, Exhibit A to this Agreement sets forth a complete and accurate description of (i) any investment or direct involvement of the Executive in any other corporation or business that reasonably could be construed as falling outside of the scope of the foregoing permitted investments and involvement, and (b) any board of directors or similar body of any corporation or other entity on which the Executive is a member. The Corporation may require the Executive to resign from membership on any board or similar body of any entity, on which he may now or in the future serve, if the Corporation determines that the Executive's membership on such board or similar body interferes (interference shall include, without limitation, giving rise to conflicts or competitive activity) with the performance of the Executive's duties hereunder.

1.4 No Breach of Contract. The Executive hereby represents to the Corporation that: (i) the execution and delivery of this Agreement by the Executive and the Corporation and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound; (ii) that the Executive has no information (including, without limitation, confidential information and trade secrets) of any other person or entity which the Executive is not legally and contractually free to disclose to the Corporation; (iii) that the Executive is not bound by any confidentiality, trade secret or similar agreement (other than this Agreement) with any other person or entity.

1.5 Location. The Executive acknowledges that the Corporation's principal executive offices are currently located in Petaluma, California. The Executive's principal place of employment shall be the Corporation's principal executive offices, as they may be moved from time to time at the discretion of the Corporation. The Executive agrees that the Executive will be regularly present at the Corporation's principal executive offices and that the Executive may be required to travel from time to time in the course of performing the Executive's duties for the Corporation.

2. Period of Employment. The "Period of Employment" shall commence on January 1, 2004, and shall continue until the date of Executive's termination pursuant to Section 5.1.

3. Compensation.

3.1 Base Salary. Effective January 1, 2004 and during the Period of Employment, the Corporation shall pay to the Executive a base salary at the rate of $225,000 per year, subject to increase (but not decrease) by the Board (the "Base Salary"). The Executive's Base Salary shall be paid in accordance with the Corporation's regular payroll practices in effect from time to time, but not less frequently than in monthly installments.

3.2 Stock Awards. The Executive shall continue to vest in those options to purchase the Corporation's common stock previously granted to the Executive in accordance with the terms of such option grants. The Corporation may, in its sole discretion, grant additional stock options and/or make other stock-based awards to the Executive.

4. Benefits.

4.1 Health and Welfare. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available by the Corporation to the Corporation's senior-level employees generally, as such plans or programs may be in effect from time to time.

4.2 Reimbursement of Business Expenses. The Executive is authorized to incur reasonable expenses in carrying out the Executive's duties for the Corporation under this Agreement and entitled to reimbursement for all such expenses the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Corporation, subject to the Corporation's reasonable expense reimbursement policies in effect from time to time. The Corporation shall reimburse the Executive to the extent required by the preceding sentence.

4.3 Vacation and Other Leave. During the Period of Employment, the Executive shall accrue and be entitled to take paid vacation in accordance with the Corporation's standard vacation policies in effect from time to time, including the Corporation's policies regarding vacation accruals. The Executive shall also be entitled to all other holiday and leave pay generally available to other employees of the Corporation.

5. Termination.

5.1 Termination by the Corporation. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Corporation: (i) with Cause (as defined in Section 5.5), or (ii) without Cause, or (iii) in the event of the Executive's death, or (iv) in the event that the Board determines in good faith that the Executive has a Disability (as defined in Section 5.5).

5.2 Termination by the Executive. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Executive, on no less than sixty (60) days prior written notice to the Corporation.

5.3 Benefits Upon Termination. If the Executive's employment by the Corporation is terminated during the Period of Employment for any reason by the Corporation or by the Executive, the Corporation shall have no further obligation to make or provide to the Executive, and the Executive shall have no further right to receive or obtain from the Corporation, any payments or benefits except:

(a) the Corporation shall pay the Executive (or, in the event of his death, the Executive's estate) any Accrued Obligations (as defined in Section 5.5); and

(b) if, during the Period of Employment, the Executive's employment is terminated by the Corporation without Cause or by the Executive for Good Reason (as defined in Section 5.5) (and, in each case, other than due to either the Executive's death, or a good faith determination by the Board that the Executive has a Disability):

(i) the Corporation shall, subject to the conditions set forth in Section 5.3(c), also pay the Executive a lump sum severance benefit equal to twenty-four (24) times the average monthly Base Salary paid to the Executive over the twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs (or, if the Period of Employment has not been in effect for twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs, the average monthly Base Salary for this purpose shall be determined based on the average monthly Base Salary paid to the Executive over the whole months in the Period of Employment occurring prior to the month in which the termination of the Executive's employment occurs). Subject to the conditions set forth in Section 5.3(c), such lump sum amount shall be paid to the Executive (without interest) no later than seven (7) days following the date on which the Executive's employment by the Corporation terminates;

(ii) the Corporation shall, subject to the conditions set forth in Section 5.3(c), pay as a severance benefit one hundred percent (100%) of the Executive's premiums under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for the same or reasonably equivalent medical coverage as in effect on the date the Executive's employment terminated for a period not to exceed the lesser of one year following the date of such termination or until the Executive becomes eligible for medical insurance coverage provided by another employer; and

(iii) as of the date the Executive's employment terminates, any and all stock options, stock appreciation rights, restricted stock awards, and similar equity and equity-based awards granted by the Corporation to the Executive outstanding immediately prior to such termination of employment shall thereupon be deemed fully vested and shall be exercisable for a period of no less than twelve (12) months thereafter or until the stated expiration date for such option or award at the end of its maximum term, whichever is earlier; provided, however, that this Section 5.3(b)(iii) shall not affect any right of the Corporation to terminate such option or award in connection with a change in control of the Corporation or similar event to the extent such right exists under the provisions of any agreement evidencing such option or award.

(c) Any obligation of the Corporation pursuant to Section 5.3(b) to pay a severance benefit in the circumstances described therein is further subject to the following two conditions precedent: (i) such severance obligation shall be paid only if the Executive has remained in compliance with all of the provisions of Section 5.6 and Sections 7 through 12, and such obligation shall terminate immediately if the Executive is for any reason not in compliance with one or more of the provisions of Section 5.6, and Sections 7 through 12; and (ii) the Executive's satisfaction of the release obligations set forth in Section 5.4. For purposes of the preceding sentence, if the Executive is not in compliance with one or more provisions of Section 5.6, and Sections 7 though 12, and a cure is reasonably possible in the circumstances, the Executive will not be deemed to have breached such provision(s) unless the Executive is given notice and a reasonable opportunity (in no case shall more than a 10-day cure period be required) to cure such breach and such breach is not cured within such time period. The parties agree that

a cure will not be reasonably possible in all circumstances including, without limitation, a material breach of confidentiality or similar occurrence.

(d) Except as expressly provided herein, the foregoing provisions of this Section 5.3 shall not affect: (i) the Executive's receipt of benefits otherwise due terminated employees under group insurance coverage consistent with the terms of each applicable Corporation welfare benefit plan; (ii) the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; (iii) the Executive's receipt of benefits otherwise due in accordance with the terms of the Corporation's 401(k) plan (if any); or (iv) any rights that the Executive may have under and with respect to a stock option, stock appreciation right, restricted stock award, or similar equity or equity-based award, to the extent that such award was granted before the date that the Executive's employment by the Corporation terminates and to the extent expressly provided in the written agreement evidencing such award.

5.4 Release; Exclusive Remedy.

(a) Thus Section 5.4 shall apply notwithstanding anything else contained in this Agreement to the contrary As a condition precedent to any Corporation obligation to the Executive pursuant to Section 5.3(b), the Executive shall, upon or promptly following his last day of employment with the Corporation, provide the Corporation with a valid, executed, written Release (as defined in Section 5.5) (in a form provided by the Corporation) and such release shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Corporation shall have no obligation to make any payment to the Executive pursuant to Section 5.3(b) unless and until the Release contemplated by this Section 5.4 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(b) The Executive agrees that the payments contemplated by Section 5.3 shall constitute the exclusive and sole remedy for any termination of his employment and the Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment. The Corporation and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.3 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

5.5 Certain Defined Terms.

(a) As used herein, "Accrued Obligations" means:

(i) any Base Salary that had accrued but had not been paid (including accrued and unpaid vacation time) prior to the date of termination; and

(ii) any reimbursement due to the Executive pursuant to Section 4.2 for expenses incurred by the Executive prior to the date the Period of Employment terminates.

(b) As used herein, "Cause" shall mean the reasonable and good faith determination by a majority of the Board based on its reasonable belief at the time, that, during the Period of Employment, any of the following events or contingencies exists or has occurred:

(i) the Executive is convicted of, or has pled guilty to, a felony (under the laws of the United States or any state thereof); or

(ii) the Executive has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties hereunder, unless the Executive believed in good faith that such acts were in the interests of the Corporation; or

(iii) the Executive willfully and repeatedly fails to perform or uphold his duties under this Agreement; or

(iv) the Executive willfully fails to comply with reasonable directives of the Board which are communicated to him in writing.

(c) As used herein, "Disability" shall mean a physical or mental impairment which substantially limits a major life activity of the Executive and which renders the Executive unable to perform the essential functions of the Executive's position, even with reasonable accommodation which does not impose an undue hardship on the Corporation, for ninety (90) days in any consecutive twelve (12) month period. The Board reserves the right, in good faith, to make the determination of whether or not a Disability exists for purposes of this Agreement based upon information supplied by the Executive and/or his medical personnel, as well as information from medical personnel (or others) selected by the Corporation or its insurers.

(d) As used herein, "Good Reason" shall mean the occurrence of one or more of the following without the Executive's written consent:

(i) the assignment of the Executive to duties materially inconsistent with the Executive's authorities, duties, responsibilities and status (including titles and reporting requirements) as Chief Executive Officer of the Corporation, or a material reduction or alteration in the nature or status of the Executive's authorities, duties or responsibilities, other than an insubstantial and inadvertent act that is remedied by the Corporation promptly after receipt of notice thereof given by the Executive; or

(ii) a reduction by the Corporation in the Executive's Base Salary as in effect on the Effective Date or as the same shall be increased from time to time, or the Corporation otherwise fails to satisfy its compensation obligations to the Executive under this Agreement, after notice by the Executive and a reasonable opportunity to cure; or

(iii) the failure of the Corporation to obtain a satisfactory agreement from any successor to the Corporation to assume and agree to perform this Agreement.

provided, however, that none of the events specified in clause (i), (ii), or (iii) above shall constitute Good Reason unless the Executive shall have notified the Corporation in writing describing the events which constitute Good Reason and the Corporation shall have failed to cure such event within a reasonable period, not to exceed ten (10) days, after the Corporation's actual receipt of such written notice.

(e) As used herein, "Release" shall mean a written release, discharge and covenant not to sue entered into by the Executive on behalf of himself, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, of and in favor of the Corporation, its parent (if any), the Corporation's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, shareholders, members, representatives, assigns, and successors, past and present, and each of them (the "releasees"), with respect to and from any and all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which he may then own or hold or he at any time theretofore owned or held or may in the future hold as against any or all of said releasees, arising out of or in any way connected with the Executive's employment relationship with each and every member of the Company Group (as defined in Section 7) with which the Executive has had such a relationship, or the termination of his employment or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such release including, without limiting the generality of the foregoing, any claim under Section 1981 of the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act, any other claim under any other federal, state or local law or regulation, and any other claim for severance pay, bonus or incentive pay, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, medical expenses, or disability (except that such release shall not constitute a release of any Corporation obligation to the Executive that may be due to the Executive pursuant to Section 5.3(b) upon the Corporation's receipt of such release). The Release shall also contain the Executive's warrant that he has not theretofore assigned or transferred to any person or entity, other than the Corporation, any released matter or any part or portion thereof and that he will defend, indemnify and hold harmless the Corporation and the aforementioned releases from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) that is directly or indirectly based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

5.6 Resignation From Boards. Upon or promptly following any termination of Executive's employment with the Corporation, the Executive agrees to resign from (i) each and every board of directors (or similar body, as the case may be) of the Corporation and each of its affiliates on which the Executive may then serve (if any), and (ii) each and every office of the Corporation and each of its affiliates that the Executive may then hold, and all positions that he may have previously held with the Corporation and any of its affiliates.

5.7 Excise Tax Gross-Up. During and after the period of Executive's employment with the Corporation, Executive shall be entitled to the excise tax protections set forth in Exhibit B hereto. The preceding sentence takes precedence over any contrary provision (such as, without limitation, an excise tax cut-back provision) of any other applicable incentive plan or award agreement.

6. Means and Effect of Termination. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination.

7. Non-Competition. The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Corporation, the amount of sensitive and confidential information involved in the discharge of the Executive's position with the Corporation, and the harm to the Corporation that would result if such knowledge or expertise was disclosed or made available to a competitor. Based on that understanding, the Executive hereby expressly agrees as follows:

(a) As a result of the particular nature of the Executive's relationship with the Corporation, in the capacities identified earlier in this Agreement, for the Period of Employment the Executive hereby agrees that he will not, directly or indirectly, (i) engage in any business for the Executive's own account or otherwise derive any personal benefit from any business that competes with the business of the Corporation or any of its affiliates (the Corporation and its affiliates are referred to, collectively, as the "Company Group"), (ii) enter the employ of, or render any services to, any person engaged in any business that competes with the business of any entity within the Company Group, (iii) acquire a financial interest in any person engaged in any business that competes with the business of any entity with the Company Group, directly or indirectly, as an individual, partner, member, shareholder, officer, director, principal, agent, trustee or consultant, or (iv) interfere with business relationships (whether formed before or after the Effective Date) between the Corporation, any of its respective affiliates or subsidiaries, and any customers, suppliers, officers, employees, partners, members or investors of any entity within the Company Group. For purposes of this Agreement, businesses in competition with the Company Group shall include, without limitation, businesses which any entity within the Company Group may conduct operations, and any businesses which any entity within the Company Group has specific plans to conduct operations in the future and as to which the Executive is aware of such planning, whether or not such businesses have or have not as of that date commenced operations.

(b) Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of any person which are publicly traded on a national or regional stock exchange or on an over-the-counter market if the Executive (i) is not a controlling person of, or a member of a group which controls, such person, and (ii) does not, directly or indirectly, beneficially own one percent (1%) or more of any class of securities of such person.

8. Confidentiality. As a material part of the consideration for the Corporation's commitment to the terms of this Agreement, the Executive hereby agrees that the Executive will not at any time (whether during or after the Executive's employment with the Corporation), other

in the course of the Executive's duties hereunder, or unless compelled by lawful process after written notice to the Corporation of such notice along with sufficient time for the Corporations to try and overturn such lawful process, disclose or use for the Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise, any trade secrets, or other confidential data or information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, financing methods, or plans of any entity within the Company Group; provided, however, that the foregoing shall not apply to information which is generally known to the industry or the public, other than as a result of the Executive's breach of this covenant. The Executive further agrees that the Executive will not retain or use for his account, at any time, any trade names, trademark or other proprietary business designation used or owned in connection with the business of any entity within the Company Group.

9. Inventions and Developments.

(a) All inventions, policies, systems, developments or improvements conceived, designed, implemented and/or made by the Executive, either alone or in conjunction with others, at any time or at any place during the Period of Employment, whether or not reduced to writing or practice during such Period of Employment, which directly or indirectly relate to the business of any entity within the Company Group, or which were developed or made in whole or in part using the facilities and/or capital of any entity within the Company Group, shall be the sole and exclusive property of the Company Group. The Executive shall promptly give notice to the Corporation of any such invention, development, patent or improvement, and shall at the same time, without the need for any request by any person or entity within the Company Group, assign all of the Executive's rights to such invention, development, patent and/or improvement to the Company Group. The Executive shall sign all instruments necessary for the filing and prosecution of any applications for, or extension or renewals of, letters patent of the United States or any foreign country that any entity in the Company Group desires to file.

(b) All copyrightable work by the Executive during the Period of Employment that relates to the business of any entity in the Company Group is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Company Group. If the copyright to any such copyrightable work is not the property of the Company Group by operation of law, the Executive will, without further consideration, assign to the Company Group all right, title and interest in such copyrightable work and will assist the entities in the Company Group and their nominees in every way, at the Company Group's expense, to secure, maintain and defend for the Company Group's benefit copyrights and any extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and to remain the property of the Company Group whether copyrighted or not.

10. Anti-Solicitation. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the

Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner or participant in any business, influence or attempt to influence customers, vendors, suppliers, joint venturers, associates, consultants, agents, or partners of any entity within the Company Group, either directly or indirectly, to divert their business away from the Company Group, to any individual, partnership, firm corporation or other entity then in competition with the business of any entity within the Company Group, and he will not otherwise materially interfere with any business relationship of any entity within the Company Group.

11. Soliciting Employees. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at any time within six (6) months prior thereto was, an employee of an entity within the Company Group, who earned annually $25,000 or more as an employee of such entity during the last six (6) months of his or her own employment to work for (as an employee, consultant or otherwise) any business, individual, partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Company Group.

12. Return of Property. The Executive agrees to truthfully and faithfully account for and deliver to the Corporation all property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates, which the Executive may receive from or on account of the Corporation, any other entity in the Company Group, or any of their respective affiliates, and upon the termination of the Period of Employment, or the Corporation's demand, the Executive shall immediately deliver to the Corporation all such property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates.

13. Withholding Taxes. Notwithstanding anything else herein to the contrary, the Corporation may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

14. Cooperation in Litigation. The Executive agrees that he will reasonably cooperate with the Corporation, subject to his reasonable personal and business schedules, in any litigation which arises out of events occurring prior to the termination of his employment, including but not limited to, serving as a witness or consultant and producing documents and information relevant to the case or helpful to the Corporation. The Corporation agrees to reimburse the Executive for all reasonable costs and expenses he incurs in connection with his obligations under this Section 14 and, in addition, to reasonably compensate the Executive for time actually spent in connection therewith following the termination of his employment with the Corporation.

15. Assignment. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Corporation with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Corporation hereunder.

16. Number and Gender. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

17. Section Headings. The section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purpose of convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation thereof.

18. Governing Law. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary.

19. Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

20. Entire Agreement. This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior and contemporaneous agreements of the parties hereto that directly or indirectly bears upon the subject matter hereof. Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be deemed to have been merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether expressed or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

21. Modifications. This Agreement may not be amended, modified or changed (in whole or in part), except by a formal, definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

22. Waiver. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

23. Resolution of Disputes.

(a) Any controversy arising out of or relating to the Executive's employment (whether or not before or after the expiration of the Period of Employment), any termination of the Executive's employment, this Agreement or the enforcement or interpretation of this Agreement, or because of an alleged breach, default, or misrepresentation in connection with any of the provisions of this Agreement, including (without limitation) any state or federal statutory claims, shall be submitted to arbitration in Santa Rosa, California, before a sole arbitrator (the "Arbitrator") selected from judicial arbitration mediation services ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association ("AAA"), and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive remedy of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the Arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction.

(b) The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence of the first paragraph of this Section 23.

(c) The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non-prevailing party (other than forum costs associated with the arbitration which in any event shall be paid by the Corporation).

(d) Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 23, the Executive and the Corporation acknowledge that any breach of any of the covenants or provisions contained in Sections 5.6, and 7 through 12 could result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that, in the event of such a breach or threat thereof, the non-breaching party shall be entitled to obtain a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Sections 5.6, and 7 through 12 or such other equitable relief as may be required to enforce specifically any of the covenants or provisions of Sections 5.6, and 7 through 12.

24. Notices.

(a) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made if (i) delivered by hand, (ii) otherwise delivered against receipt therefore, or (iii) sent by registered or certified mail, postage prepaid, return receipt requested. Any notice shall be duly addressed to the parties as follows:

(i) if to the Corporation:

Oculus Innovative Services, Inc.
1129 North McDowell Boulevard
Petaluma, California 94954
Attn: Jim Schutz
Fax: +1 (707) 782-0705

(ii) if to the Executive:

Hojabr Alimi
30 Bicentennial Way, #428

Santa Rosa, CA 95403
+1 (707) 571-1623

(b) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 24 for the giving of notice. Any communication shall be effective when delivered by hand, when otherwise delivered against receipt therefore, or five (5) business days after being mailed in accordance with the foregoing.

25. Legal Counsel; Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language.

26. Provisions that Survive Termination. The provisions of 5.3, 5.4, 5.5, 5.6, 5.7, 7 through 25, 27, and this Section 26 shall survive any termination of the Period of Employment.

27. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

[Signature Page Follows]

IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the Effective Date.

CORPORATION

Oculus Innovative Services, Inc.,
a California corporation

By: /s/ Richard Conley
Richard Conley, Secretary of the Board of Directors,
Oculus Innovative Sciences, Inc.

EXECUTIVE

/s/ Hojabr Alimi

EXHIBIT A — SECTION 1.3 DISCLOSURE SCHEDULE

EXHIBIT B — SECTION 5.7 EXCISE TAX GROSS-UP

B.1. Equalization Payment. If any payment, distribution, transfer, or benefit (including, without limitation, any amounts received or deemed received by the Executive within the meaning of any provision of the Internal Revenue Code of 1986, as amended (the "Code"), or by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of resteictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Corporation's incentive plans) by the Corporation or a successor, or by a direct or indirect subsidiary or affiliate of the Corporation (or any successor or affiliate of any of them, and including any benefit plan of any of them), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the "Total Payments"), is or will be subject to the excise tax imposed under Section 4999 of the Code or any similar or successor tax (the "Excise Tax"), the Corporation shall pay in cash to Executive or for Executive's benefit as provided below an additional amount or amounts (the "Gross-Up Payment(s)") such that the net amount retained by the Executive after the deduction of any Excise Tax on such Total Payments and any Federal, state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section B.l shall be equal to such Total Payments had they not been subject to the Excise Tax. Such Gross-Up Payment(s) shall be made by the Corporation to the Executive or to any applicable taxing authority on behalf of the Executive as soon as practicable following the receipt or deemed receipt of any such Total Payments by the Executive, and may be satisfied by the corporation making a payment or payments on the Executive's account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Executive of any such Total Payment

B.2. Calculation of Gross-Up Payment. The determination of whether a Gross-Up Payment is required pursuant to this Exhibit B and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Corporation (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Corporation and the Executive. In the event of a termination of the Executive's employment which reasonably may require the payment of a Gross-Up Payment or in the event of a Change in Control such documentation shall be provided no later than twenty (20) days following such event. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Corporation's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Code Section 280G(d)(1)); (ii) the present value of the Total Payments made to the Executive; (iii) the amount and present value of any "excess parachute payment;" and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Corporation, a firm of nationally-recognized executive compensation consultants. The Executive shall also have the right to obtain such an opinion of outside counsel in the event that the Corporation has not timely submitted the initial determination to the Accounting Firm as provided above (including, without limitation, in the event that the Corporation does not submit such a determination to the Accounting Firm

following an event in connection with which the Executive reasonably believes that he may be entitled to a Gross-Up Payment). The outside counsel's opinion shall be binding upon the Corporation and the Executive and shall constitute the "Determination" for purposes of this Exhibit B instead of the initial determination by the Accounting Firm. The Corporation shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section B.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Corporation must approve the Executive's selection, which approval shall not be unreasonably withheld.

B.3. Computation Assumptions. For purposes of determining whether any Total Payments will be subject to Excise Tax, and the amount of any such Excise Tax:

(a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon any change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, or with any Person whose actions result in such a change or any Person affiliated with the Corporation or such Persons) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(l) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax (for purposes of this Section B.3(a), "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof);

(b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;

(c) The compensation and benefits provided for in Section 5 of this Agreement, and any other compensation earned prior to the termination of the Executive's employment pursuant to the Corporation's compensation program (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by a change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or a termination of the Executive's employment), shall

for purposes of the calculation pursuant to this Section B.3 be deemed to be reasonable; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (3) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the date the Executive's employment terminates, and shall take into account the maximum reduction in federal income taxes that could be obtained from the deduction of such state and local taxes.

B.4 Executive's Obligation to Notify Corporation. The Executive shall promptly notify the Corporation in writing of any claim by the Internal Revenue Service (or any successor thereof or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Corporation of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Corporation notifies the Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Corporation any information reasonably requested by the Corporation relating to such claim; (b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation that is reasonably acceptable to the Executive; (c) cooperate with the Corporation in good faith in order to effectively contest such claim; and (d) permit the Corporation to participate in any proceedings relating to such claim; provided that the Corporation shall bear and pay directly all attorneys fees, costs and expenses (including additional interest penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section B.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes wid1 the Taxing Authority as to other issues, the Corporation shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences wid1 tile Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Executive

to pay such d h n and sue for a refund, the Corporation shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed wid1 respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

B.5. Subsequent Recalculation. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section B.l, the Corporation shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section B.l, then the Executive shall promptly pay to the Corporation (without interest) the amount of such excess.

Exhibit 10.15

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Jim Schutz (the "Executive"), and Oculus Innovative Sciences, Inc., a California corporation (the "Corporation"), as of January 1, 2004 (the "Effective Date").

THE PARTIES ENTER THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. The Corporation desires that the Executive be employed by the Corporation to carry out the duties and responsibilities described below, all on the terms and conditions hereinafter set forth.

B. The Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the parties, the parties hereto agree as follows:

1. Retention and Duties.

1.1 Retention. The Corporation does hereby hire, engage and employ the Executive for the Period of Employment (as defined in Section 2) on the terms and conditions expressly set forth in this Agreement. The Executive does hereby accept and agree to such hiring, engagement and employment, on the terms and conditions expressly set forth in this Agreement.

1.2 Duties. During the Period of Employment, the Executive shall serve the Corporation as its General Counsel. The Executive shall, without limitation and without limiting the Executive's other duties to the Corporation, and without limiting the authority of the Corporation's Board of Directors (the "Board"), be responsible for the legal affairs of the Corporation and have such other duties and responsibilities as the Chief Executive Officer ("CEO") shall designate that are consistent with the Executive's position as General Counsel. The Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the Board and in accordance with the practices and policies of the Corporation as in effect from time to time throughout the Period of Employment (including, without limitation, the Corporation's insider trading and ethics policies, as they may change from time to time). While employed as General Counsel, the Executive shall report exclusively to the CEO. Throughout the Period of Employment, the Executive shall not serve on the boards of directors or advisory boards of any other entity unless such service is expressly approved by the Board and/or CEO.

1.3 No Other Employment; Minimum Time Commitment. Throughout the Period of Employment, the Executive shall both (i) devote substantially all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Corporation, and (ii) hold no other job. The Executive agrees that any investment or direct involvement in, or any appointment to or continuing service on the board of directors or similar body of, any corporation or other entity must be first approved in writing by the Corporation. The foregoing provisions of this Section 1.3 shall not prevent the Executive from investing in non-competitive publicly-traded securities to the extent permitted by Section 7(b). The Executive agrees that, as of the Effective Date, Exhibit A to this Agreement sets forth a complete and accurate description

of (i)any investment or direct involvement of involvement of the Executive in any other corporation or business that reasonably could be construed as falling outside of the scope of the foregoing permitted investments and involvement, and (b) any board of directors or similar body of any corporation or other entity on which the Executive is a member. The Corporation may require the Executive to resign from membership on any board or similar body of any entity, on which he may now or in the future serve, if the Corporation determines that the Executive's membership on such board or similar body interferes (interference shall include, without limitation, giving rise to conflicts or competitive activity) with the performance of the Executive's duties hereunder.

1.4 No Breach of Contract. The Executive hereby represents to the Corporation that: (i)the execution and delivery of this Agreement by the Executive and the Corporation and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound; (ii) that the Executive has no information (including, without limitation, confidential information and trade secrets) of any other person or entity which the Executive is not legally and contractually free to disclose to the Corporation; (iii) that the Executive is not bound by any confidentiality, trade secret or similar agreement (other than this Agreement) with any other person or entity.

1.5 Location. The Executive acknowledges that the Corporation's principal executive offices are currently located in Petaluma, California. The Executive's principal place of employment shall be the Corporation's principal executive offices, as they may be moved from time to time upon mutual agreement by the Executive and the Corporation. The Executive agrees that the Executive will be regularly present at the Corporation's principal executive offices and that the Executive may be required to travel from time to time in the course of performing the Executive's duties for the Corporation.

2. Period of Employment. The "Period of Employment" shall commence on January 1, 2004, and shall continue until the date of Executive's termination pursuant to Section 5.

3. Compensation.

3.1 Base Salary. Effective January 1,2004 and during the Period of Employment, the Corporation shall pay to the Executive a base salary at the rate of $165,000 pa year, subject to increase (but not decrease) by the CEO (the "Base Salary"). The Executive's Base Salary shall be paid in accordance with the Corporation's regular payroll practices in effect from time to time, but not less frequently than in monthly installments.

3.2 Stock Awards. The Corporation will immediately grant the Executive options to purchase an aggregate of 150,000 shares of common stock, at an exercise price of $0.75 per share, subject to a five-year vesting schedule, and expiring 10 years from the date of the option grant and issuance. In addition, the Executive shall continue to vest in those options to purchase the Corporation's common stock previously granted to the Executive in accordance with the terms of such option grants. The Corporation may, in its sole discretion, grant additional stock options and/or make other stock-based awards to the Executive.

4. Benefits.

4.1 Health and Welfare. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available by the Corporation to the Corporation's senior-level employees generally, as such plans or programs may be in effect from time to time.

4.2 Reimbursement of Business Expenses. The Executive is authorized to incur reasonable expenses in carrying out the Executive's duties for the Corporation under this Agreement and entitled to reimbursement for all such expenses the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Corporation, subject to the Corporation's reasonable expense reimbursement policies in effect from time to time. The Corporation shall reimburse the Executive to the extent required by the preceding sentence.

4.3 Vacation and Other Leave. During the Period of Employment, the Executive shall accrue and be entitled to take paid vacation in accordance with the Corporation's standard vacation policies in effect from time to time, including the Corporation's policies regarding vacation accruals. The Executive shall also be entitled to all other holiday and leave pay generally available to other employees of the Corporation.

5. Termination.

5.1 Termination by the Corporation. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Corporation: (i) with Cause (as defined in Section 5.5, or (ii) without Cause, or (iii)in the event of the Executive's death, or (iv) in the event that the Board determines in good faith that the Executive has a Disability (as defined in Section 5.5).

5.2 Termination by the Executive. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Executive, on no less than thirty (30) days prior written notice to the Corporation.

5.3 Benefits Upon Termination. If the Executive's employment by the Corporation is terminated during the Period of Employment for any reason by the Corporation or by the Executive, the Corporation shall have no further obligation to make or provide to the Executive, and the Executive shall have no further right to receive or obtain from the Corporation, any payments or benefits except:

(a) the Corporation shall pay the Executive (or, in the event of his death, the Executive's estate) any Accrued Obligations (as defined in Section 5.5); and

(b) if, during the Period of Employment, the Executive's employment is terminated by the Corporation without Cause or by the Executive for Good Reason (as defined in Section 5.5) (and, in each case, other than due to either the Executive's death, or a good faith determination by the Board that the Executive has a Disability):

(i) the Corporation shall, subject to the conditions set forth in Section 5.3(c), also pay the Executive a lump sum severance benefit equal to eighteen (18) times the average monthly Base Salary paid to the Executive over the twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs (or, if the Period of Employment has not been in effect for twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs, the average monthly Base Salary for this purpose shall be determined based on the average monthly Base Salary paid to the Executive over the whole months in the Period of Employment occurring prior to the month in which the termination of the Executive's employment occurs). Subject to the conditions set forth in Section 5.3(c), such lump sum amount shall be paid to the Executive (without interest) no later than seven (7) days following the date on which the Executive's employment by the Corporation terminates;

(ii) the Corporation shall, subject to the conditions set for the in Section 5.3(c), pay as a severance benefit one hundred percent (100%) of the Executive's premiums under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for the same or reasonably equivalent medical coverage as in effect on the date the Executive's employment terminated for a period not to exceed the lesser of one year following the date of such termination or until the Executive becomes eligible for medical insurance coverage provided by another employer; and

(iii) as of the date the Executive's employment terminates, any and all stock options, stock appreciation rights, restricted stock awards, and similar equity and equity-based awards granted by the Corporation to the Executive outstanding immediately prior to such termination of employment shall thereupon be deemed fully vested and shall be exercisable for a period of no less than twelve (12) months thereafter or until the stated expiration date for such option or award at the end of its maximum term, whichever is earlier; provided, however, that this Section 5.3(b)(iii) shall not affect any right of the Corporation to terminate such option or award in connection with a change in control of the Corporation or similar event to the extent such right exists under the provisions of any agreement evidencing such option or award.

(c) Any obligation of the Corporation pursuant to Section 5.3(b) to pay a severance benefit in the circumstances described therein is further subject to the following two "conditions precedent: (i)such severance obligation shall be paid only if the Executive has remained in compliance with all of the provisions of Section 5.6 and Sections 7 through 12, and such obligation shall terminate immediately if the Executive is for any reason not in compliance with one or more of the provisions of Section 5.6, and Sections 7 through 12;and (ii) the Executive's satisfaction of the release obligations set forth in Section 5.4. For purposes of the preceding sentence, if the Executive is not in compliance with one or more provisions of Section 5.6, and Sections 7 though 12, and a cure is reasonably possible in the circumstances, the Executive will not be deemed to have breached such provision(s) unless the Executive is given notice and a reasonable opportunity (in no case shall more than a 10-day cure period be required) to cure such breach and such breach is not cured within such time period. The parties agree that

a cure will not be reasonably possible in all circumstances including, without limitation, a material breach of confidentiality or similar occurrence.

(d) Except as expressly provided herein, the foregoing provisions of this Section 5.3 shall not affect (i) the Executive's receipt of benefits otherwise due terminated employees under group insurance coverage consistent with the terms of the applicable Corporation welfare benefit plan; (ii)the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; (iii) the Executive's receipt of benefits otherwise due in accordance with the terms of the Corporation's 401(k) plan (if any); or (iv) any rights that the Executive may have under and with respect to a stock option, stock appreciation right, restricted stock award, or similar equity or equity-based award, to the extent that such award was granted before the date that the Executive's employment by the Corporation terminates and to the extent expressly provided in the written agreement evidencing such award.

5.4 Release; Exclusive Remedy.

(a) This Section 5.4 shall apply notwithstanding anything else contained in this Agreement to the contrary. As a condition precedent to any Corporation obligation to the Executive pursuant to Section 5.3(b), the Executive shall, upon or promptly following his last day of employment with the Corporation, provide the Corporation with a valid, executed, written Release (as defined in Section 5.5) (in a form provided by the Corporation) and such release shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Corporation shall have no obligation to make any payment to the Executive pursuant to Section 5.3(b) unless and until the Release contemplated by this Section 5.4 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(b) The Executive agrees that the payments contemplated by Section 5.3 shall constitute the exclusive and sole remedy for any termination of his employment and the Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment. The Corporation and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.3 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

5.5 Certain Defined Terms.

(a) As used herein, "Accrued Obligations" means:

(i) any Base Salary that had accrued but had not been paid (including accrued and unpaid vacation time) prior to the date of termination; and

(ii) any reimbursement due to the Executive pursuant to Section 4.2 for expenses incurred by the Executive prior to the date the Period of Employment terminates.

(b) As used herein, "Cause" shall mean the reasonable and good faith determination by a majority of the Board based on its reasonable belief at the time, that, during the Period of Employment, any of the following events or contingencies exists or has occurred:

(i) the Executive is convicted of, or has pled guilty to, a felony (under the laws of the United States or any state thereof); or

(ii) the Executive has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties hereunder, unless the Executive believed in good faith that such acts were in the interests of the Corporation; or

(iii) the Executive willfully and repeatedly fails to perform or uphold his duties under this Agreement; or

(iv) the Executive willfully fails to comply with reasonable directives of the CEO which are communicated to him in writing.

(c) As used herein, "Disability" shall mean a physical or mental impairment which substantially limits a major life activity of the Executive and which renders the Executive unable to perform the essential functions of the Executive's position, even with reasonable accommodation which does not impose an undue hardship on the Corporation , for ninety (90) days in any consecutive twelve (12) month period. The Board reserves the right, in good faith, to make the determination of whether or not a Disability exists for purposes of this Agreement based upon information supplied by the Executive and/or his medical personnel, as well as information from medical personnel (or others) selected by the Corporation or its insurers.

(d) As used herein, "Good Reason" shall mean the occurrence of one or more of the following without the Executive's written consent:

(i) the assignment of the Executive to duties materially inconsistent with the Executive's authorities, duties, responsibilities and status (including tides and reporting requirements) as General Counsel of the Corporation, or a material reduction or alteration in the nature or status of the Executive's authorities, duties or responsibilities, other than an insubstantial and inadvertent act that is remedied by the Corporation promptly after receipt of notice thereof given by the Executive; or

(ii) a reduction by the Corporation in the Executive's Base Salary as in effect on the Effective Date or as the same shall be increased from time to time, or the Corporation otherwise fails to satisfy its compensation obligations to the Executive under this Agreement, after notice by the Executive and a reasonable opportunity to cure; or

(iii) only after the Sale of the company, the Corporation's requiring Executive to be based at any office or location more than fifty (50) miles from the Corporation's headquarters in Petaluma, California; or

(iv) the failure of the Corporation to obtain a satisfactory agreement from any successor to the Corporation to assume and agree to perform this Agreement

provided, however, that none of the events specified in clause (i),(ii),or (iii) above shall constitute Good Reason unless the Executive shall have notified the Corporation in writing describing the events which constitute Good Reason and the Corporation shall have failed to cure such event within a reasonable period, not to exceed ten (10) days, after the Corporation's actual receipt of such written notice.

(e) As used herein, "Release" shall mean a written release, discharge and covenant not to sue entered into by the Executive on behalf of himself, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, of and in favor of the Corporation, its parent (if any), the Corporation's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, shareholders, members, representatives, assigns, and successors, past and present, and each of them (the "releasees"), with respect to and from any and all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which he may then own or hold or he at any be theretofore owned or held or may in the future hold as against any or all of said releasees, arising out of or in any way connected with the Executive's employment relationship with each and every member of the Company Group(as defined in Section 7) with which the Executive has had such a relationship, or the termination of his employment or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such release including, without limiting the generality of the foregoing, any claim under Section 1981 of the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act, any other claim under any other federal, state or local law or regulation, and any other claim for severance pay, bonus or incentive pay, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, medical expenses, or disability (except that such release shall not constitute a release of any Corporation obligation to the Executive that may be due to the Executive pursuant to Section 5.3(b) upon the Corporation's receipt of such release). The Release shall also contain the Executive's warrant that he has not theretofore assigned or transferred to any person or entity, other than the Corporation, any released matter or any part or portion thereof and that he will defend, indemnify and hold harmless the Corporation and the aforementioned releasees from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) that is directly or indirectly based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

5.6 Resignation From Boards. Upon or promptly following any termination of Executive's employment with the Corporation, the Executive agrees to resign from (i) each and

every board of directors (or similar body, as the case may be) of the Corporation and each of its affiliates on which the Executive may then serve (if any), and (ii)each and every office of the Corporation and each of its affiliates that the Executive may then hold, and all positions that he may have previously held with the Corporation and any of its affiliates.

5.7 Excise Tax Gross-Up. During and after the period of Executive's employment with the Corporation, Executive shall be entitled to the excise tax protections set forth in Exhibit B hereto. The preceding sentence takes precedence over any contrary provision (such as, without limitation, an excise tax cut-back provision) of any other applicable incentive plan or award agreement.

6. Means and Effect of Termination. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination.

7. Non-Competition. The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Corporation, the amount of sensitive and confidential information involved in the discharge of the Executive's position with the Corporation, and the harm to the Corporation that would result if such knowledge or expertise was disclosed or made available to a competitor. Based on that understanding, the Executive hereby expressly agrees as follows:

(a) As a result of the particular nature of the Executive's relationship with the Corporation, in the capacities identified earlier in this Agreement, for the Period of Employment the Executive hereby agrees that he will not, directly or indirectly, (i) engage in any business for the Executive's own account or otherwise derive any personal benefit from any business that competes with the business of the Corporation or any of its affiliates (the Corporation and its affiliates are referred to, collectively, as the "Company Group"), (ii) enter the employ of, or render any services to, any person engaged in any business that competes with the business of any entity within the Company Group, (iii) acquire a financial interest in any person engaged in any business that competes with the business of any entity within the Company Group, directly or indirectly, as an individual, partner, member, shareholder, officer, director, principal, agent, trustee or consultant or (iv) interfere with business relationships (whether formed before or after the Effective Date) between the Corporation, any of its respective affiliates or subsidiaries, and any customers, suppliers, officers, employees, partners, members or investors of any entity within the Company Group. For purposes of this Agreement, businesses in competition with the Company Group shall include, without limitation, businesses which any entity within the Company Group may conduct operations, and any businesses which any entity within the Company Group has specific plans to conduct operations in the future and as to which the Executive is aware of such planning, whether or not such businesses have or have not as of that date commenced operations.

(b) Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of any person which are publicly traded on a national or regional stock exchange or on an over-the-counter market if the Executive (i) is not a controlling person of, or a member of a group which controls, such person,

and (ii) does not, directly or indirectly, beneficially own one percent (1%)or more of any class of securities of such person.

8. Confidentiality. As a material part of the consideration for the Corporation's commitment to the terms of this Agreement, the Executive hereby agrees that the Executive will not at any time (whether during or after the Executive's employment with the Corporation), other in the course of the Executive's duties hereunder, or unless compelled by lawful process after written notice to the Corporation of such notice along with sufficient time for the Corporation to try and overturn such lawful process, disclose or use for the Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise, any trade secrets, or other confidential data or information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, financing methods, or plans of any entity with the Company Group; provided, however, that the foregoing shall not apply to information which is generally known to the industry or the public, other than as a result of the Executive's breach of this covenant. The Executive further agrees that the Executive will not retain or use for his account at any time, any trade names, trademark or other proprietary business designation used or owned in connection with the business of any entity within the Company Group.

9. Inventions and Developments.

(a) All inventions, policies, systems, developments or improvements conceived, designed, implemented and/or made by the Executive, either alone or in conjunction with others, at any time or at any place during the Period of Employment, whether or not reduced to writing or practice during such Period of Employment, which directly or indirectly relate to the business of any entity within the Company Group, or which were developed or made in whole or in part using the facilities and/or capital of any entity within the Company Group, shall be the sole and exclusive property of the Company Group. The Executive shall promptly give notice to the Corporation of any such invention, development, patent or improvement, and shall at the same time, without the need for any request by any person or entity within the Company Group, assign all of the Executive's rights to such invention, development, patent and/or improvement to the Company Group. The Executive shall sign all instruments necessary for the filing and prosecution of any applications for, or extension or renewals of, letters patent of the United States or any foreign country that any entity in the Company Group desires to fie.

(b) All copyrightable work by the Executive during the Period of Employment that relates to the business of any entity in the Company Group is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Company Group. If the copyright to any such copyrightable work is not the property of the Company Group by operation of law, the Executive will, without further consideration, assign to the Company Group all right, title and interest in such copyrightable work and will assist the entities in the Company Group and their nominees in every way, at the Company Group's expense, to secure, maintain and defend for the Company Group's benefit copyrights and any extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and to remain the property of the Company Group whether copyrighted or not.

10. Anti-Solicitation. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner or participant in any business, influence or attempt to influence customers, vendors, suppliers, joint venturers, associates, consultants, agents, or partners of any entity within the Company Group, either directly or indirectly, to divert their business away from the Company Group, to any individual, partnership, firm, corporation or other entity then in competition with the business of any entity within the Company Group, and he will not otherwise materially interfere with any business relationship of any entity within the Company Group.

11. Soliciting Employees. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at any time within six (6) months prior thereto was, an employee of an entity within the Company Group, who earned annually $25,000 or more as an employee of such entity during the last six (6) months of his or her own employment to work for (as an employee, consultant or otherwise) any business, individual, partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Company Group.

12. Return of Property. The Executive agrees to truthfully and faithfully account for and deliver to the Corporation all property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates, which the Executive may receive from or on account of the Corporation, any other entity in the Company Group, or any of their respective affiliates, and upon the termination of the Period of Employment, or the Corporation's demand, the Executive shall immediately deliver to the Corporation all such property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates.

13. Withholding Taxes. Notwithstanding anything else herein to the contrary, the Corporation may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

14. Cooperation in Litigation. The Executive agrees that he will reasonably cooperate with the Corporation, subject to his reasonable personal and business schedules, in any litigation which arises out of events occurring prior to the termination of his employment, including but not limited to, serving as a witness or consultant and producing documents and information relevant to the case or helpful to the Corporation. The Corporation agrees to reimburse the

Executive for all reasonable costs and expenses he incurs in connection with his obligations under this Section 14 and, in addition, to reasonably compensate the Executive for time actually spent in connection therewith following the termination of his employment with the Corporation.

15. Assignment. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any -tights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Corporation with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Corporation hereunder.

16. Number and Gender. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

17. Section Headings. The section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purpose of convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation thereof:

18. Governing Law. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary

19. Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

20. Entire Agreement. This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior and contemporaneous agreements of the parties hereto that directly or indirectly bears upon the subject matter hereof. Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be deemed to have been merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

21. Modifications. This Agreement may not be mended, modified or changed (in whole or in part), except by a formal definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

22. Waiver. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any

right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

23. Resolution of Disputes.

(a) Any controversy arising out of or relating to the Executive's employment (whether or not before or after the expiration of the Period of Employment), any termination of the Executive's employment, this Agreement or the enforcement or interpretation of this Agreement, or because of an alleged breach, default, or misrepresentation in connection with any of the provisions of this Agreement, including (without limitation) any state or federal statutory claims, shall be submitted to arbitration in Santa Rosa, California, before a sole arbitrator (the "Arbitrator") selected from judicial arbitration mediation services ("JAMS"), or is JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association ("AAA"), and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive remedy of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the Arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deem just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the patties hereto and may be enforced by any court of competent jurisdiction.

(b) The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence of the first paragraph of this Section 23.

(c) The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non-prevailing party (other than forum costs associated with the arbitration which in any event shall be paid by the Corporation).

(d) Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 23, the Executive and the Corporation acknowledge that any breach of any of the covenants or provisions contained in Sections 5.6, and 7 through 12 could result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that in the event of such a breach or threat thereof, the non-breaching party shall be entitled to obtain a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Sections 5.6, and 7 through 12 or such other equitable relief as may be required to enforce specifically any of the covenants or provisions of Sections 5.6, and 7 through 12.

24. Notices.

(a) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made if (i) delivered by hand., (ii) otherwise delivered against receipt therefore, or (iii) sent by registered or certified mail, postage prepaid, return receipt requested. Any notice shall be duly addressed to the parties as follows:

(i) if to the Corporation:

Oculus Innovative Services, Inc.
1129 North McDowell Boulevard
Petaluma, California 94954
Attn: Jim Schutz
Fax: +1 (707) 782 0705

(ii) if to the Executive:

Jim Schutz
3521 Maplewood Lane
Sacramento, CA 95864
+1 (916) 337 8003

(b) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 24 for the giving of notice. Any communication shall be effective when delivered by hand, when otherwise delivered against receipt therefore, or five (5) business days after being mailed in accordance with the foregoing.

25. Legal Counsel: Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language.

26. Provisions that Survive Termination. The provisions of 5.3, 5.4, 5.5, 5.6, 5.7,7 through 25, 27, and this Section 26 shall survive any termination of the Period of Employment.

27. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the Effective Date.

CORPORATION

Oculus Innovative Services, Inc.,
a California corporation

By: /s/ Hoji Alimi
Hoji Alimi, CEO and President

Oculus Innovative Sciences, Inc.

By: /s/ Jim Schutz
Jim Schutz

EXHIBIT A — SECTION 1.3 DISCLOSURE SCHEDULE

EXHIBIT B — SECTION 5.7 EXCISE TAX GROSS-UP

B.1 Equalization Payment. If any payment, distribution, transfer, or benefit (including, without limitation, any amounts received or deemed received by the Executive within the meaning of any provision of the Internal Revenue Code of 1986, as amended (the "Code"), or by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Corporation's incentive plans) by the Corporation or a successor, or by a direct or indirect subsidiary or affiliate of the Corporation (or any successor or affiliate of any of them, and including any benefit plan of any of them), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the "Total Payments"), is or will be subject to the excise tax imposed under Section 4999 of the Code or any similar or successor tax (the "Excise Tax"), the Corporation shall pay in cash to Executive or for Executive's benefit as provided below an additional amount or amounts (the "Gross-Up Payment(s)") such that the net amount retained by the Executive after the deduction of any Excise Tax on such Total Payments and any Federal state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section B.l shall be equal to such Total Payments had they not been subject to the Excise Tax. Such Gross-Up Payment(s) shall be made by the Corporation to the Executive or to any applicable taxing authority on behalf of the Executive as soon as practicable following the receipt or deemed receipt of any such Total Payments by the Executive, and may be satisfied by the Corporation making a payment or payments on the Executive's account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Executive of any such Total Payment

B.2 Calculation of Gross-Up Payment. The determination of whether a Gross-Up Payment is required pursuant to this Exhibit B and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Corporation (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Corporation and the Executive. In the event of a termination of the Executive's employment which reasonably may require the payment of a Gross-Up Payment or in the event of a Change in Control, such documentation shall be provided no later than twenty (20) days following such event. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Corporation's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Code Section 280G(d)(1)); (ii) the present value of the Total Payments made to the Executive; (iii) the amount and present value of any "excess parachute payment;" and (iv) detailed supposing calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or requited by the Corporation, a firm of nationally-recognized executive compensation consultants. The Executive shall also have the right to obtain such an opinion of outside counsel in the event that the Corporation has not timely submitted the initial determination to the Accounting Firm as provided above (including, without limitation, in the event that the Corporation does not submit such a determination to the Accounting Firm

following an event in connection with which the Executive reasonably believes that he may be entitled to a Gross-Up Payment). The outside counsel's opinion shall be binding upon the Corporation and the Executive and shall constitute the "Determination" for purposes of this Exhibit B instead of the initial determination by the Accounting Firm. The Corporation shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section B.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Corporation must approve the Executive's selection, which approval shall not be unreasonably withheld.

B.3 **Computation Assumptions**. For purposes of determining whether any Total Payments will be subject to Excise Tax, and the amount of any such Excise Tax:

(a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon any change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, or with any Person whose actions result in such a change or any Person affiliated with the Corporation or such Persons) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax (for purposes of this Section B.3(a), "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof);

(b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;

(c) The compensation and benefits provided for in Section 5 of this Agreement, and any other compensation earned prior to the termination of the Executive's employment pursuant to the Corporation's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by a change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or a termination of the Executive's employment), shall for purposes of the calculation pursuant to this Section B.3 be deemed to be reasonable; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) hat (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (5)a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the date the Executive's employment terminates, and shall take into account the maximum reduction in federal income taxes that could be obtained from the deduction of such state and local taxes.

B.4 **Executive's Obligation to Notify Corporation**. Executive shall promptly notify the Corporation in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Corporation of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Corporation notifies the Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Corporation any information reasonably requested by the Corporation relating to such claim; (b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation that is reasonably acceptable to the Executive; (c) cooperate with the Corporation in good faith in order to effectively contest such claim; and (d) permit the Corporation to participate in any proceedings relating to such claim; provided that the Corporation shall beat and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section B.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Corporation shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Executive to pay such claim and sue for a refund, the Corporation shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred;

and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further that any settlement of any claim shall be reasonably acceptable to the Executive and the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

B.5 **Subsequent Recalculation**. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section B.1, the corporation shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section B.1, then the Executive shall promptly pay to the Corporation (without interest) the amount of such excess.

Exhibit 10.16

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Robert Miller (the "Executive"), and Oculus Innovative Sciences, Inc., a California corporation (the "Corporation"), as of June 1, 2004 (the "Effective Date").

THE PARTIES ENTER THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. The Corporation desires that the Executive be employed by the Corporation to carry out the duties and responsibilities described below, all on the terms and conditions hereinafter set forth.

B. The Executive is willing to accept such employment on such terms and conditions.

C. The Executive and the Company wish to terminate a certain Consulting Agreement date August 1, 2003, and enter into this Employment Agreement, on the terms and conditions set forth herein

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the parties, the parties hereto agree as follows:

1. **Retention and Duties.**

1.1 **Retention**. The Corporation does hereby hire, engage and employ the Executive for the Period of Employment (as defined in Section 2) on the terms and conditions expressly set forth in this Agreement. The Executive does hereby accept and agree to such hiring, engagement and employment, on the terms and conditions expressly set forth in this Agreement.

1.2 **Termination of Consulting Agreement**. Executive and the Company agree to terminate that certain Consulting Agreement dated August 1, 2003, effective June 1, 2004. As consideration for such termination, as of the date hereof, the Company will issue to the Executive Non-qualified Stock Options to purchase 378,531 shares of Common Stock of the Company, $0.75 par value, fully vested, exercisable for $0.75 per share, and expiring 10 years from the date of the option grant and issuance. Any and all tights or entitlements to securities, warrants, or options pursuant to said Consulting Agreement are hereby terminated.

1.3 **Duties**. During the Period of Employment, the Executive shall serve the Corporation as its Chief Financial Officer ("CFO"). The Executive shall, without limitation and without limiting the Executive's other duties to the Corporation, and without limiting the authority of the Corporation's Board of Directors (the "Board"), be responsible for the financial affairs of the Corporation and have such other duties and responsibilities as the Chief Executive Officer ("CEO") shall designate that are consistent with the Executive's position as CFO. The Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the Board and in accordance with the practices and policies of the Corporation as in effect from time to time throughout the Period of Employment (including, without limitation, the

Corporation's insider trading and ethics policies, as they may change from time to time). While employed as CFO, the Executive shall report exclusively to the CEO. Throughout the Period of Employment, the Executive shall not serve on the boards of directors or advisory boards of any other entity unless such service is expressly approved by the Board and/or CEO or listed on Exhibit A.

1.4 **No Other Employment; Minimum Time Commitment**. Throughout the Period of Employment, the Executive shall both (i) devote all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Corporation, and (ii) hold no other job except those listed in Exhibit A. The Executive agrees that any investment or direct involvement in, or any appointment to or continuing service on the board of directors or similar body of, any corporation or other entity must be first approved in writing by the Corporation. The foregoing provisions of this Section 1.4 shall not prevent the Executive from investing in non-competitive publicly-traded securities to the extent permitted by Section 7(b). The Executive agrees that, as of the Effective Date, Exhibit A to this Agreement sets forth a complete and accurate description of (i) any investment or direct involvement of the Executive in any other corporation or business that reasonably could be construed as falling outside of the scope of the foregoing permitted investments and involvement, and (b) any board of directors or similar body of any corporation or other entity on which the Executive is a member. The Corporation may require the Executive to resign from membership on any board or similar body of any entity, on which he may now or in the future serve, if the Corporation determines that the Executive's membership on such board or similar body interferes (interference shall include, without limitation, giving rise to conflicts or competitive activity) with the performance of the Executive's duties hereunder.

1.5 **No Breach of Contract**. The Executive hereby represents to the Corporation that: (i) the execution and delivery of this Agreement by the Executive and the Corporation and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound; (ii) that the Executive has no information (including, without limitation, confidential information and trade secrets) of any other person or entity which the Executive is not legally and contractually free to disclose to the Corporation; (iii) that the Executive is not bound by any confidentiality, trade secret or similar agreement (other than this Agreement) with any other person or entity.

1.6 **Location**. The Executive acknowledges that the Corporation's principal executive offices are currently located in Petaluma, California. The Executive's principal place of employment shall be the Corporation's principal executive offices, as they may be moved from time to time upon mutual agreement by the Executive and the Corporation. The Executive agrees that the Executive will be regularly present at the Corporation's principal executive offices and that the Executive may be required to travel from time to time in the course of performing the Executive's duties for the Corporation.

2. **Period of Employment**. The "Period of Employment" shall commence on June 1, 2004, and shall continue until the date of Executive's termination pursuant to Section 5.1

3. **Compensation**.

3.1 **Base Salary**. Effective June 1, 2004 and during the Period of Employment, the Corporation shall pay to the Executive a base salary at the rate of $165,000 per year ("Base Salary"). The Executive's Base Salary shall be paid in accordance with the Corporation's regular payroll practices in effect from time to time, but not less frequently than in monthly installments.

3.2 **Stock Awards**. Subject to the approval of the Board of Directors, the Corporation will immediately grant you incentive stock options to purchase an aggregate of 156,724 shares of common stock, at an exercise price of $0.75 per share, subject to vesting based on hours worked (45.04 stock options per hour), and expiring 10 years from the date of the option grant and issuance. In addition, the Corporation will grant you incentive stock options to purchase an additional 240,000 fully vested shares of common stock, upon the completion of an IPO, at an exercise price of $0.75 per share. The Corporation may, in its sole discretion, get additional stock options and/or make other stock-based awards to the Executive. Further information regarding this option grant will be provided to you under a separate document.

4. **Benefits**.

4.1 **Health and Welfare**. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available by the Corporation to the Corporation's senior-level employees generally, as such plans or programs may be in effect from time to time.

4.2 **Reimbursement of Business Expenses**. The Executive is authorized to incur reasonable expenses in carrying out the Executive's duties for the Corporation under this Agreement and entitled to reimbursement for all such expenses the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Corporation, subject to the Corporation's reasonable expense reimbursement policies in effect from time to time. The Corporation shall reimburse the Executive to the extent required by the preceding sentence.

4.3 **Vacation and Other Leave**. During the Period of Employment, the Executive shall accrue and be entitled to take paid vacation in accordance with the Corporation's standard vacation policies in effect from time to time, including the Corporation's policies regarding vacation accruals. The Executive shall also be entitled to all other holiday and leave pay generally available to other employees of the Corporation.

5. **Termination**.

5.1 **Termination by the Corporation**. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Corporation: (i) with Cause (as defined in Section 5.5), or (ii) without Cause, or (iii) in the event of the Executive's death, or (iv) in the event that the Board determines in good faith that the Executive has a Disability (as defined in Section 5.5).

5.2 **Termination by the Executive**. The Executive's employment by the Corporation, and the Period of Employment; may be terminated at any time by the Executive, on no less than thirty (30) days prior written notice to the Corporation.

5.3 **Benefits Upon Termination**. If the Executive's employment by the Corporation is terminated during the Period of Employment for any reason by the Corporation or by the Executive, or upon or following the expiration of the Period of Employment, the Corporation shall have no farther obligation to make or provide to the Executive, and the Executive shall have no further right to receive or obtain from the Corporation, any payments or benefits except:

(a) the Corporation shall pay the Executive (or, in the event of his death, the Executive's estate) any Accrued Obligations (as defined in Section 5.5); and

(b) if, during the Period of Employment (but not upon or following the expiration of the Period of Employment), the Executive's employment is terminated by the Corporation without Cause or by the Executive for Good Reason (as defined in Section 5.5) (and, in each case, other than due to either the Executive's death, or a good faith determination by the Board that the Executive has a Disability):

(i) the Corporation shall, subject to the conditions set forth in Section 5.3(c), also pay the Executive a lump sum severance benefit equal to nine (9) times the average monthly Base Salary paid to the Executive over the twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs (or, if the Period of Employment has not been in effect for twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs, the average monthly Base Salary for this purpose shall be determined based on the average monthly Base Salary paid to the Executive over the whole months in the Period of Employment occurring prior to the month in which the termination of the Executive's employment occurs). Upon the Executive's resignation from other CFO jobs listed in Exhibit A, Executive's lump sum severance benefit shall equal eighteen (18) times the average monthly Base Salary paid to the Executive over the twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs (or, if the Period of Employment has not been in effect for twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs, the average monthly Base Salary for this purpose shall be determined based on the average monthly Base Salary paid to the Executive over the whole months in the Period of Employment occurring prior to the month in which the termination of the Executive's employment occurs). Subject to the conditions set forth in Section 5.3(c), such lump sum amount shall be paid to the Executive (without interest) no later than seven (7) days following the date on which the Executive's employment by the Corporation terminates;

(ii) the Corporation shall, subject to the conditions set forth in Section 5.3(c), pay as a severance benefit one hundred percent (100%) of the Executive's premiums under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for the same or reasonably equivalent medical coverage as in effect

on the date the Executive's employment terminated for a period not to exceed the lesser of one year following the date of such termination or until the Executive becomes eligible for medical insurance coverage provided by another employer; and

(iii) as of the date the Executive's employment terminates, any and all stock options, stock appreciation rights, restricted stock awards, and similar equity and equity-based awards granted by the Corporation to the Executive outstanding immediately prior to such termination of employment shall thereupon be deemed fully vested and shall be exercisable for a period of no less than twelve (12) months thereafter or until the stated expiration date for such option or award at the end of its maximum term, whichever is earlier; provided, however, that this Section 5.3(b)(iii) shall not affect any right of the Corporation to terminate such option or award in connection with a change in control of the Corporation or similar event to the extent such right exists under the provisions of any agreement evidencing such option or award.

(c) Any obligation of the Corporation pursuant to Section 5.3(b) to pay a severance benefit in the circumstances described therein is further subject to the following two conditions precedent (i) such severance obligation shall be paid only if the Executive has remained in compliance with all of the provisions of Section 5.6 and Sections 7 through 12, and such obligation shall terminate immediately if the Executive is for any reason not in compliance with one or more of the provisions of Section 5.6, and Sections 7 through 12; and (ii) the Executive's satisfaction of the release obligations set forth in Section 5.4. For purposes of the preceding sentence, if the Executive is not in compliance with one or more provisions of Section 5.6, and Sections 7 though 12, and a cure is reasonably possible in the circumstances, the Executive will not be deemed to have breached such provision(s) unless the Executive is given notice and a reasonable opportunity (in no case shall more than a 10-day cure period be required) to cure such breach and such breach is not cured within such time period. The parties agree that a cure will not be reasonably possible in all circumstances including, without limitation, a material breach of confidentiality or similar occurrence.

(d) Except as expressly provided herein, the foregoing provisions of this Section 5.3 shall not affect: (i) the Executive's receipt of benefits otherwise due terminated employees under group insurance coverage consistent with the terms of the applicable Corporation welfare benefit plan; (ii) the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; (iii) the Executive's receipt of benefits otherwise due in accordance with the terms of the Corporation's 401(k) plan (if any); or (iv) any rights that the Executive may have under and with respect to a stock option, stock appreciation right; restricted stock award, or similar equity or equity-based award, to the extent that such award was granted before the date that the Executive's employment by the Corporation terminates and to the extent expressly provided in the written agreement evidencing such award.

5.4 **Release; Exclusive Remedy**.

(a) This Section 5.4 shall apply notwithstanding anything else contained in this Agreement to the contrary. As a condition precedent to any Corporation obligation to the Executive pursuant to Section 5.3(b), the Executive shall, upon or promptly following his last day of employment with the Corporation, provide the Corporation with a valid, executed, written Release (as defined in Section 5.5) (in a form provided by the Corporation) and such release shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Corporation shall have no obligation to make any payment to the Executive pursuant to Section 5.3(b) unless and until the Release contemplated by this Section 5.4 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(b) The Executive agrees that the payments contemplated by Section 5.3 shall constitute the exclusive and sole remedy for any termination of his employment and the Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment The Corporation and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.3 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

5.5 **Certain Defined Terms**.

(a) As used herein, "Accrued Obligations" means:

(i) any Base Salary that had accrued but bad not been paid (including accrued and unpaid vacation time) prior to the date of termination; and

(ii) any reimbursement due to the Executive pursuant to Section 4.2 for expenses incurred by the Executive prior to the date the Period of Employment terminates,

(b) As used herein, "Cause" shall mean the reasonable and good faith determination by a majority of the Board based on its reasonable belief at the time, that, during the Period of Employment, any of the following events or contingencies exists or has occurred.

(i) the Executive is convicted of, or has pled guilty to, a felony (under the laws of the United States or any state thereof); or

(ii) the Executive has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties hereunder, unless the Executive believed in good faith that such acts were in the interests of the Corporation; or

(iii) the Executive willfully and repeatedly fails to perform or uphold his duties under this Agreement; or

(iv) the Executive willfully fails to comply with reasonable directives of the CEO which are communicated to him in writing.

(c) As used herein, "Disability" shall mean a physical or mental impairment which substantially limits a major life activity of the Executive and which tenders the Executive unable to perform the essential functions of the Executive's position, even with reasonable accommodation which does not impose an undue hardship on the Corporation, for ninety (90) days in any consecutive twelve (12) month period. The Board reserves the right, in good faith, to make the determination of whether or not a Disability exists for purposes of this Agreement based upon information supplied by the Executive and/or his medical personnel, as well as information from medical personnel (or others) selected by the Corporation or its insurers.

(d) As used herein, "Good Reason" shall mean the occurrence of one or more of the following without the Executive's written consent:

(i) the assignment of the Executive to duties materially inconsistent with the Executive's authorities, duties, responsibilities and status (including titles and reporting requirements) as CFO of the Corporation, or a material reduction or alteration in the nature or status of the Executive's authorities, duties or responsibilities, other than an insubstantial and inadvertent act that is remedied by the Corporation promptly after receipt of notice thereof given by the Executive; or

(ii) a reduction by the Corporation in the Executive's Base Salary as in effect on the Effective Date or as the same shall be increased from time to time, or the Corporation otherwise fails to satisfy its compensation obligations to the Executive under this Agreement, after notice by the Executive and a reasonable opportunity to cure; or

(iii) only after the sale of the company, the Corporation's requiring Executive to be based at any office or location more than fifty (50) miles from the Corporation's headquarters in Petaluma, California; or

(iv) the failure of the Corporation to obtain a satisfactory agreement from any successor to the Corporation to assume and agree to perform this Agreement.

provided, however, that none of the events specified in clause (i), (ii), or (iii) above shall constitute Good Reason unless the Executive shall have notified the Corporation in writing describing the events which constitute Good Reason and the Corporation shall have failed to cure such event within a reasonable period, not to exceed ten (10) days, after the Corporation's actual receipt of such written notice.

(e) As used herein, "Release" shall mean a written release, discharge and covenant not to sue entered into by the Executive on behalf of himself, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, of and in favor of the Corporation, its patent (if any), the Corporation's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, shareholders, members, representatives, assigns, and successors, past and present, and each of them (the "releasees"), with respect to and from any and all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action,

obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which he may then own or hold or he at any time theretofore owned or held or may in the future hold as against any or all of said releasees, arising out of or in any way connected with the Executive's employment relationship with each and every member of the Company Group (as defined in Section 7) with which the Executive has had such a relationship, or the termination of his employment or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such release including, without limiting the generality of the foregoing, any claim under Section 1981 of the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act, any other claim under any other federal, state or local law or regulation, and any other claim for severance pay, bonus or incentive pay, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, medical expenses, or disability (except that such release shall not constitute a release of any Corporation obligation to the Executive that may be due to the Executive pursuant to Section 5.3(b) upon the Corporation's receipt of such release). The Release shall, also contain the Executive's warrant that he has not theretofore assigned or transferred to any person or entity, other than the Corporation, any released matter or any part or portion thereof and that he will defend, indemnify and hold harmless the Corporation and the aforementioned releasees from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) that is directly or indirectly based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

5.6 **Resignation From Boards**. Upon or promptly following any termination of Executive's employment with the Corporation, the Executive agrees to resign from (i) each and every board of directors (or similar body, as the case may be) of the Corporation and each of its affiliates on which the Executive may then serve (if any), and (ii) each and every office of the Corporation and each of its affiliates that the Executive may then hold, and all positions that he may have previously held with the Corporation and any of its affiliates.

5.7 **Excise Tax Gross-Up**. During and after the period of Executive's employment with the Corporation, Executive shall be entitled to the excise tax protections set forth in Exhibit B hereto. The preceding sentence takes precedence over any contrary provision (such as, without limitation, an excise tax cut-back provision) of any other applicable incentive plan or award agreement.

6. **Means .and Effect of Termination**. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provisions) of this Agreement relied upon in effecting the termination.

7. **Non-Competition**. The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Corporation, the amount of sensitive and confidential information

involved in the discharge of the Executive's position with the Corporation, and the harm to the Corporation that would result if such knowledge or expertise was disclosed or made available to a competitor. Based on that understanding, the Executive hereby expressly agrees as follows:

(a) As a result of the particular nature of the Executive's relationship with the Corporation, in the capacities identified earlier in this Agreement, for the Period of Employment the Executive hereby agrees that he will not, directly or indirectly, (i) engage in any business for the Executive's own account or otherwise derive any personal benefit from any business that competes with the business of the Corporation or any of its affiliates (the Corporation and its affiliates are referred to, collectively, as the "Company Group"), (ii) enter the employ of, or render any services to, any person engaged in any business that competes with the business of any entity within the Company Group, (iii) acquire a financial interest in any person engaged in any business that competes with the business of any entity within the Company Group, directly or indirectly, as an individual, partner, member, shareholder, officer, director, principal, agent, trustee or consultant, or (iv) interfere with business relationships (whether formed before or after the Effective Date) between the Corporation, any of its respective affiliates or subsidiaries, and any customers, suppliers, officers, employees, partners, members or investors of any entity within the Company Group. For purposes of this Agreement, businesses in competition with the Company Group shall include, without limitation, businesses which any entity within the Company Group may conduct operations, and any businesses which any entity within the Company Group has specific plans to conduct operations in the future and as to which the Executive is aware of such planning, whether or not such businesses have or have not as of that date commenced operations.

(b) Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of any person which are publicly traded on a national or regional stock exchange or on an over-the-counter market if the Executive (i) is not a controlling person of, or a member of a group which controls, such person, and (ii) does not, directly or indirectly, beneficially own one percent (1%) or more of any class of securities of such person.

8. **Confidentiality**. As a material part of the consideration for the Corporation's commitment to the terms of this Agreement, the Executive hereby agrees that the Executive will not at any time (whether during or after the Executive's employment with the Corporation), other in the course of the Executive's duties hereunder, or unless compelled by lawful process after written notice to the Corporation of such notice along with sufficient time for the Corporation to try and overturn such lawful process, disclose or use for the Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise, any trade secrets, or other confidential data or information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, financing methods, or plans of any entity within the Company Group; provided, however, that the foregoing shall not apply to information which is generally known to the industry or the public, other than as a result of the Executive's breach of this covenant. The Executive further agrees that the Executive will not retain or use for his account, at any time, any trade names, trademark or other proprietary business designation used or owned in connection with the business of any entity within the Company Group.

9. **Inventions and Developments**.

(a) All inventions, policies, systems, developments or improvements conceived, designed, implemented and/or made by the Executive, either alone or in conjunction with others, at any time or at any place during the Period of Employment, whether or not reduced to writing or practice during such Period of Employment, which directly or indirectly relate to the business of any entity within the Company Group, or which were developed or made in whole or in part using the facilities and/or capital of any entity within the Company Group, shall be the sole and exclusive property of the Company Group. The Executive shall promptly give notice to the Corporation of any such invention, development, patent or improvement, and shall at the same time, without the need for any request by any person or entity within the Company Group, assign all of the Executive's rights to such invention, development, patent and/or improvement to the Company Group. The Executive shall sign all instruments necessary for the filing and prosecution of any applications for, or extension or renewals of; letters patent of the United States or any foreign country that any entity in the Company Group desires to file.

(b) All copyrightable work by the Executive during the Period of Employment that relates to the business of any entity in the Company Group is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Company Group. If the copyright to any such copyrightable work is not the property of the Company Group by operation of law, the Executive will, without further consideration, assign to the Company Group all right, title and interest in such copyrightable work and will assist the entities in the Company Group and their nominees in every way, at the Company Group's expense, to secure, maintain and defend for the Company Group's benefit copyrights and any extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and to remain the property of the Company Group whether copyrighted or not.

10. **Anti-Solicitation**. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner or participant in any business, influence or attempt to influence customers, vendors, suppliers, joint venturers, associates, consultants, agents, or partners of any entity within the Company Group, either directly or indirectly, to divert their business away from the Company Group, to any individual, partnership, firm, corporation or other entity then in competition with the business of any entity within the Company Group, and he will not otherwise materially interfere with any business relationship of any entity within the Company Group.

11. **Soliciting Employees**. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the

Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at any time within six (6) months prior thereto was, an employee of an entity within the Company Group, who earned annually $25,000 or more as an employee of such entity during the last six (6) months of his or her own employment to work for (as an employee, consultant or otherwise) any business, individual, partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Company Group.

12. **Return of Property**. The Executive agrees to truthfully and faithfully account for and deliver to the Corporation all property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates, which the Executive may receive from or on account of the Corporation, any other entity in the Company Group, or any of their respective affiliates, and upon the termination of the Period of Employment, or the Corporation's demand, the Executive shall immediately deliver to the Corporation all such property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates.

13. **Withholding Taxes**. Notwithstanding anything else herein to the contrary, the Corporation may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

14. **Cooperation in Litigation**. The Executive agrees that he will reasonably cooperate with the Corporation, subject to his reasonable personal and business schedules, in any litigation which arises out of events occurring prior to the termination of his employment, including but not limited to, serving as a witness or consultant and producing documents and information relevant to the case or helpful to the Corporation. The Corporation agrees to reimburse the Executive for all reasonable costs and expenses he incurs in connection with his obligations under this Section 14 and, in addition, to reasonably compensate the Executive for time actually spent in connection therewith following the termination of his employment with the Corporation.

15. **Assignment**. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Corporation with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Corporation hereunder.

16. **Number and Gender**. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

17. **Section Headings**. The section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purpose of convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation thereof.

18. **Governing Law**. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary.

19. **Severability**. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

20. **Entire Agreement**. This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior and contemporaneous agreements of the parties hereto that directly or indirectly bears upon the subject matter hereof Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be deemed to have been merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

21. **Modifications**. This Agreement may not be amended, modified or changed (in whole or in part), except by a formal, definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

22. **Waiver**. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

23. **Resolution of Disputes**.

(a) Any controversy arising out of or relating to the Executive's employment (whether or not before or after the expiration of the Period of Employment), any termination of the Executive's employment, this Agreement or the enforcement or interpretation of this Agreement, or because of an alleged breach, default, or misrepresentation in connection with any of the provisions of this Agreement, including (without limitation) any state or federal statutory claims, shall be submitted to arbitration in Santa Rosa, California, before a sole arbitrator (the "Arbitrator") selected from judicial arbitration mediation services ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association ("AAA"), and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive remedy of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought in a court of law while arbitration proceedings ate pending, and any provisional injunctive relief granted by

such court shall remain effective until the matter is finally determined by the Arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction.

(b) The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence of the first paragraph of this Section 23.

(c) The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non-prevailing party (other than forum costs associated with the arbitration which in any event shall be paid by the Corporation).

(d) Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 23, the Executive and the Corporation acknowledge that any breach of any of the covenants or provisions contained in Sections 5.6, and 7 through 12 could result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that, in the event of such a breach or threat thereof, the non-breaching party shall be entitled to obtain a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Sections 5.6, and 7 through 12 or such other equitable relief as may be required to enforce specifically any of the covenants or provisions of Sections 5.6, and 7 through 12.

24. **Notices**.

(a) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made if (i) delivered by hand, (ii) otherwise delivered against receipt therefore, or (iii) sent by registered or certified mail, postage prepaid, return receipt requested. Any notice shall be duly addressed to the parties as follows:

(i) if to the Corporation:

Oculus Innovative Services, Inc.
1129 North McDowell Boulevard
Petaluma, California 94954
Attn: Jim Schutz
Fax: +1 (707) 782 0705

(ii) if to the Executive:

Robert Miller
2455 Royal Oaks Drive
Alamo, CA 94507
+1 925 838 2839

(b) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 24 for the giving of notice. Any communication shall be effective when delivered by hand, when otherwise delivered against receipt therefore, or five (5) business days after being mailed in accordance with the foregoing.

25. **Legal Counsel; Mutual Drafting**. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language.

26. **Provisions that Survive Termination**. The provisions of 5.3, 5.4, 5.5, 5.6, 5.7, 7 through 25, 27, and this Section 26 shall survive any termination of the Period of Employment.

27. **Counterparts**. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the patties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

[Signature Page Follows]

IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the Effective Date.

CORPORATION

Oculus Innovative Sciences, Inc.,
a California corporation

By /s/ Hoji Alimi

Hoji Alimi, CEO and President
Oculus Innovative Sciences, Inc.

EXECUTIVE

/s/ Robert Miller

Robert Miller

EXHIBIT A — SECTION 1.4 DISCLOSURE SCHEDULE

1. Board member and CFO of Scanis Inc.; CFO activities for Scanis shall terminate the earlier of (1) December 31, 2004 or (2) upon an initial public offering of the securities of the Corporation;

2. CFO of Wildlife International; CFO activities for Wildlife shall terminate the earlier of: (1) December 31 2004 or (2) upon an initial public offering of the securities of the Corporation;

3. CFO of Evit Labs Inc.; CFO activities for Evit shall terminate the earlier of (1) December 31, 2004 or (2) upon an initial public offering of the securities of the Corporation.

EXHIBIT B — SECTION 5.7 EXCISE TAX GROSS-UP

B.1 Equalization Payment. If any payment, distribution, transfer, or benefit (including, without limitation, any amounts received or deemed received by the Executive within the meaning of any provision of the Internal Revenue Code of 1986, as amended (the "Code"), or by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Corporation's incentive plans) by the Corporation or a successor, or by a direct or indirect subsidiary or affiliate of the Corporation (or any successor or affiliate of any of them, and including any benefit plan of any of them), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the "Total Payments"), is or will be subject to the excise tax imposed under Section 4999 of the Code or any similar or successor tax (the "Excise Tax"), the Corporation shall pay in cash to Executive or for Executive's benefit as provided below an additional amount or amounts (the "Gross-Up Payment(s)") such that the net amount retained by the Executive after the deduction of any Excise Tax on such Total Payments and any Federal, state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section B.1 shall be equal to such Total Payments had they not been subject to the Excise Tax. Such Gross-Up Payment(s) shall be made by the Corporation to the Executive or to any applicable taxing authority on behalf of the Executive as soon as practicable following the receipt or deemed receipt of any such Total Payments by the Executive, and may be satisfied by the Corporation making a payment or payments on the Executive's account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Executive of any such Total Payment

B.2 Calculation of Gross-Up Payment. The determination of whether a Gross-Up Payment is required pursuant to this Exhibit B and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Corporation (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Corporation and the Executive. In the event of a termination of the Executive's employment which reasonably may require the payment of a Gross-Up Payment or in the event of a Change in Control, such documentation shall be provided no later than twenty (20) days following such event. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Corporation's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Code Section 280G(d)(1)); (ii) the present value of the Total Payments made to the Executive; (iii) the amount and present value of any "excess parachute payment;" and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Corporation, a firm of nationally-recognized executive compensation consultants. The Executive shall also have the right to obtain such an opinion of outside counsel in the event that the Corporation has not timely submitted the initial determination to the Accounting Firm as provided above (including, without limitation, in the event that the Corporation does not submit such a determination to the Accounting Firm

following an event in connection with which the Executive reasonably believes that he may be entitled to a Gross-Up Payment). The outside counsel's opinion shall be binding upon the Corporation and the Executive and shall constitute the "Determination" for purposes of this Exhibit B instead of the initial determination by the Accounting Firm. The Corporation shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section B.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Corporation must approve the Executive's selection, which approval shall not be unreasonably withheld

B.3 Computation Assumptions. For purposes of determining whether any Total Payments will be subject to Excise Tax, and the amount of any such Excise Tax.

(a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon any change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, or with any Person whose actions result in such a change or any Person affiliated with the Corporation or such Persons) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b) (4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax (for purposes of this Section B.3(a), "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof);

(b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;

(c) The compensation and benefits provided for in Section 5 of this Agreement, and any other compensation earned prior to the termination of the Executive's employment pursuant to the Corporation's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by a change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or a termination of the Executive's employment), shall

for purposes of the calculation pursuant to this Section B.3 be deemed to be reasonable; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the date the Executive's employment terminates, and Shall take into account the maximum reduction in federal income taxes that could be obtained from the deduction of such state and local taxes.

B.4 Executive's Obligation to Notify Corporation. The Executive shall promptly notify the Corporation in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Corporation of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Corporation notifies the Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Corporation any information reasonably requested by the Corporation relating to such claim, (b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation that is reasonably acceptable to the Executive; (c) cooperate with the Corporation in good faith in order to effectively contest such claim; and (d) permit the Corporation to participate in any proceedings relating to such claim; provided that the Corporation shall bear and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an-after tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section B.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Corporation shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Executive

to pay such claim and sue for a refund, the Corporation Shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

B.5 Subsequent Recalculation. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit requited pursuant to Section B.1, the Corporation shall reimburse the Executive as provided herein for thee full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section B.1, then the Executive shall promptly pay to the Corporation (without interest) the amount of such excess.

Exhibit 10.17

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Bruce Thornton (the "Executive"), and Oculus Innovative Sciences, Inc., a California corporation (the "Corporation"), as of June 1, 2005 (the "Effective Date").

THE PARTIES ENTER THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. The Corporation desires that the Executive be employed by the Corporation to carryout the duties and responsibilities described below, all on the terms and conditions hereinafter set forth.

B. The Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the parties, the parties hereto agree as follows:

1. Retention and Duties.

1.1 Retention. The Corporation does hereby hire, engage and employ the Executive for the Period of Employment (as defined in Section 2) on the terms and conditions expressly set forth in this Agreement. The Executive does hereby accept and agree to such hiring, engagement and employment, on the terms and conditions expressly set forth in this Agreement.

1.2 Duties. During the Period of Employment, the Executive shall serve the Corporation as its ___. The Executive shall, without limitation and without limiting the Executive's other duties to the Corporation, and without limiting the authority of the Corporation's Board of Directors (the "Board"), be responsible for the general supervision, direction and control of the operations of the business and affairs of the Corporation and have such other duties and responsibilities as the Chief Executive Officer ("CEO") shall designate that are consistent with the Executive's position. The Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the CEO and in accordance with the practices and policies of the Corporation as in effect from time to time throughout the Period of Employment (including, without limitation, the Corporation's insider trading and ethics policies, as they may change from time to time). While employed as Director of International Operations, the Executive shall report exclusively to the CEO. Throughout the Period of Employment, the Executive shall not serve on the boards of directors or advisory boards of any other entity unless such service is expressly approved by the Board and/or CEO. Executive acknowledges and agrees that he owes a fiduciary duty of loyalty and to act at all times in the best interest of the Corporation and to do no act which would injure the business, interests, or reputation of the Corporation of any of its affiliated companies.

1.3 No Other Employment; Minimum Time Commitment. Throughout the Period of Employment, the Executive shall both (i) devote substantially all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Corporation, and (ii) hold no other job. The Executive agrees that any investment or direct involvement in, or any appointment to or continuing service on the board of directors or similar body of, any

corporation or other entity must be first approved in writing by the Corporation. The foregoing provisions of this Section 1.3 shall not prevent the Executive from investing in non-competitive publicly-traded securities to the extent permitted by Section 7. The Executive agrees that, as of the Effective Date, Exhibit A to this agreement sets forth a complete and accurate description of (i) any investment or direct involvement of the Executive in any other corporation or business that reasonably could be construed as falling outside of the scope of the foregoing permitted investments and involvement, and (b) any board of directors or similar body of any corporation or other entity on which the Executive is a member. The Corporation may require the Executive to resign from membership on any board or similar body of any entity, on which he may now or in the future serve, if the Corporation determines that the Executive's membership on such board or similar body interferes (interference shall include, without limitation, giving rise to conflicts or competitive activity with the performance of the Executive's duties hereunder.

1.4 No Breach of Contract. The Executive hereby represents to the Corporation that: (i) the execution and delivery of this Agreement by the Executive and the Corporation and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound, and (ii) in the event Executive is bound by any confidentiality, trade secret or similar agreement (other than this Agreement) with any other person or entity, Executive will comply with such agreement and not disclose any confidential information or trade secret of any other party to Corporation.

1.5 Location. The Executive acknowledges that the Corporation's principal executive offices are currently located in Petaluma, California. The Executive's principal place of employment shall be the Corporation's principal executive offices, as they may be moved from time to time upon mutual agreement by the Executive and the Corporation. The Executive agrees that the Executive will be regularly present at the Corporation's principal executive offices and that the Executive will be required to travel from time to time in the course of performing the Executive's duties for the Corporation.

2. Period of Employment. The "Period of Employment" shall commence on June 1, 2005, and shall continue until the date of Executive's termination pursuant to Section 5.

3. Compensation.

3.1 Base Salary. Effective June 1, 2005 and during the Period of Employment, the Corporation shall pay to the Executive a base salary at the rate of $160,000 per year, subject to increase (but not decrease) by the CEO (the "Base Salary"). The Executive's Base Salary shall be paid in accordance with the Corporation's regular payroll practices in effect from time to time, but not less frequently than in monthly installments.

3.2 Options to Purchase Company Stock. Upon approval of the Board of Directors, the Company will immediately grant you options to purchase an additional eighty thousand (80,000) shares of common stock, at an exercise price to be determined by the board of Directors, subject to official approval by the Board of Directors and a five (5) year vesting schedule, and expiring ten (10) years from the date of the option grant and issuance. Further information regarding this option grant will be provided to you under a separate document. Additional option

grants may be approved at the discretion of the Company. Please, note that the Company is a privately held California "C" corporation and its shares are not publicly traded on any exchange.

4. Benefits.

4.1 Health and Welfare. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available by the corporation to the Corporation's senior-level employees generally, as such plans or programs maybe in effect from time to time.

4.2 Reimbursement of Business Expenses. The Executive is authorized to incur reasonable expenses in carrying out the Executive's duties for the Corporation under this Agreement and entitled to reimbursement for all such expenses the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Corporation, subject to the Corporation's reasonable expense reimbursement policies in effect from time to time. The Corporation shall reimburse the Executive to the extent required by the preceding sentence.

4.3 Vacation and Other Leave. During the Period of Employment, the Executive shall accrue and be entitled to take 15 days of paid vacation per year, in accordance with the Corporation's standard vacation policies in effect from time to time, including the Corporation's policies regarding vacation accruals. The Executive shall also be entitled to all other holiday and leave pay generally available to other employees of the Corporation and/or required bylaw.

5. Termination.

5.1 Termination by the Executive. The Executive may terminate his employment at any time during the course of this Agreement by giving no less than thirty (30) days prior written notice ("Notice Period") to the President of the Corporation and pursuant to Section 25 herein. During the Notice Period, Executive will fulfill any of his duties and responsibilities set forth herein and use his best efforts to train and support his replacement, if any. Failure to comply with this requirement may result in Termination for Cause described below, but otherwise Executive's salary and benefits will remain unchanged during the Notice Period.

5.2 Termination by the Corporation Without Cause. The Corporation may terminate Executive's employment at anytime for any reason ("Termination Without Cause") during the course of this Agreement by giving no less than six (6) months prior written notice ("Notice Period") to the Executive. During the Notice Period, Executive must fulfill any of Executive's duties and responsibilities set forth herein and use Executive's best efforts to train and support Executive's replacement, if any. Failure of Executive to comply with this requirement may result in Termination for Cause described below, but otherwise Executive's salary and benefits will remain unchanged during the Notice Period. Corporation may, in its sole discretion, give Executive severance pay in the amount of Executive's monthly Salary associated with the remaining months in the Notice Period in lieu of actual employment, and nothing herein shall require Corporation to maintain Executive in active employment for the duration of the Notice Period.

5.3 Termination by the Corporation For Cause. The Corporation may at anytime without prior written notice, terminate the Executive's employment for "Cause." For purposes of this Agreement, "Cause" shall include but will not be limited to termination based on any of the following grounds:

(i) Executive's failure to perform the duties of his position in a satisfactory manner;

(ii) Executive is or was in engaged in any act of fraud, misappropriation, embezzlement or acts of similar dishonesty;

(iii) Executive being charged or convicted of a felony or entry of a guilty plea or a plea of *nolo contendere* under the laws of the United States or any other country;

(iv) Executive's inability to perform duties hereunder due to the appearance or actual use of alcohol or illegal drugs;

(v) Executive's intentional and willful misconduct that may subject the Corporation to criminal or civil liability;

(vi) Executive's breach of the Executive's duty of loyalty, including the diversion or usurpation of corporate opportunities properly belonging to the Corporation;

(vii) Executive's breach of this Agreement or any Corporation policy that remains uncured for a ten-day period commencing upon Corporation providing notice of such breach to Executive; or

(viii) Executive's insubordination or deliberate refusal to follow the instructions of Executive's direct supervisor or the President of the Corporation.

5.4 Termination By Death or Disability. The Executive's employment and rights to compensation under this Employment Agreement shall terminate if the Executive is unable to perform the duties of his position due to death or disability lasting more than ninety (90) days, and the Executive's heirs, beneficiaries, successors, or assigns shall not be entitled to any of the compensation or benefits to which Executive is entitled under this Agreement, except: (i) to the extent specifically provided in this Employment Agreement (ii) to the extent required by law, or (iii) to the extent that such benefit plans or policies under which Executive is covered provide a benefit to the Executive's heirs, beneficiaries, successors, or assigns.

5.5 Termination Upon Change of Control. (i) Upon a Termination Upon Change of Control, (a) Executive shall receive a lump sum payment in an amount equal to twelve (12) months of Executive's base salary (less applicable withholding), paid within thirty (30) business days; and (b) any and all stock options, stock appreciation rights, restricted stock awards, and similar equity and equity-based awards granted by the Corporation to the Executive outstanding immediately prior to such termination of employment shall thereupon be deemed fully vested and shall be exercisable for a period of no less than twelve (12) months thereafter or until the stated expiration date for such option or award at the end of its maximum term, whichever is earlier.

(ii) For purposes of this Agreement "Termination Upon Change of Control" means any termination of the employment of Executive by the Corporation without Cause during the period commencing on or after the date that the Corporation first publicly announces that it has Executive's failure to perform the duties of his position in a satisfactory signed a definitive agreement or that the Corporation's Board of Directors has endorsed an offer for the Corporation's stock which in either case when consummated would result in a Change of Control.

(iii) For purposes of this Agreement, "Change of Control" shall mean:

(a) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of the Corporation under an employee benefit plan of the Corporation, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Corporation representing sixty six percent (66%) or more of (A) the outstanding shares of common stock of the Corporation or (B) the combined voting power of the Corporation's then-outstanding securities;

(b) the Corporation is party to a merger or consolidation, or series of related transactions, which results in the voting securities of the Corporation outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving or another entity) at least sixty-six percent (66%) of the combined voting power of the voting securities of the Corporation or such surviving or other entity outstanding immediately after such merger or consolidation; or

(c) the sale or disposition of all or substantially all of the Corporation's assets (or consummation of any transaction, or series of related transactions, having similar effect), unless at least thirty-three percent (33%) of the combined voting power of the voting securities of the entity acquiring those assets is held by persons who held the voting securities of the Corporation immediate prior to such transaction or series of transactions.

(iv) Any obligation of the Corporation pursuant to Section 5.5(i), to pay a severance benefit in the circumstances described therein is further subject to the following two conditions precedent: (a) such severance obligation shall be paid only if the Executive has remained in compliance with all of the provisions of Section 5.7 and Sections 7 through 12, and such obligation shall terminate immediately if the Executive is for any reason not in compliance with one or more of those provisions; and (b) the Executive's satisfaction of the release obligations set forth in Section 5.6. For purposes of the preceding sentence, if the Executive is not in compliance with one or more provisions of Section 5.7, and Sections 7 though 12, and a cure is reasonably possible in the circumstances, the Executive will not be deemed to have breached such provision(s) unless the Executive is given notice and a reasonable opportunity (in no case shall more than a 10-day cure period be required) to cure such breach and such breach is not cured within such time period. The parties agree that a cure will not be reasonably possible in all circumstances including, without limitation, a material breach of confidentiality or similar occurrence.

(v) Except as expressly provided herein, the foregoing provisions of this Section 5.5 shall not affect: (a) the Executive's receipt of benefits otherwise due terminated employees under group insurance coverage consistent with the terms of the applicable Corporation welfare benefit plan; (b) the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; (c) the Executive's receipt of benefits otherwise due in accordance with the terms of the Corporation's 401(k) plan (if any); or (d) any rights that the Executive may have under and with respect to a stock option, stock appreciation right, restricted stock award, or similar equity or equity, based award, to the extent that such award was granted before the date that the Executive's employment by the Corporation terminates and to the extent expressly provided in the written agreement evidencing such award.

5.6 Release; Exclusive Remedy.

(i) This Section 5.6 shall apply notwithstanding anything else contained in this Agreement to the contrary. As a condition precedent to any Corporation obligation to the Executive pursuant to Sections 5.2 or 5.5, the Executive shall, upon or promptly following his last day of employment with the Corporation, provide the Corporation with a valid, executed, written Release (as defined in Section 5.6(iii) (in a form provided by the Corporation) and such release shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Corporation shall have no obligation to make any payment to the Executive pursuant to Sections 5.2 or 5.5 unless and until the Release contemplated by this Section 5.6 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(ii) The Executive agrees that the payments contemplated by Sections 5.2 or 5.5 shall constitute the exclusive and sole remedy for any termination of his employment and the Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment. The Corporation and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.2 or 5.5 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

(iii) As used herein, "Release" shall mean a written release, discharge and covenant not to sue entered into by the Executive on behalf of himself, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, of and in favor of the Corporation, its parent (if any), the Corporation's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, shareholders, members, representatives, assigns, and successors, past and present, and each of them (the "releasees"), with respect to and from any and all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which he may then own or hold or he at anytime theretofore owned or held or may in the future hold as against any or all of said releasees, arising out of or in anyway connected with the Executive's employment relationship with each and every member of the Corporation Group (as defined in Section 7) with which the

Executive has had such a relationship, or the termination of his employment or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such release including, without limiting the generality of the foregoing, any claim under Section 1981 of the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act, any other claim under any other federal, state or local law or regulation, and any other claim for severance pay, bonus or incentive pay, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, medical expenses, or disability (except that such release shall not constitute a release of any Corporation obligation to the Executive that may be due to the Executive pursuant to Sections 5.2 or 5.5 upon the Corporation's receipt of such release). The Release shall also contain the Executive's warrant that he has not theretofore assigned or transferred to any person or entity, other than the Corporation, any released matter or any part or portion thereof and that he will defend, indemnify and hold harmless the Corporation and the aforementioned releasees from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) that is directly or indirectly based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

5.7 Resignation From Boards. Upon or promptly following any termination of Executive's employment with the Corporation, the Executive will resign from (i) each and every board of directors (or similar body, as the case maybe) of the Corporation and each of its affiliates on which the Executive may then serve (if any), and (ii) each and every office of the Corporation and each of its affiliates that the Executive may then hold, and all positions that he may have previously held with the Corporation and any of its affiliates.

5.8 Excise Tax Gross-Up. During and after the period of Executive's employment with the Corporation, Executive shall be entitled to the excise tax protections set forth in Exhibit B hereto. The preceding sentence takes precedence over any contrary provision (such as, without limitation, an excise tax cut-back provision) of any other applicable incentive plan or award agreement.

6. Means and Effect of Termination. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination.

7. Non-Competition. The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Corporation Group. Executive agrees that his position with Corporation places him in a position of confidence and trust with clients and employees of Corporation and that harm to the Corporation would result if any Corporation Group confidential information, trade secrets, knowledge (including but not limited to any customer account information) or expertise was disclosed or in anyway made available to a competitor. As part of the consideration for the compensation benefits to be paid to Executive hereunder and to protect confidential information, trade secrets, knowledge or expertise of the Corporation Group

disclosed to Executive during the Employment Period, and as additional incentive for the Corporation to enter in to this Agreement, Executive and Corporation hereby expressly agrees as follows:

(i) As a result of the particular nature of the Executive's relationship with the Corporation, in the capacities identified earlier in this Agreement, for the Period of Employment the Executive hereby agrees that he will not, directly or indirectly, (a) engage in any business for the Executive's own account or otherwise derive any personal benefit from any business that competes with the business of the Corporation or any of its affiliates (the Corporation and its affiliates are referred to, collectively, as the "Corporation Group"), (b) enter the employ of, or render any services to, any person engaged in any business that competes with the business of any entity within the Corporation Group, (c) acquire a financial interest in any person engaged in any business that competes with the business of any entity within the Corporation Group, directly or indirectly, as an individual, partner, member, shareholder, officer, director, principal, agent, trustee or consultant, or (d) interfere with business relationships (whether formed before or after the Effective Date) between the Corporation, any of its respective affiliates or subsidiaries, and any customers, suppliers, officers, employees, partners, members or investors of any entity within the Corporation Group. For purposes of this Agreement, businesses in competition with the Corporation Group shall include, without limitation, businesses which any entity within the Corporation Group may conduct operations, and any businesses which any entity within the Corporation Group has specific plans to conduct operations in the future and as to which the Executive is aware of such planning, whether or not such businesses have or have not as of that date commenced operations:

(ii) Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of any person which are publicly traded on a national or regional stock exchange or on an over-the-counter market if the Executive (a) is not a controlling person of, or a member of a group which controls, such person, and (b) does not, directly or indirectly, beneficially own one percent (1%) or more of any class of securities of such person.

(iii) The restrictions set forth above shall apply regardless of whether the termination of Executive's employment occurred with or without Cause or Upon a Termination of Change of Control.

8. Confidentiality.

8.1 Confidential Information. As a material part of the consideration for the Corporation's commitment to the terms of this Agreement, the Executive hereby agrees that the Executive will not at anytime (whether during or after the Executive's employment with the Corporation), other in the course of the Executive's duties hereunder, or unless compelled by lawful process after written notice to the Corporation of such notice along with sufficient time for the Corporation to try and overturn such lawful process, disclose or use for the, Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise, any trade secrets, or other confidential data or information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data,

financing methods, or plans of any entity within the Corporation Group; provided, however, that the foregoing shall not apply to information which is generally known to the industry or the public, other than as a result of the Executive's breach of this covenant. The Executive further agrees that the Executive will not retain or use for his account, at anytime, any trade names, trademark or other proprietary business designation used or owned in connection with the business of any entity within the Corporation Group.

8.2 Third Party Information. Executive recognizes that the Corporation has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Corporation's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Executive will hold all such confidential or proprietary information and to use it only for certain limited purposes. Executive will hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use in except as necessary in carrying out my work for the Corporation consistent with the Corporation's agreement with such third party.

9. Inventions and Developments.

9.1 Assignment of Inventions. (i) All inventions, policies, systems, developments or improvements conceived, designed, implemented and/or made by the Executive, either alone or in conjunction with others, at anytime or at any place during the Period of Employment, whether or not reduced to writing or practice during such Period of Employment, which directly or indirectly relate to the business of any entity within the Corporation Group, or which were developed or made in whole or in part using the facilities and/or capital of any entity within the Corporation Group, shall be the sole and exclusive property of the Corporation Group. The Executive shall promptly give notice to the Corporation of any such invention, development, patent or improvement, and shall at the same time, without the need for any request by any person or entity within the Corporation Group, assign all of the Executive's rights to such invention, development, patent and/or improvement to the Corporation Group. The Executive shall sign all instruments necessary for the filing and prosecution of any applications for, or extension or renewals of, letters patent of the United States or any foreign country that any entity in the Corporation Group desires to file.

(ii) All copyrightable work by the Executive during the Period of Employment that relates to the business of any entity in the Corporation Group is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Corporation Group. Executive will promptly make full written disclosure to the Corporation, will hold in trust for the sole right and benefit of the Corporation, and hereby assign to the Corporation, or its designee, all his right, title and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, which Executive may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the Period of Employment (collectively referred to as "Inventions"), except as provided in Section 9(f) below.

If the copyright to any such copyrightable work is not the property of the Corporation Group by operation of law, the Executive will, without further consideration, assign to the

Corporation Group all right, title and interest in such copyrightable work and will assist the entities in the Corporation Group and their nominees in every way, at the Corporation Group's expense, to secure, maintain and defend for the Corporation Group's benefit copyrights and any extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and to remain the property of the Corporation Group whether copyrighted or not.

9.2 Inventions Retained and Licensed. Attached hereto, as Exhibit C, is a list describing all inventions, original works of authorship, developments, improvements and trade secrets which were made by the Executive prior to my employment with the Corporation (collectively referred to as "Prior Inventions"), which belong to me, which relate to the Corporation's proposed business, products or research and development, and which are not assigned to the Corporation hereunder; or, if no such list is attached, Executive represents that there are no such Prior Inventions. If during the Period of Employment, Executive incorporates a product or process a Prior Invention owned by Executive or in which Executive has an interest, Executive hereby grants the Corporation a nonexclusive, royalty-free, irrevocable, perpetual worldwide license to make, have made, modify use and sell such Prior Invention as part of or in connection with such product or process.

9.3 Inventions Assigned to the United States . Executive will assign to the United States government any of its right, title and interest in and to any and all Inventions whenever such full title is required to be in the United States by a contract between the Corporation and the United States or any of its agencies.

9.4 Maintenance of Records. Executive will keep and maintain adequate and current written records of all Inventions made by his (solely or jointly with others) during the term of the Period of Employment. The records will be in the form of notes, sketches, drawings, and any other format that maybe specified by the Corporation. The records will be available to and remain the sole property of the Corporation at all times.

9.5 Exception to Assignments. Executive and Corporation understand that the, provisions of the Agreement requiring assignment of Inventions to the Corporation do not apply to any invention which qualifies under any provision of the laws of the state in which Executive is employed which do not require assignment. Specifically, the provisions of the Agreement requiring assignment of Invention of the Corporation do not apply to any invention which qualifies under California Labor Code 2870, which Section is reproduced in full in the attached Written Notification to Executive. Executive will advise the Corporation promptly in writing of any inventions that he believes meets the criteria of the laws of the state in which Executive is employed which to not require assignment and are not otherwise disclosed on Exhibit A.

10. Anti-Solicitation. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help, protect the confidentiality of such information, the Executive promises and. agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner or participant in any business, influence or attempt

to influence customers, vendors, suppliers, joint venturers, associates, consultants, agents, or partners of any entity within the Corporation Group, either directly or indirectly, to divert their business away from the Corporation Group, to any individual, partnership, firm, corporation or other entity then in competition with the business of any entity within the Corporation Group, and he will not otherwise materially interfere with any business relationship of any entity within the Corporation Group.

11. Soliciting Employees. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at anytime within six (6) months prior thereto was, an employee of an entity within the Corporation Group, who earned annually $25,000 or more as an employee of such entity during the last six (6) months of his or his own employment to work for (as an employee, consultant or otherwise) any business, individual, partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Corporation Group.

12. Return of Property. The Executive will truthfully and faithfully account for and deliver to the Corporation all property belonging to the Corporation, any other entity in the Corporation Group, or any of their respective affiliates, which the Executive may receive from or on account of the Corporation, any other entity in the Corporation Group, or any of their respective affiliates, and upon the termination of the Period of Employment, or the Corporation's demand, the Executive shall immediately deliver to the Corporation all such property belonging to the Corporation, any other entity in the Corporation Group, or any of their respective affiliates.

13. Conflict of Interest Guidelines. Executive will diligently adhere to the Conflict of Interest Guidelines attached hereto as Exhibit E.

14. Compliance with Foreign Corrupt Practices Act. With respect to employment with the Corporation, Executive will abide by all applicable laws, rules, regulations, ordinances and court or administrative orders and processes including, without limitations, Title 15 United States Code Section 78(dd-2) (the Foreign Corrupt Practices Act). Executive will notify the Corporation in writing of any payment or gifts made to or any plan, intention or promise to make payment or gifts to any foreign governmental authority or agent thereof.

15. Withholding Taxes. Notwithstanding anything else herein to the contrary, the Corporation may withhold (or cause there to be withheld, as the case maybe) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as maybe required to be withheld pursuant to any applicable law or regulation.

16. Cooperation in Litigation. The Executive agrees that he will reasonably cooperate with the-Corporation, subject to his reasonable personal and business schedules, in-any litigation

which arises out of events occurring prior to the termination of his employment, including but not limited to, serving as a witness or consultant and producing documents and information relevant to the case or helpful to the Corporation. The Corporation agrees to reimburse the Executive for all reasonable costs and expenses he incurs in connection with his obligations under this Section 14 and, in addition, to reasonably compensate the Executive for time actually spent in connection therewith following the termination of his employment with the Corporation.

17. Assignment. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Corporation with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Corporation hereunder.

18. Number and Gender. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

19. Section Headings. The Section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purpose of convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation thereof.

20. Governing Law. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary.

21. Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

22. Entire Agreement. This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior and contemporaneous agreements of the parties hereto that directly or indirectly bears upon the subject matter hereof. Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be deemed to have been merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

23. Modifications. This Agreement may not be amended, modified or changed (in whole or in part), except by a formal, definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

24. Waiver. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

25. Resolution of Disputes.

25.1 Arbitration. Employee agrees that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from Employee's employment with the Company or the termination of Employee's employment with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "Rules") and pursuant to California law. Corporation agrees to arbitrate any dispute that the Company may have with Employee.

Disputes that the parties agree to arbitrate, and thereby, waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. By agreeing to have these claims resolved through binding arbitrate, neither Employee nor the Comp any waive any rights that maybe available pursuant to federal or state law.

Any disputes shall be submitted to arbitration in Santa Rosa, California, before a sole arbitrator (the "Arbitrator"), selected from judicial arbitration mediation services ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association ("AAA"), and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive remedy of such dispute. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction.

25.2 Waiver of Jury Trial. The parties acknowledge and, agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in anyway connected with any of the matters referenced in the first sentence of the first paragraph of this Section 24.

25.3 Fees. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's Fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non prevailing party (other than forum costs, associated with the arbitration which in any event shall be paid by the Corporation).

25.4 Injunctive Relief. Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 23, the Executive and the Corporation acknowledge that any breach of any of the covenants or provisions contained in Sections 5.6, and 7 through 12 could result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that, in the event of such a breach or threat thereof, the non-breaching party shall be entitled to obtain a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Sections 5.6, and 7 through 12 or such other equitable relief as may be required to enforce specifically any of the covenants or provisions of Sections 5.6, and 7 through 12.

26. Notices. (i) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made if (a) delivered by hand, (b) otherwise delivered against receipt therefore, or (iii) sent by registered or certified nail, postage prepaid, return receipt requested. Any notice shall be duly addressed to the parties as follows:

(c) if to the Corporation:

Oculus Innovative Services, Inc.
1129 North McDowell Boulevard
Petaluma, California 94954
Attn. Jim Schutz
Fax: +1(707) 782 0705

(d) if to the Executive:

Bruce Thornton
7058 Barranca Drive
El Dorado Hills, CA 95762
+1 (916) 616 0119

(ii) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 24 for the giving of notice. Any communication shall be effective when delivered by hand, when otherwise delivered against receipt therefore, or five (5) business days after being mailed in accordance with the foregoing.

27. Legal Counsel; Mutual Drafting. Each party recognizes that this is a legally binding. contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of

this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language.

28. Provisions that Survive Termination. The provisions of this Agreement that are intended to survive shall survive any termination of the Period of Employment.

29. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts maybe used in lieu of the originals for any purpose.

[Signature Page Follows]

IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the Effective Date.

CORPORATION	EXECUTIVE
Oculus Innovative Services, Inc., a California corporation	
By: /s/ Hoji Alimi	By: /s/ Bruce Thornton
Hoji Alimi, CEO and President, Oculus Innovative Sciences, Inc.	Bruce Thornton

EXHIBIT A— SECTION 1.3 DISCLOSURE SCHEDULE 1

EXHIBIT B — SECTION 5.7 EXCISE TAX GROSS-UP

B.1 Equalization Payment. If any payment, distribution, transfer, or benefit (including; without limitation, any amounts received or deemed received by the Executive within the meaning of any provision of the Internal Revenue Code of 1986, as amended (the "Code"), or by the Executive as a result of (and not byway of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Corporation's incentive plans) by the Corporation or a successor, or by a direct or indirect subsidiary or affiliate of the Corporation (or any successor or affiliate of any of them, and including any benefit plan of any of them), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the "Total Payments"), is or will be subject to the excise tax imposed under Section 4999 of the Code or any similar or successor tax (the "Excise Tax"), the Corporation shall pay in cash to Executive or for Executive's benefit as provided below an additional amount or amounts (the "Gross-Up Payment(s)") such that the net amount retained by the Executive after the deduction of any Excise Tax on such Total Payments and any Federal, state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section B.1 shall be equal to such Total Payments had they not been subject to the Excise Tax. Such Gross-Up Payment(s) shall be made by the Corporation to the Executive or to any applicable taxing authority on behalf of the Executive as soon as practicable following the receipt or deemed receipt of any such Total Payments by the Executive, and may be satisfied by the Corporation making a payment or payments on the Executive's account in lieu of withholding for tax purposes but in all events shall be made within thing (30) days of the receipt or deemed receipt by the Executive of any such Total Payment.

B.2 Calculation of Gross-Up Payment. The determination of whether a Gross-Up Payment is required pursuant to this Exhibit B and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Corporation (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Corporation and the Executive. In the event of a termination of the Executive's employment which reasonably may require the payment of a Gross-Up Payment or in the event of a Change in Control, such documentation shall be provided no later than twenty (20) days following such event. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Corporation's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Code Section 280G(d)(1)); (ii) the present value of the Total Payments made to the Executive; (iii) the amount and present value of any "excess parachute payment;" and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Corporation, a firm of nationally recognized executive compensation consultants. The Executive shall also have the right to obtain such an opinion of outside counsel in the event that the Corporation has not timely submitted the initial determination to the Accounting Firm as provided above (including, without limitation, in the event that the Corporation does not submit such a determination to the Accounting Firm

following an event in connection with which the Executive reasonably believes that he maybe entitled to a Gross-Up Payment). The outside counsel's opinion shall be binding upon the Corporation and the Executive and shall constitute the "Determination" for purposes of this Exhibit B instead of the initial determination by the Accounting Firm. The Corporation shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section B.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Corporation must approve the Executive's selection, which approval shall not be unreasonably withheld.

B.3 Computation Assumptions. For purposes of determining whether any Total Payments will be subject to Excise Tax, and the amount of any such Excise Tax:

(a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon any change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, or with any Person whose actions result in such a change or any Person affiliated with the Corporation or such Persons) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax (for purposes of this Section B.3(a), "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof);

(b) The value of any non cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;

(c) The compensation and benefits provided for in Section 5 of this Agreement, and any other compensation earned prior to the termination of the Executive's employment pursuant to the Corporation's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by a change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or a termination of the Executive's employment), shall

for purposes of the calculation pursuant to this Section B.3 be deemed to be reasonable; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the date the Executive's employment terminates, and shall take into account the in maximum reduction in federal income taxes that could be obtained from the deduction of such state and local taxes.

B.4 Executive's Obligation to Notify Corporation. The Executive shall promptly notify the Corporation in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Corporation of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Corporation notifies: the Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Corporation any information reasonably requested by the Corporation relating to such claim; (b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation that is reasonably acceptable to the Executive; (c) cooperate with the Corporation in good faith in order to effectively contest such claim; and (d) permit the Corporation to participate in any proceedings relating to such claim; provided that the Corporation shall bear and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section B.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Corporation shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive will prosecute such contest to, a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the

Corporation shall determine; provided, however, that if the Corporation directs Executive to pay such claim and sue for a refund, the Corporation shall advance an amount equal to such payment to the Executive, on an interest free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred, and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case maybe, any other issue.

B.5 Subsequent Recalculation. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section B.1, the Corporation shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section B.1, then the Executive shall promptly pay to the Corporation (without interest) the amount of such excess.

EXHIBIT C

LIST OF PRIOR INVENTIONS AND ORIGINAL WORKS OF AUTHORSHIP

Title	Date	Identifying Number or Brief Description

_____ No inventions or improvements

_____ Additional Sheets Attached

Date: _____

Signature of Employee: _____

Print:: _____

EXHIBIT D — NOTICE TO EMPLOYEE UNDER LABOR CODE SECTION 2872

The Employment, Confidential Information, Invention Assignment and Arbitration agreement between Oculus Innovative Sciences, Inc., ("Oculus") and you contains a provision requiring you to assign your right in any invention to Ubiquity subject to the exceptions set forth therein. Section 2872 of the California Labor Code requires that you be provided with written notification that the foregoing agreement does not apply to an invention which qualifies fully under the provisions of Section 2870 of the California Labor Code. Section 2870 of the California Labor Code reads as follows:

Section 2870. Employment agreements; assignment of rights

a. Any provision in an employment agreement which provides that an employee shall assign or offer to assign any or his or her right in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

1. Relate at the time of conception or reduction to practice of the invention to the employers business or actual or demonstrably anticipate research or development of the employer; or

2. Result from any work performed by employee for the employer.

b. To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against public policy of the state and is unenforceable.

I HEREBY ACKNOWLEDGE RECEIPT OF THE FOREGOING NOTICE.

Date: _____

_____

Signature

_____

Print

EXHIBIT E — CONFLICT OF INTEREST GUIDELINES

It is the policy of Oculus Innovative Sciences, Inc., its subsidiaries, affiliates successors or assigns (together, the "Company") to conduct its affairs in strict compliance with the letter and spirit of the law and to adhere to the highest principles of business ethics. Accordingly, all officers, employees, and independent contractors must avoid activities which are in conflict or give the appearance of being in conflict, with these principles and with the interests of the Company. The following are potentially compromising situations which must be avoided. Any exception must be reported to the President and written approval for continuation must be obtained.

1. Revealing confidential information to outsider or misusing confidential information. Unauthorized divulging of information is a violation of this policy whether or not for personal gain and whether or not harm to the Company is intended.

2. Accepting or offering substantial, excessive entertainment, favors or payments which may be deemed to constitute undue influence or otherwise be improper or embarrassing to the Company.

3. Participating in civic or professional organizations that might involve divulging confidential information of the Company.

4. Initiating or approving any form of personal or social harassment of employees.

5. Investing or holding outside directorship in suppliers, customers, or competing companies, including financial speculations, where such investment or directorship might influence in any manner a decision or course of action of the Company.

6. Borrowing or lending to employees, customers or suppliers.

7. Acquiring real estate of interest to the Company.

8. Improperly using or disclosing to the Company any proprietary information or trade secrets of any former of concurrent employer or other person or entity with whom obligations or confidentiality exist.

9. Unlawfully discussing prices, costs, customers, sales or markets with competing companies or their employees.

10. Making any unlawful agreement with distributors with respect to prices.

11. Engaging in any conduct which is not in the best interest of the Company.

Each officer, employee and independent contractor must take every necessary action to ensure compliance with these guidelines and to bring problem areas to the attention of higher management for review. Violations of the conflict of interest policy may result in discharge without warning.

Date: _____

_____

Signature

_____

Print

Exhibit 10.18

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Theresa Mitchell (the "Executive"), and Oculus Innovative Sciences, Inc., a California corporation (the "Corporation"), as of March 23, 2005 (the "Effective Date").

THE PARTIES ENTER THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. The Corporation desires that the Executive be employed by the Corporation to carry out the duties and responsibilities described below, all on the terms and conditions hereinafter set forth.

B. The Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the parties, the parties hereto agree as follows:

1. **Retention and Duties.**

1.1 Retention. The Corporation does hereby hire, engage and employ the Executive for the Period of Employment (as defined in Section 2) on the terms and conditions expressly set forth in this Agreement. The Executive does hereby accept and agree to such hiring, engagement and employment, on the terms and conditions expressly set forth in this Agreement.

1.2 Duties. During the Period of Employment, the Executive shall serve the Corporation as its VP, Regulatory/Clinical/Quality. The Executive shall, without limitation and without limiting the Executive's other duties to the Corporation, and without limiting the authority of the Corporation's Board of Directors (the "Board"), be responsible for the general supervision, direction and control of the clinical, regulatory and quality assurance departments of the Corporation and have such other duties and responsibilities as the Chief Executive Officer ("CEO") shall designate that are consistent with the Executive's position. The Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the CEO and in accordance with the practices and policies of the Corporation as in effect from time to time throughout the Period of Employment (including, without limitation, the Corporation's insider trading and ethics policies, as they may change from time to time). While employed as VP, RA/CA/QA, the Executive shall report exclusively to the CEO. Throughout the Period of Employment, the Executive shall not serve on the boards of directors or advisory boards of any other entity unless such service is expressly approved by the Board and/or CEO. Executive acknowledges and agrees that he owes a fiduciary duty of loyalty and to act at all times in the best interest of the Corporation and to do no act which would injure the business, interests, or reputation of the Corporation of any of its affiliated companies.

1.3 No Other Employment; Minimum Time Commitment. Throughout the Period of Employment, the Executive shall both (i) devote substantially all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Corporation, and (ii) hold no other job. The Executive agrees that any investment or direct involvement in, or any

appointment to or continuing service on the board of directors or similar body of, any corporation or other entity must be first approved in writing by the Corporation. The foregoing provisions of this Section 1.3 shall not prevent the Executive from investing in non-competitive publicly-traded securities to the extent permitted by Section 7. The Executive agrees that, as of the Effective Date, Exhibit A to this Agreement sets forth a complete and accurate description of (i) any investment or direct involvement of the Executive in any other corporation or business that reasonably could be construed as falling outside of the scope of the foregoing permitted investments and involvement, and (b) any board of directors or similar body of any corporation or other entity on which the Executive is a member. The Corporation may require the Executive to resign from membership on any board or similar body of any entity, on which he may now or in the future serve, if the Corporation determines that the Executive's membership on such board or similar body interferes (interference shall include, without limitation, giving rise to conflicts or competitive activity) with the performance of the Executive's duties hereunder.

1.4 No Breach of Contract. The Executive hereby represents to the Corporation that: (i) the execution and delivery of this Agreement by the Executive and the Corporation and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound; and (ii) in the event Executive is bound by any confidentiality, trade secret or similar agreement (other than this Agreement) with any other person or entity, Executive will comply with such agreement and not disclose any confidential information or trade secret of any other party to Corporation.

1.5 Location. The Executive acknowledges that the Corporation's principal executive offices are currently located in Petaluma, California. The Executive's principal place of employment shall be the Corporation's principal executive offices, as they may be moved from time to lime upon mutual agreement by the Executive and the Corporation. The Executive agrees that the Executive will be regularly present at the Corporation's principal executive offices and that the Executive will be required to travel from time to time in the course of performing the Executive's duties for the Corporation.

2. **Period of Employment**. The "Period of Employment" shall commence on June 23, 2005, and shall continue until the date of Executive's termination pursuant to Section 5.

3. **Compensation.**

3.1 Base Salary. Effective March 23, 2005 and during the Period of Employment, the Corporation shall pay to the Executive a base salary at the rate of $165,000 per year, subject to increase (but not decrease) by the CEO (the "Base Salary"). The Executive's Base Salary shall be paid in accordance with the Corporation's regular payroll practices in effect from the to time, but not less frequently than in monthly installments.

3.2 Options to Purchase Company Stock: Upon approval of the Board of Directors, the Company will immediately grant you options to purchase an aggregate of two hundred thousand (200,000) shares of common stock, at an exercise price to be determined by the Board of Directors, subject to a five (5) year vesting schedule, and expiring ten (10) years from the date of the option grant and issuance. Further information regarding this option grant will be provided to you under a separate document. Additional option grants may be approved at the

discretion of the Company. Please, note that the Company is a privately held California "C" corporation and its shares are not publicly traded on any exchange.

4. **Benefits.**

4.1 Health and Welfare. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available by the Corporation to the Corporation's senior-level employees generally, as such plans or programs may be in effect from time to time.

4.2 Reimbursement of Business Expenses. The Executive is authorized to incur reasonable expenses in carrying out the Executive's duties for the Corporation under this Agreement and entitled to reimbursement for all such expenses the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Corporation, subject to the Corporation's reasonable expense reimbursement policies in effect from time to time. The Corporation shall reimburse the Executive to the extent required by the preceding sentence.

4.3 Vacation and Other Leave. During the Period of Employment, the Executive shall accrue and be entitled to take 15 days of paid vacation per year, in accordance with the Corporation's standard vacation policies in effect from time to time, including the Corporation's policies regarding vacation accruals. The Executive shall also be entitled to all other holiday and leave pay generally available to other employees of the Corporation and/or required by law.

5. **Termination.**

5.1 Termination by the Executive. The Executive may terminate his employment at any time during the course of this Agreement by giving no less than thirty (30) days prior written notice ("Notice Period") to the President of the Corporation and pursuant to Section 25 herein. During the Notice Period, Executive will fulfill any of his duties and responsibilities set forth herein and use his best efforts to train and support his replacement, if any. Failure to comply with this requirement may result in Termination for Cause described below, but otherwise Executive's salary and benefits will remain unchanged during the Notice Period.

5.2 Termination by the Corporation Without Cause. The Corporation may terminate Executive's employment at any time for any reason ("Termination Without Cause") during the course of this Agreement by giving no less than twelve (12) months prior written notice ("Notice Period") to the Executive. During the Notice Period, Executive must fulfill any of Executive's duties and responsibilities set forth herein and use Executive's best efforts to train and support Executive's replacement, if any. Failure of Executive to comply with this requirement may result in Termination for Cause described below, but otherwise Executive's salary and benefits will remain unchanged during the Notice Period. Corporation may, in its sole discretion, give Executive severance pay in the amount of Executive's monthly Salary associated with the remaining months in the Notice Period in lieu of actual employment, and nothing herein shall require Corporation to maintain Executive in active employment for the duration of the Notice Period.

5.3 Termination by the Corporation For Cause. The Corporation may at any time without prior written nonce, terminate the Executive's employment for "Cause." For purposes of

this Agreement, "Cause" shall include but will not be limited to termination based on any of the following grounds:

(i) Executive refuses to comply in any material respect wid1 the legal directives of the Company's CEO or President so long as the directives are not inconsistent with Executive's position and duties, which is not remedied (if remediable) with twenty (20) working days after written notice from the Company, which written notice shall state that failure to remedy such conduct may result in termination for cause;

(ii) Executive is or was in engaged in any act of fraud, misappropriation, embezzlement or acts of similar dishonesty;

(iii) Executive being charged or convicted of a felony or entry of a guilty plea or a plea of *nolo contendere* under the laws of the United States or any other country;

(iv) Executive's inability to perform duties hereunder due to the appearance or actual use of alcohol or illegal drugs;

(v) Executive's intentional and willful misconduct that may subject the Corporation to criminal or civil liability;

(vi) Executive's breach of the Executive's duty of loyalty, including the diversion or usurpation of corporate opportunities properly belonging to the Corporation;

(vii) Executive's breach of this Agreement or any Corporation policy that remains uncured for a ten-day period commencing upon Corporation providing notice of such breach to Executive; or

(viii) Executive's insubordination or deliberate refusal to follow the instructions of Executive's direct supervisor or the President of the Corporation.

5.4 Termination By Death or Disability. The Executive's employment and rights to compensation under this Employment Agreement shall terminate if the Executive is unable to perform the duties of his position due to death or disability lasting more than ninety (90) days, and the Executive's heirs, beneficiaries, successors, or assigns shall not be entitled to any of the compensation or benefits to which Executive is entitled under this Agreement, except: (i) to the extent specifically provided in this Employment Agreement (ii) to the extent required by law; or (iii) to the extent that such benefit plans or policies under which Executive is covered provide a benefit to the Executive's heirs, beneficiaries, successors, or assigns.

5.5 Termination Upon Change of Control. (i) Upon a Termination Upon Change of Control, (a) Executive shall receive a lump sum payment in an amount equal to twelve (12) months of Executive's base salary (less applicable withholding), paid within thirty (30) business days; and (b) any and all stock options, stock appreciation rights, restricted stock awards, and similar equity and equity-based awards granted by the Corporation to the Executive outstanding immediately prior to such termination of employment shall thereupon be deemed fully vested and shall be exercisable for a period of no less than twelve (12) months thereafter or until the stated expiration date for such option or award at the end of its maximum term, whichever is earlier.

(ii) For purposes of this Agreement "Termination Upon Change of Control" means any termination of the employment of Executive by the Corporation without Cause during the period commencing on or after the date that the Corporation first publicly announces that it has signed a definitive agreement or that the Corporation's Board of Directors has endorsed an offer for the Corporation's stock which in either case when consummated would result in a Change of Control.

(iii) For purposes of this Agreement, "Change of Control" shall mean:

(a) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of the Corporation under an employee benefit plan of the Corporation, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Corporation representing sixty- six percent (66%) or more of (A) the outstanding shares of common stock of the Corporation or (B) the combined voting power of the Corporation's then-outstanding securities;

(b) the Corporation is party to a merger or consolidation, or series of related transactions, which results in the voting securities of the Corporation outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving or another entity) at least sixty-six percent (66%) of the combined voting power of the voting securities of the Corporation or such surviving or other entity outstanding immediately after such merger or consolidation; or

(c) the sale or disposition of all or substantially all of the Corporation's assets (or consummation of any transaction, or series of related transactions, having similar effect), unless at least thirty-three percent (33%) of the combined voting power of the voting securities of the entity acquiring those assets is held by persons who held the voting securities of the Corporation immediate prior to such transaction or series of transactions.

(iv) Any obligation of the Corporation pursuant to Section 5.5(i) to pay a severance benefit in the circumstances described therein is further subject to the following two conditions precedent: (a) such severance obligation shall be paid only if the Executive has remained in compliance with all of the provisions of Section 5.7 and Sections 7 through 12, and such obligation shall terminate immediately if the Executive is for any reason not in compliance with one or more of those provisions; and (b) the Executive's satisfaction of the release obligations set forth in Section 5.6. For purposes of the preceding sentence, if the Executive is not in compliance with one or more provisions of Section 5.7, and Sections 7 though 12, and a cure is reasonably possible in the circumstances, the Executive will not be deemed to have breached such provision(s) unless the Executive is given notice and a reasonable opportunity (in no case shall more than a 10-day cure period be required) to cure such breach and such breach is not cured within such time period. The parties agree that a cure will not be reasonably possible in all circumstances including, without limitation, a material breach of confidentiality or similar occurrence.

(v) Except as expressly provided herein, the foregoing provisions of this Section 5.5 shall not affect: (a) the Executive's receipt of benefits otherwise due terminated employees under group insurance coverage consistent with the terms of the applicable Corporation welfare benefit plan; (b) the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; (c) the Executive's receipt of benefits otherwise due in accordance with the terms of the Corporation's 401(k) plan (if any); or (d) any rights that the Executive may have under and with respect to a stock option, stock appreciation right, restricted stock award, or similar equity or equity-based award, to the extent that such award was granted before the date that the Executive's employment by the Corporation terminates and to the extent expressly provided in the written agreement evidencing such award.

5.6 Release: Exclusive Remedy.

(i) This Section 5.6 shall apply notwithstanding anything else contained in this Agreement to the contrary. As a condition precedent to any Corporation obligation to the Executive pursuant to Sections 5.2 or 5.5, the Executive shall, upon or promptly following his last day of employment with the Corporation, provide the Corporation with a valid, executed, written Release (as defined in Section 5.6(iii) (in a form provided by the Corporation) and such release shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Corporation shall have no obligation to make any payment to the Executive pursuant to Sections 5.2 or 5.5 unless and until the Release contemplated by this Section 5.6 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(ii) The Executive agrees that the payments contemplated by Sections 5.2 or 5.5 shall constitute the exclusive and sole remedy for any termination of his employment and the Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment. The Corporation and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.2 or 5.5 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

(iii) As used herein, "Release" shall mean a written release, discharge and covenant not to sue entered into by the Executive on behalf of himself, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, of and in favor of the Corporation, its parent (if any), the Corporation's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, shareholders, members, representatives, assigns, and successors, past and present, and each of them (the "releasees"), with respect to and from any and all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which he may then own or hold or he at any time theretofore owned or held or may in the future hold as against any or all of said releasees, arising out of or in any way connected with the Executive's employment relationship with each and every member of the Corporation Group (as defined in Section 7) with which the Executive has had such a relationship, or the termination of his employment or any other

transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such release including, without limiting the generality of the foregoing, any claim under Section 1981 of the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act, any other claim under any other federal, state or local law or regulation, and any other claim for severance pay, bonus or incentive pay, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, medical expenses, or disability (except that such release shall not constitute a release of any Corporation obligation to the Executive that may be due to the Executive pursuant to Sections 5.2 or 5.5 upon the Corporation's receipt of such release). The Release shall also contain the Executive's warrant that he has not theretofore assigned or transferred to any person or entity, other than the Corporation, any released matter or any part or portion thereof and that he will defend, indemnify and hold harmless the Corporation and the aforementioned releasees from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) that is directly or indirectly based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

5.7 Resignation From Boards. Upon or promptly following any termination of Executive's employment with the Corporation, the Executive will resign from (i) each and every board of directors (or similar body, as the case may be) of the Corporation and each of its affiliates on which the Executive may then serve (if any), and (ii)each and every office of the Corporation and each of its affiliates that the Executive may then hold, and all positions that he may have previously held with the Corporation and any of its affiliates.

5.8 Excise Tax Gross-Up. During and after the period of Executive's employment with the Corporation, Executive shall be entitled to the excise tax protections set forth in Exhibit B hereto. The preceding sentence takes precedence over any contrary provision (such as, without limitation, an excise tax cut-back provision) of any other applicable incentive plan or award agreement.

6. **Means and Effect of Termination**. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination.

7. **Non-Competition**. The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Corporation Group. Executive agrees that his position with Corporation places him in a position of confidence and trust with clients and employees of Corporation and that harm to the Corporation would result if any Corporation Group confidential information, trade secrets, knowledge (including but not limited to any customer account information) or expertise was disclosed or in any way made available to a competitor. As part of the consideration for the compensation benefits to be paid to Executive hereunder and to protect confidential information, trade secrets, knowledge or expertise of the Corporation Group disclosed to Executive during the Employment Period, and as additional incentive for the

Corporation to enter in to this Agreement, Executive and Corporation hereby expressly agrees as follows:

(i) As a result of the particular nature of the Executive's relationship with the Corporation, in the capacities identified earlier in this Agreement, for the Period of Employment the Executive hereby agrees that he will not, directly or indirectly, (a) engage in any business for the Executive's own account or otherwise derive any personal benefit from any business that competes with the business of the Corporation or any of its affiliates (the Corporation and its affiliates are referred to, collectively, as the "Corporation Group"), (b) enter the employ of, or render any services to, any person engaged in any business that competes with the business of any entity within the Corporation Group, (c) acquire a &cia1 interest in any person engaged in any business that competes with the business of any entity within the Corporation Group, directly or indirectly, as an individual, partner, member, shareholder, officer, director, principal, agent, trustee or consultant, or (d) interfere with business relationships (whether formed before or after the Effective Date) between the Corporation, any of its respective affiliates or subsidiaries, and any customers, suppliers, officers, employees, partners, members or investors of any entity within the Corporation Group. For purposes of this Agreement, businesses in competition with the Corporation Group shall include, without limitation, businesses which any entity within the Corporation Group may conduct operations, and any businesses which any entity within the Corporation Group has specific plans to conduct operations in the future and as to which the Executive is aware of such planning, whether or not such businesses have or have not as of that date commenced operations.

(ii) Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of any person which are publicly traded on a national or regional stock exchange or on an over-the-counter market if the Executive (a) is not a controlling person of, or a member of a group which controls, such person, and (b) does not, directly or indirectly, beneficially own one percent (1%)or more of any class of securities of such person.

(iii) The restrictions set forth above shall apply regardless of whether the termination of Executive's employment occurred with or without Cause or Upon a Termination of Change of Control

8. **Confidentiality.**

8.1 Confidential Information. As a material part of the consideration for the Corporation's commitment to the terms of this Agreement, the Executive hereby agrees that the Executive will not at any time (whether during or after the Executive's employment with the Corporation), other in the course of the Executive's duties hereunder, or unless compelled by lawful process after written notice to the Corporation of such notice along with sufficient time for the Corporation to try and overturn such lawful process, disclose or use for the Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise, any trade secrets, or other confidential data or information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, financing methods, or plans of any entity with the Corporation Group; provided, however, that the foregoing shall not apply to information which is generally known to the industry or the

public, other than as a result of the Executive's breach of this covenant. The Executive further agrees that the Executive will not retain or use for his account, at any time, any trade names, trademark or other proprietary business designation used or owned in connection with the business of any entity with the Corporation Group.

8.2 Third Party Information. Executive recognizes that the Corporation has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Corporation's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Executive will hold all such confidential or proprietary information and to use it only for certain limited purposes. Executive will hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use in except as necessary in carrying out my work for the Corporation consistent with the Corporation's agreement with such third party.

9. **Inventions and Developments.**

9.1 Assignment of Inventions. (i) All inventions, policies, systems, developments or improvements conceived, designed, implemented and/or made by the Executive, either alone or in conjunction with other, at any time or at any place during the Period of Employment, whether or not reduced to writing or practice during such Period of Employment, which directly or indirectly relate to the business of any entity within the Corporation Group, or which were developed or made in whole or in part using the facilities and/or capital of any entity within the Corporation Group, shall be the sole and exclusive property of the Corporation Group. The Executive shall promptly give notice to the Corporation of any such invention, development, patent or improvement, and shall at the same time, without the need for any request by any person ' or entity within the Corporation Group, assign all of the Executive's rights to such invention, development, patent and/or improvement to the Corporation Group. The Executive shall sign all instruments necessary for the filing and prosecution of any applications for, or extension or renewals of, letters patent of the United States or any foreign country that any entity in the Corporation Group desires to file.

(ii) All copyrightable work by the Executive during the Period of Employment that relates to the business of any entity in the Corporation Group is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Corporation Group. Executive will promptly make full written disclosure to the Corporation, will hold in trust for the sole right and benefit of the Corporation, and hereby assign to the Corporation, or its designee, all his right, title and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, which Executive may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the Period of Employment (collectively referred to as "Inventions"), except as provided in Section 9(f) below.

If the copyright to any such copyrightable work is not the property of the Corporation Group by operation of law, the Executive will, without further consideration, assign to the Corporation Group all right, title and interest in such copyrightable work and will assist the entities in the Corporation Group and their nominees in every way, at the Corporation Group's expense, to secure, maintain and defend for the Corporation Group's benefit copyrights and any

extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and to remain the property of the Corporation Group whether copyrighted or not.

9.2 Inventions Retained and Licensed. Attached hereto, as Exhibit C, is a list describing all inventions, original works of authorship, developments, improvements and trade secrets which were made by the Executive prior to my employment with the Corporation (collectively referred to as "Prior Inventions"), which belong to me, which relate to the Corporation's proposed business, products or research and development, and which are not assigned to the Corporation hereunder; or, if no such list is attached, Executive represents that there are no such Prior Inventions. If during the Period of Employment, Executive incorporates a product or process a Prior Invention owned by Executive or in which Executive has an interest, Executive hereby grants the Corporation a nonexclusive, royalty-free, irrevocable, perpetual world- wide license to make, have made, modify use and sell such Prior Invention as part of or in connection with such product or process.

9.3 Inventions Assigned to the United States . Executive will assign to the United States government any of its right, title and interest in and to any and all Inventions whenever such full title is required to be in the United States by a contract between the Corporation and the United States or any of its agencies.

9.4 Maintenance of Records. Executive will keep and maintain adequate and current written records of all Inventions made by his (solely or jointly with others) during the term of the Period of Employment. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by the Corporation. The records will be available to and remain the sole property of the Corporation at all times.

9.5 Exception to Assignments. Executive and Corporation understand that the provisions of the Agreement requiring assignment of Inventions to the Corporation do not apply to any invention which qualifies under any provision of the laws of the state in which Executive is employed which do not require assignment. Specifically, the provisions of the Agreement requiring assignment of Invention of the Corporation do not apply to any invention which qualifies under California Labor Code 2870, which Section is reproduced in full in the attached Written Notification to Executive. Executive will advise the Corporation promptly in writing of any inventions that he believes meets the criteria of the laws of the state in which Executive is employed which to not require assignment and are not otherwise disclosed on Exhibit A.

10. **Anti-Solicitation**. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of one (1)year thereafter, the Executive will no< directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner or participant in any business, influence or attempt to influence customers, vendors, suppliers, joint venturers, associates, consultants, agents, or partners of any entity within the Corporation Group, either directly or indirectly, to divert their business away from the Corporation Group, to any individual, partnership, firm, corporation or other entity then in competition with the business of any entity within the Corporation Group,

and he will not otherwise materially interfere wid1 any business relationship of any entity within the Corporation Group.

11. **Soliciting Employees**. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of one (1)year thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at any time within six (6) months prior thereto was, an employee of an entity within the Corporation Group, who earned annually $25,000 or more as an employee of such entity during the last six (6) months of his or his own employment to work for (as an employee, consultant or otherwise) any business, individual partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Corporation Group.

12. **Return of Property**. The Executive will truthfully and faithfully account for and deliver to the Corporation all property belonging to the Corporation, any other entity in the Corporation Group, or any of their respective affiliates, which the Executive may receive from or on account of the Corporation, any other entity in the Corporation Group, or any of their respective affiliates, and upon the termination of the Period of Employment, or the Corporation's demand, the Executive shall immediately deliver to the Corporation as such property belonging to the Corporation, any other entity in the Corporation Group, or any of their respective affiliates.

13. **Conflict of Interest Guidelines**. Executive will diligently adhere to the Conflict of Interest Guidelines attached hereto as Exhibit E.

14. **Compliance with Foreign Corrupt Practices Act**. With respect to employment with the Corporation, Executive will abide by all applicable laws, rules, regulations, ordinances and court or administrative orders and processes including, without limitations, Title 15 United States Code Section 78(dd-2) (the Foreign Corrupt Practices Act). Executive will not* the Corporation in writing of any payment or gifts made to or any plan, intention or promise to make payment or gifts to any foreign governmental authority or agent thereof.

15. **Withholding Taxes**. Notwithstanding anything else herein to the contrary, the Corporation may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

16. **Cooperation in Litigation**. The Executive agrees that he will reasonably cooperate with the Corporation, subject to his reasonable personal and business schedules, in any litigation which arises out of events occurring prior to the termination of his employment, including but not limited to, serving as a witness or consultant and producing documents and information relevant to the case or helpful to the Corporation. The Corporation agrees to reimburse the Executive for all reasonable costs and expenses he incurs in connection with his obligations

under this Section 14 and, in addition, to reasonably compensate the Executive for time actually spent in connection therewith following the termination of his employment with the Corporation.

17. **Assignment**. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Corporation with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Corporation hereunder.

18. **Number and Gender**. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

19. **Section Headings**. The section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purpose of convenience only, and they neither form a pas of this Agreement nor ate they to be used in the construction or interpretation thereof.

20. **Governing Law**. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary.

21. **Severability**. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

22. **Entire Agreement**. This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior and contemporaneous agreements of the parties hereto that directly or indirectly bears upon the subject matter hereof. Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be deemed to have been merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

23. **Modifications**. ‘Ibis Agreement may not be amended, modified or changed (in whole or in part), except by a formal, definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

24. **Waiver**. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such

right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

25. **Resolution of Disputes.**

25.1 Arbitration. Employee agrees that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from Employee's employment with the Company or the termination of Employee's employment with the Company, including any breach of this Agreement, shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including section 1283.05 (the "Rules") and pursuant to California law. Corporation agrees to arbitrate any dispute that the Company may have with Employee.

Disputes that the parties agree to arbitrate, and thereby, waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. By agreeing to have these claims resolved through binding arbitrate, neither Employee nor the Company waive any rights that may be available pursuant to federal or state law.

Any disputes shall be submitted to arbitration in Santa Rosa, California, before a sole arbitrator (the "Arbitrator") selected from judicial arbitration mediation services ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association ("AAA"),and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive remedy of such dispute. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction.

25.2 Waiver of Jury Trial. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence of the first paragraph of this Section 24.

25.3 Fees. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non-prevailing party (other than forum costs associated with the arbitration which in any event shall be paid by the Corporation).

25.4 Injunctive Relief. Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 23, the Executive and the Corporation acknowledge that any breach of any of the covenants or provisions contained in Sections 5.6, and 7 through 12 could result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that, in the event of such a breach or threat thereof, the non-breaching party shall be entitled to obtain a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Sections 5.6, and 7 through 12 or such other equitable relief as may be required to enforce specifically any of the covenants or provisions of Sections 5.6, and 7 through 12.

26. **Notices**. (i) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made if (a) delivered by hand, (b) otherwise delivered against receipt therefore, or (iii)sent by registered or certified mail, postage prepaid, return receipt requested. Any notice shall be duly addressed to the parties as follows:

(c) if to the Corporation:

Oculus Innovative Services, Inc.
1129 North McDowell Boulevard
Petaluma, California 94954
Attn: Jim Schutz
Fax: +1 (707) 782 0705

(d) if to the Executive:

Theresa Mitchell
10751 Green Valley Road
Sebastopol, CA 95472
+1 (707) 823 5995

(ii) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 24 for the giving of notice. Any communication shall be effective when delivered by hand, when otherwise delivered against receipt therefore, or five (5) business days after being mailed in accordance with the foregoing.

Legal Counsel: Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language.

Provisions that Survive Termination. The provisions of this Agreement that are intended to survive shall survive any termination of the Period of Employment.

Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all

of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the Effective Date.

CORPORATION	**EXECUTIVE**
Oculus Innovative Services, Inc., a California corporation	
By: /s/ Hoji Alimi	By: /s/ Theresa Mitchell
Hoji Alimi, CEO and President, Oculus Innovative Sciences, Inc.	Theresa Mitchell

EXHIBIT A — SECTION 1.3 DISCLOSURE SCHEDULE

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EXHIBIT B —SECTION 5.7 EXCISE TAX GROSS-UP

B.1 **Equalization Payment**. If any payment, distribution, transfer, or benefit (including, without limitation, any amounts received or deemed received by the Executive within the meaning of any provision of the Internal Revenue Code of 1986, as amended (the "Code"), or by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Corporation's incentive plans) by the Corporation or a successor, or by a direct or indirect subsidiary or affiliate of the Corporation (or any successor or affiliate of any of them, and including any benefit plan of any of them), whether paid or payable or distributed or distributable pursuant to the terms of this, Agreement or otherwise (collectively, the "Total Payments"), is or will be subject to 6e excise tax imposed under Section 4999 of the Code or any similar or successor tax (the "Excise Tax"), the Corporation shall pay in cash to Executive or for Executive's benefit as provided below an additional amount or amounts (the "Gross-Up Payment(s)") such that the net amount retained by the Executive after the deduction of any Excise Tax on such Total Payments and any Federal, state and local income tax and Excise Tax upon the Gross-Up payment(s) provided for by this Section B.1 shall be equal to such Total Payments bad they not been subject to the Excise Tax. Such Gross-Up Payment(s) shall be made by the Corporation to the Executive or to any applicable taxing authority on behalf of the Executive as soon as practicable following the receipt or deemed receipt of any such Total Payments by the Executive, and may be satisfied by the Corporation making a payment or payments on the Executive's account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Executive of any such Total Payment.

B.2 **Calculation of Gross-Up Payment**. The determination of whether a Gross-Up Payment is required pursuant to this Exhibit B and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Corporation (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Corporation and the Executive. In the event of a termination of the Executive's employment which reasonably may require the payment of a Gross-Up Payment or in the event of a Change in Control such documentation shall be provided no later than twenty (20) days following such event. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Corporation's expense, to obtain the opinion of an "outside counsel" which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Code Section 280G(d)(1)); (ii) the present value of the Total Payments made to the Executive; (iii)the amount and present value of any "excess parachute payment;" and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Corporation, a firm of nationally-recognized executive compensation consultants. The Executive shall also have the right to obtain such an opinion of outside counsel in the event that the Corporation has not timely submitted the initial determination to the Accounting Firm as provided above (including, without limitation, in the event that the Corporation does not submit such a determination to the Accounting Firm following an event in connection with which the Executive reasonably believes that he may be

entitled to a Gross-Up Payment). The outside counsel's opinion shall be binding upon the Corporation and the Executive and shall constitute the "Determination" for purposes of this Exhibit B instead of the initial determination by the Accounting Firm. The Corporation shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section B.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Corporation must approve the Executive's selection, which approval shall not be unreasonably withheld.

B.3 **Computation Assumptions**. For purposes of determining whether any Total Payments will be subject to Excise Tax, and the amount of any such Excise Tax:

(a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection wid1 or contingent upon any change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, or with any Person whose actions result in such a change or any Person affiliated with the Corporation or such Persons) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax(for purposes of this Section B.3(a), "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof);

(b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;

(c) The compensation and benefits provided for in Section 5 of this Agreement, and any other compensation earned prior to the termination of the Executive's employment pursuant to the Corporation's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by a change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or a termination of the Executive's employment), shall for purposes of the calculation pursuant to this Section B.3 be deemed to be reasonable; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the date the Executive's employment terminates, and shall take into account the maximum reduction in federal income taxes that could be obtained from the deduction of such state and local taxes.

B.4 **Executive's Obligation to Notify Corporation**. The Executive shall promptly notify the Corporation in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Corporation of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Corporation notifies the Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Corporation any information reasonably requested by the Corporation relating to such claim; (b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation that is reasonably acceptable to the Executive; (c) cooperate with the Corporation in good faith in order to effectively contest such claim; and (d) permit the Corporation to participate in any proceedings relating to such claim; provided that the Corporation shall bear and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section B.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Corporation shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all, administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive will prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Executive t6 pay such claim and sue for a refund, the Corporation shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to

any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

B.5 **Subsequent Recalculation**. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section B.1, the Corporation shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section B.1, then the Executive shall promptly pay to the Corporation (without interest) the amount of such excess.

EXHIBIT C

LIST OF PRIOR INVENTIONS AND ORIGINAL WORKS OF AUTHORSHIP

Title	Date	Identifying Number or Brief Description

✓ No inventions or improvements

_____ Additional Sheets Attached

Date: June 8, 2005

Signature: /s/ T. Mitchell

Print: T. Mitchell

EXHIBIT D — NOTICE TO EMPLOYEE UNDER LABOR CODE SECTION 2872

The Employment, Confidential Information, Invention Assignment and Arbitration agreement between Oculus Innovative Sciences, Inc., ("Oculus") and you contains a provision requiring you to assign your light in any invention to Ubiquity subject to the exceptions set forth therein. Section 2872 of the California Labor Code requires that you be provided with written notification that the foregoing agreement does not apply to an invention which qualifies fully under the provisions of Section 2870 of the California Labor Code. Section 2870 of the California Labor Code reads as follows:

Section 2870. Employment agreements; assignment of rights

a. Any provision in an employment agreement which provides hat an employee shall assign or offer to assign any or his or her right in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

1. Relate at the time of conception or reduction to practice of the invention to file employers business or actual or demonstrably anticipate research or development of the employer; or

2. Result from any work performed by employee for the employer.

b. To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded horn being required to be assigned under subdivision (a), the provision is against public policy of the state and is unenforceable.

I HEREBY ACKNOWLEDGE RECEIPT OF THE FOREGOING NOTICE.

Date: June 8, 2005

Signature: /s/ T. Mitchell

Print: T. Mitchell

Exhibit 10.19

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Mike Wokasch (the "Executive"), and Oculus Innovative Sciences, Inc., a California corporation (the "Corporation"), as of June 10, 2006 (the "Effective Date").

THE PARTIES ENTER THIS AGREEMENT on the basis of the following facts, understandings and intentions:

A. The Corporation desires that the Executive be employed by the Corporation to carry out the duties and responsibilities described below, all on the terms and conditions hereinafter set forth.

B. The Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and promises of the parties, the parties hereto agree as follows:

1. Retention and Duties.

1.1 Retention. The Corporation does hereby hire, engage and employ the Executive for the Period of Employment (as defined in Section 2) on the terms and conditions expressly set forth in this Agreement. The Executive does hereby accept and agree to such hiring, engagement and employment, on the terms and conditions expressly set forth in this Agreement.

1.2 Duties. During the Period of Employment, the Executive shall serve the Corporation as its Chief Operating Officer ("COO"). The Executive shall, without limitation and without limiting the Executive's other duties to the Corporation, and without limiting the authority of the Corporation's Board of Directors (the "Board"), be responsible for the general supervision, direction and control of the operations of the business and affairs of the Corporation and have such other duties and responsibilities as the Chief Executive Officer ("CEO") shall designate that are consistent with the Executive's position as COO. The Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the CEO and in accordance with the practices and policies of the Corporation as in effect from time to time throughout the Period of Employment (including, without limitation, the Corporation's insider trading and ethics policies, as they may change from time to time). While employed as COO, the Executive shall report exclusively to the CEO. Throughout the Period of Employment, the Executive shall not serve on the boards of directors or advisory boards of any other entity unless such service is expressly approved by the Board and/or CEO.

1.3 No Other Employment; Minimum Time Commitment. Throughout the Period of Employment, the Executive shall both (i) devote substantially all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Corporation, and (ii) hold no other job. The Executive agrees that any investment or direct involvement in, or any appointment to or continuing service on the board of directors or similar body of, any corporation or other entity must be first approved in writing by the Corporation. The foregoing provisions of this Section 1.3 shall not prevent the Executive from investing in any company not listed in the email from Jim Schutz to the Executive dated 10 June 2006 and to the extent permitted by Section 7(b). The

Executive agrees that, as of the Effective Date, (i) to the best of his knowledge, he holds no investment in and is not directly involved in any corporation or business that reasonably could be construed as falling outside of the scope of the foregoing permitted investments and involvement, and (b) he is not a member of any board of directors or similar body of any corporation or other entity. The Corporation may require the Executive to resign from membership on any board or similar body of any entity, on which he may now or in the future serve, if the Corporation determines that the Executive's membership on such board or similar body interferes (interference shall include, without limitation, giving rise to conflicts or competitive activity) with the performance of the Executive's duties hereunder.

1.4 No Breach of Contract. The Executive hereby represents to the Corporation that: (i) the execution and delivery of this Agreement by the Executive and the Corporation and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound; and (ii) to the best of his knowledge, he is not bound by any confidentiality, trade secret or similar agreement (other than this Agreement) with any person or entity referenced in the email from Jim Schutz to the Executive dated 10 June 2006.

1.5 Location. The Executive acknowledges that the Corporation's principal executive offices are currently located in Petaluma, California. The Executive's principal place of employment shall be the Corporation's principal executive offices, as they may be moved from time to time upon mutual agreement by the Executive and the Corporation. The Executive agrees that the Executive will be regularly present at the Corporation's principal executive offices and that the Executive may be required to travel from time to time in the course of performing the Executive's duties for the Corporation.

2. Period of Employment. The "Period of Employment" shall commence on June 10, 2006, and shall continue until the date of Executive's termination pursuant to Section 5.

3. Compensation.

3.1 Base Salary. Effective June 10, 2006 and during the Period of Employment, the Corporation shall pay to the Executive a base salary at the rate of $200,000 per year, subject to increase (but not decrease) by the CEO (the "Base Salary"). The Executive's Base Salary shall be paid in accordance with the Corporation's regular payroll practices in effect from time to time, but not less frequently than in monthly installments.

3.2 Stock Awards. Upon approval of the Board of Directors, the Company will grant the Executive options to purchase an aggregate of five hundred thousand (500,000) shares of common stock, at a per share exercise price equal to the fair market value of a share of the Company's common stock on the date of grant, as determined by the Board of Directors, subject to a five (5) year vesting schedule (which provides for vesting of 100,000 options on the first anniversary of this Agreement and 8,333 1/3 options on the last day of each month following the first anniversary of this Agreement), and expiring ten (10) years from the date of the option grant and issuance. Further information regarding this option grant will be provided to you under a separate document. Additional option grants may be approved at the discretion of the Company. Please, note that the Company is a privately held California "C" corporation and its shares are not publicly traded on any exchange.

3.3 Bonus. The Executive shall receive an annual bonus of one hundred thousand dollars ($100,000) upon meeting certain mutually agreeable annual milestones.

4. Benefits.

4.1 Health and Welfare. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available by the Corporation to the Corporation's senior-level employees generally, as such plans or programs may be in effect from time to time.

4.2 Reimbursement of Business Expenses. The Executive is authorized to incur reasonable expenses in carrying out the Executive's duties for the Corporation under this Agreement and entitled to reimbursement for all such expenses the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Corporation, subject to the Corporation's reasonable expense reimbursement policies in effect from time to time. The Corporation shall reimburse the Executive to the extent required by the preceding sentence.

4.3 Vacation and Other Leave. During the Period of Employment, the Executive shall accrue and be entitled to take paid vacation in accordance with the Corporation's standard vacation policies in effect from time to time, including the Corporation's policies regarding vacation accruals, provided, however, that the Executive shall be entitled to a minimum of three (3) weeks of paid vacation per year. The Executive shall also be entitled to all other holiday and leave pay generally available to other employees of the Corporation.

4.4 Automobile Allowance. During the Period of Employment, the Executive shall receive six hundred dollars per month as an automobile allowance.

5. Termination.

5.1 Termination by the Corporation. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Corporation: (i) with Cause (as defined in Section 5.5), or (ii) without Cause, or (iii) in the event of the Executive's death, or (iv) in the event that the Board determines in good faith that the Executive has a Disability (as defined in Section 5.5).

5.2 Termination by the Executive. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Executive, on no less than thirty (30) days prior written notice to the Corporation.

5.3 Benefits Upon Termination. If the Executive's employment by the Corporation is terminated during the Period of Employment for any reason by the Corporation or by the Executive, the Corporation shall have no further obligation to make or provide to the Executive, and the Executive shall have no further right to receive or obtain from the Corporation, any payments or benefits except:

(a) the Corporation shall pay the Executive (or, in the event of his death, the Executive's estate) any Accrued Obligations (as defined in Section 5.5); and

(b) if, during the Period of Employment, the Executive's employment is terminated by the Corporation without Cause or by the Executive for Good Reason (as defined in Section 5.5) (and, in each case, other than due to either the Executive's death, or a good faith determination by the Board that the Executive has a Disability):

(i) the Corporation shall, subject to the conditions set forth in Section 5.3(c), also pay the Executive a lump sum severance benefit equal to twelve (12) times the monthly Base Salary paid to the Executive during the calendar month immediately preceding the month in which the termination of the Executive's employment occurs. Subject to the conditions set forth in Section 5.3(c), such lump sum amount shall be paid to the Executive (without interest) no later than seven (7) days following the date on which the Executive's employment by the Corporation terminates;

(ii) the Corporation shall, subject to the conditions set forth in Section 5.3(c), pay as a severance benefit one hundred percent (100%) of the Executive's premiums under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for the same or reasonably equivalent medical coverage as in effect on the date the Executive's employment terminated for a period not to exceed the lesser of one year following the date of such termination or until the Executive becomes eligible for medical insurance coverage provided by another employer; and

(iii) as of the date the Executive's employment terminates, any and all stock options, stock appreciation rights, restricted stock awards, and similar equity and equity-based awards granted by the Corporation to the Executive outstanding immediately prior to such termination of employment shall thereupon be deemed fully vested and shall be exercisable for a period of no less than twelve (12) months thereafter or until the stated expiration date for such option or award at the end of its maximum term, whichever is earlier.

(c) Any obligation of the Corporation pursuant to Section 5.3(b) to pay a severance benefit in the circumstances described therein is further subject to the following two conditions precedent: (i) such severance obligation shall be paid only if the Executive has remained in compliance with all of the provisions of Section 5.6 and Sections 7 through 12, and such obligation shall terminate immediately if the Executive is for any reason not in compliance with one or more of the provisions of Section 5.6, and Sections 7 through 12; and (ii) the Executive's satisfaction of the release obligations set forth in Section 5.4. For purposes of the preceding sentence, if the Executive is not in compliance with one or more provisions of Section 5.6, and Sections 7 though 12, and a cure is reasonably possible in the circumstances, the Executive will not be deemed to have breached such provision(s) unless the Executive is given notice and a reasonable opportunity (in no case shall more than a 10-day cure period be required) to cure such breach and such breach is not cured within such time period. The parties agree that a cure will not be reasonably possible in all circumstances including, without limitation, a material breach of confidentiality or similar occurrence.

(d) Except as expressly provided herein, the foregoing provisions of this Section 5.3 shall not affect: (i) the Executive's receipt of benefits otherwise due terminated employees under group insurance coverage consistent with the terms of the applicable Corporation welfare benefit plan; (ii) the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; (iii) the Executive's receipt of benefits otherwise due in accordance with the terms of the Corporation's 401(k) plan (if any); or (iv) any rights that the Executive may have under and with respect to a stock option, stock appreciation right, restricted stock award, or similar equity or equity-based award, to the extent that such award was granted before the date that the Executive's employment by the Corporation terminates and to the extent expressly provided in the written agreement evidencing such award.

5.4 Release; Exclusive Remedy.

(a) This Section 5.4 shall apply notwithstanding anything else contained in this Agreement to the contrary. As a condition precedent to any Corporation obligation to the Executive pursuant to Section 5.3(b), the Executive shall, upon or promptly following his last day of employment with the Corporation, provide the Corporation with a valid, executed, written Mutual Release (as defined in Section 5.5) (in a form provided by the Corporation) and such release shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Corporation shall have no obligation to make any payment to the Executive pursuant to Section 5.3(b) unless and until the Mutual Release contemplated by this Section 5.4 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(b) The Executive agrees that the payments contemplated by Section 5.3 shall constitute the exclusive and sole remedy for any termination of his employment and the Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment. The Corporation and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.3 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

5.5 Certain Defined Terms.

(a) As used herein, "Accrued Obligations" means:

(i) any Base Salary that had accrued but had not been paid (including accrued and unpaid vacation time) prior to the date of termination; and

(ii) any reimbursement due to the Executive pursuant to Section 4.2 for expenses incurred by the Executive prior to the date the Period of Employment terminates.

(b) As used herein, "Cause" shall mean the reasonable and good faith determination by a majority of the Board based on its reasonable belief at the time, that, during the Period of Employment, any of the following events or contingencies exists or has occurred:

(i) the Executive is convicted of, or has pled guilty to, a felony (under the laws of the United States or any state thereof); or

(ii) the Executive has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties hereunder, unless the Executive believed in good faith that such acts were in the interests of the Corporation; or

(iii) the Executive willfully and repeatedly fails to perform or uphold his duties under this Agreement; or

(iv) the Executive willfully and repeatedly fails to comply with the business strategies mutually agreed upon by the Executive and the CEO.

Notwithstanding the foregoing, the events referred to in Section 5.5(b)(iii) and (iv) shall not constitute "Cause" unless, after the Executive is given notice and a reasonable opportunity (in no case shall more than a 10-day cure period be required) to cure such failure, such failure has not been cured within such time period, to the satisfaction of the CEO.

(c) As used herein, "Disability" shall mean a physical or mental impairment which substantially limits a major life activity of the Executive and which renders the Executive unable to perform the essential functions of the Executive's position, even with reasonable accommodation which does not impose an undue hardship on the Corporation, for ninety (90) days in any consecutive twelve (12) month period. The Board reserves the right, in good faith, to make the determination of whether or not a Disability exists for purposes of this Agreement based upon information supplied by the Executive and/or his medical personnel, as well as information from medical personnel (or others) selected by the Corporation or its insurers.

(d) As used herein, **"**Good Reason**"** shall mean the occurrence of one or more of the following without the Executive's written consent:

(i) the assignment of the Executive to duties materially inconsistent with the Executive's authorities, duties and responsibilities (specifically excluding titles and reporting requirements) as Chief Operating Officer of the Corporation; a material reduction or alteration in the nature or status of the Executive's authorities, duties or responsibilities, other than an insubstantial and inadvertent act that is remedied by the Corporation promptly after receipt of notice thereof given by the Executive; or a relocation of the Corporation's principal executive offices to a place more than fifty (50) miles from Petaluma, California.

(ii) a reduction by the Corporation in the Executive's Base Salary as in effect on the Effective Date or as the same shall be increased from time to time, or the Corporation otherwise fails to satisfy its compensation obligations to the Executive under this Agreement, after notice by the Executive and a reasonable opportunity to cure; or

(iii) the failure of the Corporation to obtain a satisfactory agreement from any successor to the Corporation relating to the Executive's employment by such successor.

provided, however, that none of the events specified in clause (i), (ii), or (iii) above shall constitute Good Reason unless the Executive shall have notified the Corporation in writing describing the events which constitute Good Reason and the Corporation shall have failed to cure such event within a reasonable period, not to exceed ten (10) days, after the Corporation's actual receipt of such written notice.

(e) As used herein, "Mutual Release" shall mean a written release, discharge and covenant not to sue entered into by (i) the Corporation on behalf of itself, its parent (if any), its subsidiaries and affiliates, its assigns and successors, and each of them, of and in favor of the Executive, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them (the "releasees"), with respect to and from any and all claims, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which it may then own or hold or it at any time theretofore owned or held or may in the future hold against any or all of said releasees, arising out of or in any way connected with the Executive's employment relationship with each and every member of the Company Group (as defined in Section 7) with which the Executive has had such a relationship, or the termination of his employment or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such release, and (ii) the Executive on behalf of himself, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, of any in favor of the Corporation, its parent (if any), the Corporation's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, shareholders, members, representatives, assigns, and successors, past and present, and each of them (the "releasees"), with respect to and from any an all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which he may then own or hold or he at any time theretofore owned or held or may in the future hold as against any or all of said releasees, arising out of or in any way connected with the Executive's employment relationship with each and every member of the Company Group (as defined in Section 7) with which the Executive has had such a relationship, or the termination of his employment or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such release including, without limiting the generality of the foregoing, any claim under section 1981 of the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act, any other claim under any other federal, state, or local law or regulation, and any other claim for severance pay, bonus or incentive pay, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, medical expenses, or disability (except that such release shall not constitute a release of any Corporation obligation to the Executive that may be due to the Executive pursuant to Section 5.3(b) upon the Corporation's receipt of such release). The Mutual Release shall also contain the Executive's warrant that he has not theretofore assigned or transferred to any person or entity, other than the Corporation, any released matter or any part or portion

thereof and that he will defend, indemnify and hold harmless the Corporation and the Aforementioned releasees from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) that is directly or indirectly based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

5.6 Resignation From Boards. Upon or promptly following any termination of Executive's employment with the Corporation, the Executive agrees to resign from (i) each and every board of directors (or similar body, as the case may be) of the Corporation and each of its affiliates on which the Executive may then serve (if any), and (ii) each and every office of the Corporation and each of its affiliates that the Executive may then hold, and all positions that he may have previously held with the Corporation and any of its affiliates.

5.7 Excise Tax Gross-Up. During and after the period of Executive's employment with the Corporation, Executive shall be entitled to the excise tax protections set forth in Exhibit A hereto. The preceding sentence takes precedence over any contrary provision (such as, without limitation, an excise tax cut-back provision) of any other applicable incentive plan or award agreement.

6. Means and Effect of Termination. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination.

7. Non-Competition. The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Corporation, the amount of sensitive and confidential information involved in the discharge of the Executive's position with the Corporation, and the harm to the Corporation that would result if such knowledge or expertise was disclosed or made available to a competitor. Based on that understanding, the Executive hereby expressly agrees as follows:

(a) As a result of the particular nature of the Executive's relationship with the Corporation, in the capacities identified earlier in this Agreement, for the Period of Employment the Executive hereby agrees that he will not, directly or indirectly, (i) engage in any business for the Executive's own account or otherwise derive any personal benefit from any business that competes with the business of the Corporation or any of its affiliates (the Corporation and its affiliates are referred to, collectively, as the "Company Group"), (ii) enter the employ of, or render any services to, any person engaged in any business that competes with the business of any entity within the Company Group, (iii) acquire a financial interest in any person engaged in any business that competes with the business of any entity within the Company Group, directly or indirectly, as an individual, partner, member, shareholder, officer, director, principal, agent, trustee or consultant, or (iv) interfere with business relationships (whether formed before or after the Effective Date) between the Corporation, any of its respective affiliates or subsidiaries, and any customers, suppliers, officers, employees, partners, members or investors of any entity within the Company Group. For purposes of this Agreement, businesses in competition with the Company Group shall include, without limitation, businesses which any entity within the Company Group may conduct operations, and any businesses which any entity within the Company Group has specific plans to conduct operations in the future and as to which the Executive is aware of such planning, whether or not such businesses have or have not as of that date commenced operations.

(b) Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of any person which are publicly traded on a national or regional stock exchange or on an over-the-counter market if the Executive (i) is not a controlling person of, or a member of a group which controls, such person, and (ii) does not, directly or indirectly, beneficially own one percent (1%) or more of any class of securities of such person.

8. Confidentiality. As a material part of the consideration for the Corporation's commitment to the terms of this Agreement, the Executive hereby agrees that the Executive will not at any time (whether during or after the Executive's employment with the Corporation), other than in the course of the Executive's duties hereunder, or unless compelled by lawful process after written notice to the Corporation of such notice along with sufficient time for the Corporation to try and overturn such lawful process, disclose or use for the Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise, any trade secrets, or other data or information which the Corporation seeks to protect from disclosure to third parties and which relates to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, financing methods, or plans of any entity within the Company Group; provided, however, that the foregoing shall not apply to information which (i) is generally known to the industry or the public, other than as a result of the Executive's breach of this covenant, (ii) becomes known to the Executive from a source other than the Corporation and without violation of any obligation of confidentiality which such source may have, or (iii) is already in the Executive's possession without restriction as to disclosure. The Executive further agrees that the Executive will not retain or use for his account, at any time, any trade names, trademark or other proprietary business designation used or owned in connection with the business of any entity within the Company Group.

9. Inventions and Developments.

(a) All inventions, policies, systems, developments or improvements conceived, designed, implemented and/or made by the Executive, either alone or in conjunction with others, at any time or at any place during the Period of Employment, whether or not reduced to writing or practice during such Period of Employment, which directly or indirectly relate to the business of any entity within the Company Group, or which were developed or made in whole or in part using the facilities and/or capital of any entity within the Company Group, shall be the sole and exclusive property of the Company Group. The Executive shall promptly give notice to the Corporation of any such invention, development, patent or improvement, and shall at the same time, without the need for any request by any person or entity within the Company Group, assign all of the Executive's rights to such invention, development, patent and/or improvement to the Company Group. The Executive shall sign all instruments necessary for the filing and prosecution of any applications for, or extension or renewals of, letters patent of the United States or any foreign country that any entity in the Company Group desires to file.

(b) All copyrightable work by the Executive during the Period of Employment that relates to the business of any entity in the Company Group is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Company Group. If the copyright to any such copyrightable work is not the property of the

Company Group by operation of law, the Executive will, without further consideration, assign to the Company Group all right, title and interest in such copyrightable work and will assist the entities in the Company Group and their nominees in every way, at the Company Group's expense, to secure, maintain and defend for the Company Group's benefit copyrights and any extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and to remain the property of the Company Group whether copyrighted or not.

10. Anti-Solicitation. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner or participant in any business, influence or attempt to influence customers, vendors, suppliers, joint venturers, associates, consultants, agents, or partners of any entity within the Company Group, either directly or indirectly, to divert their business away from the Company Group, to any individual, partnership, firm, corporation or other entity then in competition with the business of any entity within the Company Group, and he will not otherwise materially interfere with any business relationship of any entity within the Company Group.

11. Soliciting Employees. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at any time within six (6) months prior thereto was, an employee of an entity within the Company Group, who earned annually $25,000 or more as an employee of such entity during the last six (6) months of his or her own employment to work for (as an employee, consultant or otherwise) any business, individual, partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Company Group.

12. Return of Property. The Executive agrees to truthfully and faithfully account for and deliver to the Corporation all property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates, which the Executive may receive from or on account of the Corporation, any other entity in the Company Group, or any of their respective affiliates, and upon the termination of the Period of Employment, or the Corporation's demand, the Executive shall immediately deliver to the Corporation all such property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates.

13. Withholding Taxes. Notwithstanding anything else herein to the contrary, the Corporation may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

14. Cooperation in Litigation. The Executive agrees that he will, during the Period of Employment and for a period of five (5) years thereafter, reasonably cooperate with the Corporation, subject to his reasonable personal and business schedules, in any litigation which arises out of events occurring prior to the termination of his employment, including but not limited to, serving as a witness or consultant and producing documents and information relevant to the case or helpful to the Corporation. The Corporation agrees to reimburse the Executive for all reasonable costs and expenses he incurs in connection with his obligations under this Section 14 and, in addition, to reasonably compensate the Executive for time actually spent in connection therewith following the termination of his employment with the Corporation.

15. Assignment. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Corporation with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Corporation hereunder.

16. Number and Gender. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

17. Section Headings. The section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purpose of convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation thereof.

18. Governing Law. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary.

19. Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

20. Entire Agreement. This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior and contemporaneous agreements of the parties hereto that directly or indirectly bears upon the subject matter hereof. Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be deemed to have been merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

21. Modifications. This Agreement may not be amended, modified or changed (in whole or in part), except by a formal, definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

22. Waiver. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

23. Resolution of Disputes.

(a) Any controversy arising out of or relating to the Executive's employment (whether or not before or after the expiration of the Period of Employment), any termination of the Executive's employment, this Agreement or the enforcement or interpretation of this Agreement, or because of an alleged breach, default, or misrepresentation in connection with any of the provisions of this Agreement, including (without limitation) any state or federal statutory claims, shall be submitted to arbitration in Santa Rosa, California, before a sole arbitrator (the "Arbitrator") selected from judicial arbitration mediation services ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association ("AAA"), and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive remedy of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the Arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction.

(b) The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence of the first paragraph of this Section 23.

(c) The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non-prevailing party (other than forum costs associated with the arbitration which in any event shall be paid by the Corporation).

(d) Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 23, the Executive and the Corporation acknowledge that any breach of any of the covenants or provisions contained in Sections 5.6, and 7 through 12 could

result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that, in the event of such a breach or threat thereof, the non-breaching party shall be entitled to obtain a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Sections 5.6, and 7 through 12 or such other equitable relief as may be required to enforce specifically any of the covenants or provisions of Sections 5.6, and 7 through 12.

24. Notices.

(a) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made if (i) delivered by hand, (ii) otherwise delivered against receipt therefore, or (iii) sent by registered or certified mail, postage prepaid, return receipt requested. Any notice shall be duly addressed to the parties as follows:

(i) if to the Corporation:

Oculus Innovative Services, Inc.
1129 North McDowell Boulevard
Petaluma, California 94954
Attn: Jim Schutz
Fax: +1 (707) 782 0705

(ii) if to the Executive:

Mike Wokasch
5420 Bremer Road
McFarland, WI 53558
+1 (608) 838-3237

(b) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 24 for the giving of notice. Any communication shall be effective when delivered by hand, when otherwise delivered against receipt therefore, or five (5) business days after being mailed in accordance with the foregoing.

25. Legal Counsel; Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language.

26. Provisions that Survive Termination. The provisions of 5.3, 5.4, 5.5, 5.6, 5.7, 7 through 25, 27, and this Section 26 shall survive any termination of the Period of Employment.

27. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. This Agreement shall become binding

when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the Effective Date.

CORPORATION

Oculus Innovative Services, Inc., a California corporation

By: /s/ Hoji Alimi

Hoji Alimi, CEO and President,
Oculus Innovative Sciences, Inc.

EXECUTIVE

/s/ Mike Wokasch

Mike Wokasch

EXHIBIT A — SECTION 5.7 EXCISE TAX GROSS-UP

A.1 Equalization Payment. If any payment, distribution, transfer, or benefit (including, without limitation, any amounts received or deemed received by the Executive within the meaning of any provision of the Internal Revenue Code of 1986, as amended (the "Code"), or by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Corporation's incentive plans) by the Corporation or a successor, or by a direct or indirect subsidiary or affiliate of the Corporation (or any successor or affiliate of any of them, and including any benefit plan of any of them), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the "Total Payments"), is or will be subject to the excise tax imposed under Section 4999 of the Code or any similar or successor tax (the "Excise Tax"), the Corporation shall pay in cash to Executive or for Executive's benefit as provided below an additional amount or amounts (the "Gross-Up Payment(s)") such that the net amount retained by the Executive after the deduction of any Excise Tax on such Total Payments and any Federal, state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section B.1 shall be equal to such Total Payments had they not been subject to the Excise Tax. Such Gross-Up Payment(s) shall be made by the Corporation to the Executive or to any applicable taxing authority on behalf of the Executive as soon as practicable following the receipt or deemed receipt of any such Total Payments by the Executive, and may be satisfied by the Corporation making a payment or payments on the Executive's account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Executive of any such Total Payment.

A.2 Calculation of Gross-Up Payment. The determination of whether a Gross-Up Payment is required pursuant to this Exhibit B and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Corporation (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Corporation and the Executive. In the event of a termination of the Executive's employment which reasonably may require the payment of a Gross-Up Payment or in the event of a Change in Control, such documentation shall be provided no later than twenty (20) days following such event. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Corporation's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Code Section 280G(d)(1)); (ii) the present value of the Total Payments made to the Executive; (iii) the amount and present value of any "excess parachute payment;" and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Corporation, a firm of nationally-recognized executive compensation consultants. The Executive shall also have the right to obtain such an opinion of outside counsel in the event that the Corporation has not timely submitted the initial determination to the Accounting Firm as provided above (including, without limitation, in the event that the Corporation does not submit such a determination to the Accounting Firm following an event in connection with which the Executive reasonably believes that he may be entitled to a Gross-Up Payment). The outside counsel's opinion shall be binding upon the Corporation and the Executive and shall constitute the "Determination"

for purposes of this Exhibit B instead of the initial determination by the Accounting Firm. The Corporation shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section B.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Corporation must approve the Executive's selection, which approval shall not be unreasonably withheld.

A.3 Computation Assumptions. For purposes of determining whether any Total Payments will be subject to Excise Tax, and the amount of any such Excise Tax:

(a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon any change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, or with any Person whose actions result in such a change or any Person affiliated with the Corporation or such Persons) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax (for purposes of this Section B.3(a), "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof);

(b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;

(c) The compensation and benefits provided for in Section 5 of this Agreement, and any other compensation earned prior to the termination of the Executive's employment pursuant to the Corporation's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by a change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or a termination of the Executive's employment), shall for purposes of the calculation pursuant to this Section B.3 be deemed to be reasonable; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment

is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the date the Executive's employment terminates, and shall take into account the maximum reduction in federal income taxes that could be obtained from the deduction of such state and local taxes.

A.4 Executive's Obligation to Notify Corporation. The Executive shall promptly notify the Corporation in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Corporation of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Corporation notifies the Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Corporation any information reasonably requested by the Corporation relating to such claim; (b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation that is reasonably acceptable to the Executive; (c) cooperate with the Corporation in good faith in order to effectively contest such claim; and (d) permit the Corporation to participate in any proceedings relating to such claim; provided that the Corporation shall bear and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section B.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Corporation shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Executive to pay such claim and sue for a refund, the Corporation shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year

of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

A.5 Subsequent Recalculation. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section B.1, the Corporation shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section B.1, then the Executive shall promptly pay to the Corporation (without interest) the amount of such excess.

Exhibit 10.20

DIRECTOR AGREEMENT

THIS DIRECTOR AGREEMENT ("Agreement") is dated for reference purposes only as of this [___] day of [___], by and between [___] (the "Director") and OCULUS INNOVATIVE SCIENCES, INC., a California corporation (the "Company"), and shall become effective as of [___] (the "Effective Date").

WHEREAS, the Company is engaged in the business of developing innovative medical technologies;

WHEREAS, as of the Effective Date, the Director will be a duly elected director of the Company;

WHEREAS, the Company and the Director desire that the confidentiality obligations of the Director and the indemnification obligations of the Company be memorialized by this Agreement; and

WHEREAS, the Company desires that the Director be compensated for his services to the Company by the granting of options to purchase the stock of the Company on the terms provided herein.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants herein contained, the parties hereto agree as follows:

1. Director Availability. The Director shall make himself reasonably available to attend the noticed meetings of the Board of Directors of the Company at the Company's Petaluma offices, and if not practicable, by telephone conference call. The Director shall make himself reasonably available to the officers of the Company for purpose of general consultation in connection with the business of the Company.

2. Competing Activities. While a director of the Company, the Director shall not engage in any other employment, occupation, consulting or other business activity that is directly competitive with the business of the Company.

3. Covenant Not to Solicit. For the period beginning on the date hereof and ending on the date one (1) year after the completion or termination of the Director's engagement with the Company, the Director shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees to leave their employment, or take away such employees, or attempt to solicit, induce, recruit, encourage or take away employees of the Company, either for the Director or for any other person or entity.

4. Confidential Information. The Director acknowledges that during the course of his engagement with the Company that he will produce and have access to information relating to personnel, sales, forecasts, customers and financial, operational and scientific matters of the

Company, whether developed by the Director or by others (collectively, "Confidential Information"). The Director understands that any and all Confidential Information is received or developed by him and is disclosed to him in confidence, and is to be used only for the purposes for which it is provided. During the term of his engagement with the Company or thereafter, the Director shall not directly or indirectly, except as required by the normal business of the Company or expressly consented to in writing by the Board of Directors of the Company: (i) disclose, publish or make available any Confidential Information, other than to an employee, officer or director of the Company who, in the reasonable exercise of the Director's judgment, needs to know such Confidential Information in order to perform his duties to the Company; (ii) sell, transfer or otherwise use or exploit or permit the sale, transfer, use or exploitation of the Confidential Information for any purposes other than those for which they were provided; or (iii) remove from the Company's premises or retain upon termination of his engagement any Confidential Information, any copies thereof or any tangible or retrievable materials containing or constituting Confidential Information. The Director further agrees that all files, letters, memos, reports, sketches, drawings, customer lists, telephone lists or other written material containing Confidential Information which shall come into his possession shall be the exclusive property of the Company to be used only in the performance of Company duties. All such written materials shall be delivered to the Company upon termination of the Director's engagement with the Company.

The restrictions on the use or disclosure of Confidential Information shall not apply to any information that the Director can document is or was: (i) independently developed by the Director prior to the time of disclosure; (ii) in the public domain without breach of this Agreement and through no fault of the Director; (iii) at the time of disclosure to the Director properly known to such party free of restriction or lawfully received free of restriction from another source having the right to so furnish such information; or (iv) which the Company agrees in writing is free of such restrictions.

5. Equitable Remedies. The Director agrees that it would be impossible or inadequate to measure and calculate the Company's damages from any breach or threatened breach of the covenants set forth in sections 2, 3, and 4 of this Agreement. Accordingly, the Director agrees that in the event of any alleged breach or threatened breach of those sections, the Company will have available, in addition to any other right or remedy available, the right to obtain an injunction from a court of competent jurisdiction restraining such alleged breach or threatened breach.

6. Company Stock Options. As partial compensation for Director's services to the Company, the Director shall be granted an option to purchase [___] shares of Common Stock of the Company at an exercise price per share of $[___] (the "Stock Options"). Twenty percent (20%) of the Stock Options shall vest on each of the first five (5) annual anniversary dates of the grant date for each date on which Director is a director of the Company. The Stock Options must be exercised within five (5) years after the date on which the last vesting of the Stock Options occur; provided, however, that if the Director is requested to resign for cause (as defined below) or is removed for cause (as defined below), the Stock Options must be exercised, in whole or in part, within thirty (30) days of such resignation or removal.

Notwithstanding the foregoing, upon their grant, the Stock Options shall become immediately vested upon either of the following events:

(a) The Company becomes a public reporting company under the Securities Exchange Act of 1934 as a result of an initial public offering, merger or acquisition; and/or

(b) The Director is not reelected or is requested to resign without cause or removed without cause (as defined below) following a change in control (as defined below).

For purposes of this Agreement, "cause" means: (i) malfeasance in office; (ii) gross misconduct or neglect; (iii) gross incompetence or inefficiency; (iv) acts of moral turpitude; or (v) repeated failure to participate (either by telephone or in person) board meetings on a regular basis despite having received proper notice of the meetings at least 48 hours in advance thereof.

For purposes of this Agreement, "change in control" is defined as follows:

(i) When any "person", as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (other than the Company, a subsidiary of the Company or a Company employee benefit plan, including any trustee of such plan acting as a trustee) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under that Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) The occurrence of a transaction requiring shareholder approval and involving either the sale of all or substantially all of the assets of the Company or the merger of the Company with or into another entity.

The Stock Options and the underlying shares shall be subject to certain restrictions and legends as shall be specified in any documents authorizing such Stock Options and shares. The Stock Options and the underlying shares shall not be issued unless the issuance and delivery of such Stock Options and shares shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or quotation system upon which the underlying shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance of any underlying shares hereunder, shall relieve the Company of any liability in respect of the non-issuance of such Stock Options and shares as to which such requisite authority shall not have been obtained.

7. Expenses. The Director shall be entitled to reimbursement of his reasonable expenses incurred on behalf of the Company and reimbursement to the Director shall be due and made against an itemized list of such expenses. Any expenses in excess of $100 shall require the prior approval of the Company.

8. Indemnification. The Company will indemnify and defend the Director against any liability incurred in the performance of his services to the Company to the fullest extent authorized in Company's Articles of Incorporation, bylaws, and applicable law. The Company has purchased Director's and Officer's liability insurance, and Director shall be entitled to the protection of any insurance policies the Company maintains for the benefit of its directors and officers against all costs, charges and expenses in connection with any action, suit or proceeding to which he may be made a party by reason of his affiliation with the Company, its subsidiaries, or affiliates.

9 Assignment by Director. This Agreement is personal, and the Director's rights and obligations under this Agreement are not and shall not be transferable by assignment or otherwise. Any attempted assignment in violation of this section 9 shall be voidable at the Company's option and shall entitle the Company to terminate the Agreement.

10. Assignment by the Company. Nothing in this Agreement shall prevent the consolidation of the Company with, or its merger into, any other corporation or the assignment by the Company of this Agreement and the performance of its obligations hereunder to any affiliated company. If the Company shall merge into, sell, assign or transfer its operations to any successor, the Company shall have the right to assign all of its right, title and interest in this Agreement to such successor; provided, however, that such successor assumes and agrees to perform, from and after the date of such assignment, all of the terms, conditions and provisions imposed by this Agreement upon the Company. In the event of such an assignment by the Company and of such assumption and agreement by a successor, all further rights, as well as all further obligations, of the Company under this Agreement shall cease and terminate, and thereafter, the term "the Company" wherever used herein shall be deemed to refer to such successor or assignee. This Agreement shall inure to the benefit of, and be enforceable by, any corporate successor to or assignee of the Company.

11. Notice. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company at the address of its principal place of business, and any notice to be given to the Director shall be addressed to him at his home address last shown on the records of the Company, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be deemed to have been duly given when enclosed in a properly sealed and addressed envelope, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States government.

12. Construction. The provisions of this Agreement are divisible and, so far as they are covenants not to compete, shall be operative to the extent, both as to time and area covered, that they may be made so applicable; if any provisions, or any part hereof, are declared invalid or unenforceable, the validity and enforceability of the remainder of such provisions, or parts hereof, and the applicability hereof shall not be affected thereby.

13. Waiver. Waiver of any term or condition contained in this Agreement by any party to this Agreement shall not be construed as a waiver of a subsequent breach or failure of the same term or condition or a waiver of any other term or condition contained in this Agreement.

14. Applicable Law. The provisions of this Agreement shall be interpreted under, and performance of the parties hereto shall be governed by, the laws of the State of California.

15. Amendments. The provisions of this Agreement may be waived, amended, modified, or repealed, in whole or in part, only on the written consent of all parties to this Agreement.

16. Survival. The respective obligations and covenants of the parties under this Agreement which shall by their nature extend beyond the expiration or termination of this Agreement, including, without limitation, the confidentiality and non-solicitation obligations of the Director and the indemnification obligations of the Company, shall survive the termination or expiration of this Agreement.

17. Headings. The headings throughout this Agreement are for the convenience and reference purposes only and shall not be deemed to expand, modify, amplify, or aid in the interpretation, construction, or meaning of any provision of this Agreement.

18. Entire Agreement. The terms of this Agreement are intended by the parties as a final expression of their agreement with respect to such terms as are included in this Agreement, and such terms may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement constitutes the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial proceedings, if any, involving this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed or caused this Agreement to be executed as of the Effective Date.

The Director:	**The Company:**
_____	Oculus Innovative Sciences, Inc., a California corporation
	By: _____ Its: _____

Exhibit 10.21

CONSULTANT AGREEMENT

THIS AGREEMENT (this "Agreement") made and entered into this 1 Oct. 2005 by and between OCULUS INNOVATIVE SCIENCES INC. (hereinafter "Oculus"), a California Corporation and White Moon Medical, a company incorporated under the laws of Japan (hereinafter "Consultant").

WHEREAS, Oculus desires that consultant provide certain medical expertise, merger and acquisition know-how and knowledge of the business and engineering for the electrolysis of water (such services, including all know-how, trade secrets, copyrights and patentable inventions, being hereinafter referred to collectively as the "Materials");

WHEREAS, both Oculus and Consultant desire to set forth in writing the terms and conditions of their dealings, including rights as to the Materials;

NOW THEREFORE, in consideration of the premises hereof and the mutual covenants and conditions hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. CONSULTANT SERVICES. On the terms and conditions set forth herein, Oculus hereby engages Consultant during the term described below, and Consultant herby accepts such engagement, to coordinate and improve Oculus' medical expertise, clinical trial review and business efforts. Consultant agrees to use its best efforts, at a level consistent with persons having a similar level of education, experience and expertise in the industry, in the performance of the services called for hereunder. This Agreement is nonexclusive.

Section 2. TERM OF AGREEMENT. The term of this Agreement shall be for one (1) year commencing upon the full execution of this Agreement (the "Effective Date") and will automatically renew for consecutive one year periods unless either party terminates this Agreement pursuant to Section 10 below.

Section 3. INDEPENDENT CONTRACTOR. Consultant agrees that he shall be an independent contractor acting for or on behalf of Oculus. Consultant shall have no authority to contract for or bind Oculus in any manner. Consultant shall have no status as employee or any right to any benefits that Oculus grants its employees.

Section 4. COMPENSATION. Oculus agrees to pay Consultant ONE HUNDRED and FORTY THOUSAND ($140,000.00 USD) dollars for the services rendered by Consultant during the term of this Agreement. Oculus shall pay Consultant once monthly, payable by invoice at the end of each month of service. In addition, Consultant may be eligible for a certain milestone based bonuses, to be mutually agreed upon at a future date.

Section 5. OBLIGATION FOR EXPENSE. Oculus will reimburse Consultant for reasonable and appropriate out-of-pocket travel expenses according to a budget submitted by Consultant to, and approved by, Oculus. Consultant shall be responsible for

submitting a monthly expense report to Oculus for reasonable reimbursable expenses incurred by Consultant, including telephone, fax, mobile telephone, computer, Internet and general business expenses. Oculus shall have no duty or obligation to reimburse expenses for which a monthly expense report has not been submitted. From time to time, in anticipation of certain expenses such as airfare, extended travel and living expenses, Oculus may advance certain monies to Consultant pursuant to an expense budget mutually agreed upon by Oculus and Consultant. Any expense exceeding $1,000 will require pre-approval by Oculus.

Section 6. OWNERSHIP OF MATERIALS. Consultant agrees that all Materials, reports and other data or materials generated or developed by Consultant under this Agreement or furnished by Oculus to Consultant shall be and remain the property of Oculus. Consultant specifically agrees that all copyrightable Material generated or developed under this Agreement shall be considered works made for hire and that such material shall, upon creation, be owned exclusively by Oculus. To the extend that any such Material, under applicable law, may not be considered works made for hire, Consultant hereby assigns to Oculus the ownership of copyright in such Materials, without the necessity of any further consideration, and Oculus shall be entitled to obtain and hold in its own name all copyrights in respect of such Materials.

If and to the extend Consultant may, under applicable law, be entitled to claim any ownership interest in the Materials, reports and other data or materials generated or developed by Consultant under this Agreement, Consultant hereby transfers, grants, conveys, assigns and relinquishes exclusively to Oculus all of Consultant's right, title and interest in and to such Materials, under patent, copyright, trade, secret and trademark law, in perpetuity or for the longest period otherwise permitted by law.

Consultant shall perform any acts that may be deemed necessary or desirable by Oculus to evidence more fully transfer of ownership of all Materials designated under this Section 6 to Oculus to the fullest extent possible, including but not limited to the making of further written assignments in a form determined by Oculus.

To the extent that any preexisting rights are embodied or reflected in the Materials, Consultant hereby grants to Oculus the irrevocable, perpetual, non-exclusive, worldwide, royalty-free right and license to (1) use, execute, reproduce, display, perform, distribute copies of, and prepare derivative works based upon such preexisting rights and any derivate works thereof and (2) authorize others to do any or all of the foregoing.

Consultant hereby represents and warrants that it has full right and authority to perform its obligations and grant the rights and licenses herein granted and that it has neither assigned nor otherwise entered into an agreement by which it purports to assign or transfer any right, title, or interest to any technology or intellectual property right that would conflict with its obligations under this Agreement. Consultant covenants and agrees that it shall not enter into any such agreements.

Section 7. PROTECTION OF PROPRIETARY MATERIALS. From the date of execution hereof and for as long as the information or data remain Trade Secrets,

Consultant shall not use, disclose, or permit any person to obtain any Trade Secrets of Oculus, including any materials developed or generated hereunder (whether or not the Trade Secrets are in written or tangible form), except as specifically authorized by Oculus.

As used herein, "Trade Secret" shall mean a whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, or improvement that is valuable and not generally known to competitors of Oculus.

Irreparable harm should be presumed if Consultant breaches any covenant in this Agreement for any reason. This Agreement is intended to protect Oculus's proprietary rights pertaining to the Materials, and any misuse of such rights would cause substantial harm to Oculus's business. Therefore, Consultant agrees that a court of competent jurisdiction should immediately enjoin any breach of this Agreement, upon a request by Oculus.

Section 8. RETURN OF MATERIALS. Upon the request of Oculus, but in any event upon termination of this Agreement, Consultant shall surrender to Oculus all memoranda, notes, records, drawings, manuals, computer services and other documents or materials (and all copies of same) pertaining to the Materials, reports and other data or materials generated or developed by Consultant or furnished by Oculus to the Consultant, including all materials embodying any Trade Secrets. This Section is intended to apply to all materials made or compiled by Consultant, as well as to all materials furnished to Consultant by Oculus or by anyone else that pertain to the Materials.

Section 9. SCOPE OF AGREEMENT. This Agreement is intended by the parties hereto to be the final expression of their agreement and it constitutes the full and entire understanding between the parties with respect to the subject hereof, notwithstanding any representations, statements, or agreements to the contrary heretofore made. This Agreement may be amended only in writing signed by the parties to this Agreement.

For purpose of enforcing this Agreement, all sections of this Agreement, except Section 4 hereof, shall be construed as covenants independent of one another and as obligations distinct from all other contacts and agreements between the parties hereto.

Section 10. TERMINATION. This Agreement may be terminated by either party upon 30-days prior written notice to the other party. The respective obligations and covenants of the parties and this Agreement, which by their nature extend beyond the expiration or termination of this Agreement, including, without limitation, its confidentiality and warranty provisions, shall survive the termination or expiration of this Agreement.

Section 11. GOVERNING LAW. This Agreement is made under and in all respects shall be interpreted, construed and governed by and in accordance with the Laws of the State of California. Sole and exclusive jurisdiction in any case or controversy arising under this Agreement or by reason of this Agreement shall be with the Sonoma County Superior Court or the United States District Court for the Northern District of California,

and for this purpose each party hereby expressly and irrevocably consents to the exclusive jurisdiction of such courts.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the day and year first above written.

OCULUS INNOVATIVE SCIENCES INC.

/s/ Akihisa Akao, President
White Moon Medical

Date: September 28, 2005

By: /s/ Hojabr Alimi
Hojabr Alimi, Chief Executive Officer

Date: October 12, 2005

Exhibit 10.22

LEASING AGREEMENT

AGREEMENT MADE BY AND BETWEEN MR JOSE ALFONSO I. OROZCO PEREZ, HEREIN CALLED LESSOR AND BY OCULUS TECHNOLOGIES OF MEXICO, S.A. DE C.V., REPRESENTED BY MR EVERARDO GARIBAY RAMIREZ HEREIN CALLED LESSEE , WHICH IS ABIDED BY THE STATEMENTS AND CLAUSES HEREINAFTER SET FORTH:

D E F I N I T I O N S

1. The Lessor does hereby declare:

   a) To be of legal age, married, with capacity to celebrate the present agreement.

   b) The Lessor as well declares to have the free disposition of the warehouse located in Pedro Martinez Rivas,Parque Industrial Belenes Norte in Zapopan, Jalisco and that is its desire to give in Renting the building before described.

2. The Lessee by means of his representative declares:

   a) That it is legally constituted a Mexican mercantile society by means of deed number 3605 (three thousand, six hundred and five) dated 30 thirty April 2003 two thousand and three, granted in the presence of lawyer Armando G. Manzano, notary public no. 1 One of Michoacan State and registered under number 0000041 volume 000313 of the Commerce Society Book , of the Morelia district and that at the same time has register 686-687 volume 719 in the First Book of the Commerce Registry of Guadalajara City State of Jalisco, and that its Constancy of Registry in the Federal Tax Payer Record is: OTMO 30430-em5

b) That in agreement with its social objective and for its due execution it requires to take in renting the building described in the declaration of the Lessor, with an approximated extension of 500 five hundred square meters.

c) That its representative has all the rights to celebrate this Agreement on behalf of the Society and such rights have not been revoked as declared deed number 95370 dated 30 November 2005 two thousand and five, that is duly registered with number 688 volume 719 First Book of the Commerce Registry of Guadalajara City State of Jalisco

Established the aforementioned statements, parties declare agree with the following:

TERMS AND CONDITIONS

FIRST .- Lessor delivers in renting to the Lessee, who receives in the perfect conditions, the warehouse marked with number 861 in street Pedro Martínez Rivas located in the Industrial Park of Belenes North in Zapopan, Jalisco.

SECOND.- TERM OF THE AGREEMENT- The term of the renting will be of 1 year mandatory for both parties, counted as of day 15 fifteen of May 2006, two thousand and six and finishes the 14 fourteen of May of 2007 two thousand and seven. Once the term of the renting has finished, it is not understood as renewed unless expressed and agreed in writing. Consequently the Lessee resigns to the right of extending the term as stipulated in Article 2051 of the civil Code of Jalisco

THIRD.- USE: Lessee will exclusively use the property comprised in this Agreement for the storage of pharmaceutical products.

FOURTH.-

A) RENT: Lessee shall pay to Lessor a monthly rent of $23,000.00 (Twenty-three thousand pesos M.N.) plus VAT, less retention the fifth day of every moth otherwise it will cause a monthly interest of 3%. This rent does not include the payment of maintenance fees established by the Joint/Ownership assembly of Belenes North Industrial Park and that Lessee will directly pay to the Joint/ Ownership Administration the garbage collection.

B) PAYMENT .- The payment of the monthly rent as well as of the conventional fine, if any will have to be in the Lessor's address indicated in Clause Thirteenth or by means of a Bank Transfer to the account designated by Lessor

C) DEPOSIT.- Lessee shall deposit with Lessor $46,000.00 (Forty six thousand pesos 00/100 M.N.) for the security to execute Lessee's obligations under this lease serving the present Agreement as the most ample receipt; Lessor commits to return this amount without interests, once Lessee vacates the building and that it is verified that does not exist pending debts, nor damages to the rented building.

FIFTH.- LAND TAXES AND EXPENSES. Payment of contributions and land taxes will be covered by Lessor, while payment of Electricity, fees and telephone bills will be covered by Lessee who will have no overdue debt when leaving the building.

SIXTH.- IMPROVEMENTS AND ALTERATIONS: So that the Lessee can make improvements or decorative alterations to the rented building he will require:

1. The municipal, state or federal permissions necessary to make the alterations mentioned in the preceding paragraph.
2. Previous consent in writing of the Lessor.

All the improvements, constructions or additions that the rented building will have, shall remain as benefit of this building and the Lessee will not have to right to ask for any kind or indemnification as granted for 2003 by the Civil Code for the State of Jalisco.

SEVENTH.- MAINTENANCE: The Lessee declares have received the building in good shape for the agreed usage, committing himself to return it in the same conditions; as well Lessee shall at its own expense and at all times, maintain the premises in a good and safe condition, including plate glass, electrical wiring, pluming and air conditioners. Therefore, Lessee shall take all kind of preventive acts in order to avoid fires and all those necessary conditions to safeguard facilities, constructions and third parties contiguous buildings .For such effect Lessee signs and accepts attached photographs as part of this agreement.

EIGHT.- SUBLEASE: Lessee shall not be able to sublease , transfer or grant in any form the use of or rented building or the rights of the this contract to third parties; any such assignment or subletting without consent shall be void and at the option of the Lessor, may terminate this lease.

NINTH.- RESCISSION: Lessor will be able to demand the rescission of the Contract in addition to causal of Articles 2140 of the Civil Code of the

State of Jalisco because of lack of payment and the lack of maintaining an insurance policy to cover this Agreement.

TENTH.- In the event that at the end of this contract the Lessee does not delivers the building empty to the Lessor and independently of the right of the Lessor to take legal actions that correspond for such breach, Lessee shall pay a conventional fine of 75% of the total amount of a monthly rent, besides covering monthly rents for all such time that building continues occupied, without considering this agreement as being renewed since it is understood that such delay does not have consent of the Lessor

ELEVENTH.- ATTORNEY'S FEES: In case suit should be brought for recovery of the premises, or for any sum due hereunder, or because of any act which may arise out of the possession of the premises Lessee shall be responsible for the expenses caused and shall be entitled to pay attorney's fees in the amount of one and a half month rent.

TWELFTH .- INSURANCES: Lessee at his expense shall maintain an insurance policy and have it effective throughout the time that occupies the building, to guarantee damages to the building and to third parties caused by fire, explosion and in general any other act that can cause some damage to the building or to third parties, with sufficient coverage to guarantee the repair caused by damages, and is obliged to give to Lessor copy of such insurance policy in day fifteen after the signature of this Agreement.

THIRTEEN. — ADDRESSES — For the case of judicial or extrajudicial notification, parties declare the following addresses:

LESSOR: Av 5 de Febrero 554, Sector Reforma de Guadalajara, Jalisco.

LESSE: Pedro Martínez Rivas 681, Parque Industrial Belenes Norte en Zapopan, Jalisco.

FOURTEEN.- COMPETITION: The parties specifically resign to the actual or future domiciliary law and in the event of jurisdiction will submit to Guadalajara City courts.

The parties accept the content, legal scope and consequences of this Agreement, as well as the text of the legal articles mentioned herewith. With regard to the above it is co-signed in duplicate in Guadalajara City, Jalisco State on 5 May 2006

/s/
LESSOR

/s/
LESSEE

/s/
WITNESS

Exhibit 21.1

Subsidiaries of Registrant

1. Oculus Technologies of Mexico, S.A. de C.V., a corporation organized under the laws of Mexico.
2. Oculus Innovative Sciences Netherlands B.V., a corporation organized under the laws of the Netherlands.

Exhibit 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc. and Subsidiaries on Form S-1, of our report dated June 21, 2006, with respect to our audits of the consolidated financial statements of Oculus Innovative Sciences, Inc. and Subsidiaries as of March 31, 2005 and 2006 and for each of the three years in the period ended March 31, 2006, which report appears in the Prospectus, which is part of this Registration Statement. We also consent to the reference to our Firm under the heading "Experts" in such Prospectus.

/s/ Marcum & Kliegman llp

Marcum & Kliegman llp
New York, New York
June 29, 2006

PILLSBURY WINTHROP SHAW PITTMAN LLP
2475 Hanover Street
Palo Alto, CA 94304
Tel: (650) 233-4500
Fax: (650) 233-4545

July 3, 2006

VIA ELECTRONIC TRANSMISSION
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: Oculus Innovative Sciences, Inc.
Registration Statement on Form S-1

Ladies and Gentlemen:

On behalf of Oculus Innovative Sciences, Inc. (the "Registrant"), transmitted herewith for filing with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), is one conformed copy of the Registrant's Registration Statement on Form S-1, together with the exhibits thereto (except for exhibits that will be filed by amendment). Manually executed signature pages and consents have been executed prior to the time of this electronic filing and will be retained by Registrant for five (5) years.

The filing fee of $8,614 has been calculated pursuant to Rule 457(o) of the General Rules and Regulations under the Act and has been sent by wire transfer to the Commission's lockbox at The Mellon Bank in Pittsburgh, Pennsylvania as required by Rule 13(c) of Regulation S-T. The wire was sent on Friday, June 30, 2006.

The representatives of the underwriters have advised us that the proposed offering will be reviewed by representatives of the National Association of Securities Dealers, Inc. (the "NASD") and that copies of the Registration Statement and Underwriting Agreement are being forwarded to the NASD.

The Registrant and the managing underwriters have authorized us to advise you that, as contemplated by Rule 461(a) under the Act, they may make oral requests for the acceleration of the Registration Statement's effectiveness and that they are aware of their respective obligations under the Act.

Please direct any questions or information regarding this filing to the undersigned at (650) 233-4523.

Very truly yours,

/s/ Noelle Matteson

Noelle Matteson

cc: The Nasdaq National Market

Hojabr Alimi
Robert Miller

Sylvia K. Burks, Esq.
Gabriella A. Lombardi, Esq.