Table of Contents

As filed with the Securities and Exchange Commission on September 18, 2006

Registration No. 333-135584

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

AMENDMENT NO. 1
TO

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. ☐

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.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting any offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 18, 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 Global 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 8 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

TABLE OF CONTENTS

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 wounds. In clinical testing, our products eliminated a wide range of pathogens and were found to be safe, easy to use and complementary to 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 respiratory, dermatology, mold and atmospheric remediation, hard surface disinfectant and dental markets.

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, we believe 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 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. In July 2006, we completed a pivotal clinical trial for pre-operative skin preparation. The FDA has requested an additional pivotal trial and additional microbiology and dermatology studies. Before we initiate our second pivotal trial, we plan to discuss with the FDA its request for an additional pivotal trial and additional data. Depending on the results of these discussions, we may reassess our priorities, clinical timelines and schedules for filing the NDA for pre-operative skin preparation. In the event that we proceed with the second pivotal trial and, assuming that the second pivotal trial and the additional studies are successful, we intend to file a New Drug Application, or NDA, for the use of Microcyn as a pre-operative skin preparation in late 2007. 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 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 comparing our product with existing treatments.

We began selling our Microcyn-based 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 a seven-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 our medical and clinical employees.

We currently offer the following products:

Geographic Region	Brand Name	Indication
United States	Dermacyn Wound Care	A medical device product intended for moistening absorbent wound dressings and cleaning, moistening, lubricating and debriding specified types of wounds.
	Vetericyn Wound Care	A product used for the management of traumatic wounds, cuts, abrasions, skin irritations, post-surgical incisions and minor burns in animals.
European Union	Dermacyn Wound Care	A product intended for the reduction of microbial load for use in debriding, irrigating and moistening specified types of wounds.
	Oculus Microcyn Disinfectant	A disinfectant solution for medical devices.
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 product intended for use in cleaning and debriding in wound management.
Canada	Dermacyn Wound Care	A product used in moistening, irrigating, cleansing and debriding skin lesions.

In the event that we proceed with the second pivotal trial for pre-operative skin preparation, upon successful completion of that trial and additional clinical studies and receipt of the necessary FDA regulatory approvals, we plan to market Microcyn in the United States as a drug used for pre-operative skin preparation.

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 and Bacitracin.

Our Solution

We believe our products have the following key features:

- ***Effective.*** In physician clinical testing, our products eliminated a wide range of bacteria that cause infection in a variety of acute and chronic wounds. In addition, we believe that, 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 independently from 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 products.
- ***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, our laboratory tests show 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 to most advanced technologies used to treat serious wounds, 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 and physician clinical studies indicate that Microcyn eliminates infection, can accelerate healing time and, in certain cases, 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, including the following risks:

- we have a history of losses, expect to continue to incur losses and may never achieve profitability;
- all of our current products are based on our Microcyn platform technology;
- Microcyn was recently found to be ineffective as a high level disinfectant in killing certain strains of pathogens under current Environmental Protection Agency testing protocols;

- we do not have regulatory approval to market Microcyn as a drug in the United States;
- we are required to conduct lengthy and expensive clinical trials, which may not be successful or lead to regulatory approvals; and
- in connection with their dismissal in April 2006, our former independent registered public accounting firm has notified us of a number of reportable events it deemed to constitute material weaknesses over financial reporting that could impact our ability to develop reliable financial statements in a timely manner.

Recent Developments

On September 14, 2006, we sold 338,156 units, consisting of 338,156 shares of our Series C convertible preferred stock and warrants to purchase 67,631 shares of our common stock at an exercise price of $4.50 per share, at a per unit price of $4.50 for aggregate gross proceeds of $1,521,702. In connection with this sale, we paid to Brookstreet Securities Corporation, as placement agent, an aggregate of $152,170 in commissions and issued to Brookstreet fully vested warrants to purchase an aggregate of 42,269 shares of our common stock at an exercise price of $4.50 per share. We refer to this transaction as the Series C Financing elsewhere in this prospectus.

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 certain 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 Microcyn60 in Mexico. We may agree to cease marketing our product in Mexico under the name Microcyn60 as a result of the proposed settlement of a trademark confusion claim 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 Global Market symbol	OCLS

The number of shares of common stock that will be outstanding immediately after this offering is based upon 32,825,646 shares of common stock outstanding as of June 30, 2006 and does not include:

- 8,741,074 shares of our common stock issuable upon the exercise of outstanding stock options and options to be granted in connection with this offering, at a weighted-average exercise price of $1.19 per share;
- 3,892,296 shares of our common stock issuable upon the exercise of outstanding warrants, at a weighted average exercise price of $2.66 per share; and
- up to additional shares of our common stock reserved for future grants under our equity plans, including our 2006 Stock Incentive Plan.

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 reverse 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:

- 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;
- on a pro forma as adjusted basis to give effect to:
  - the completion of the Series C Financing; and
  - 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,			Three Months Ended June 30,	
	2004	2005	2006	2005	2006
				(unaudited)	
Consolidated Statements of Operations Data:					
Revenues					
Product	$ 95	$ 473	$ 1,966	$ 255	$ 904
Service	807	883	618	151	174
Total revenues	902	1,356	2,584	406	1,078
Cost of revenues					
Product[1]	1,403	2,211	3,899	490	504
Service[1]	1,265	1,311	1,003	249	201
Total cost of revenues	2,668	3,522	4,902	739	705
Gross profit (loss)	(1,766)	(2,166)	(2,318)	(333)	373
Operating expenses					
Research and development[1]	1,413	1,654	2,600	256	767
Selling, general and administrative[1]	3,918	12,492	15,933	3,395	3,646
Total operating expenses	5,331	14,146	18,533	3,651	4,413
Loss from operations	(7,097)	(16,312)	(20,851)	(3,984)	(4,040)
Interest expense	(178)	(372)	(172)	(69)	(39)
Interest income	3	8	282	13	58
Other income (expense), net	(26)	146	(377)	(25)	(276)
Net loss from continuing operations	(7,298)	(16,530)	(21,118)	(4,065)	(4,297)
Loss on discontinued operations	—	—	(1,981)	(77)	—
Net loss	(7,298)	(16,530)	(23,099)	(4,142)	(4,297)
Preferred stock dividends	—	—	(121)	—	(121)
Net loss available to common stockholders	$ (7,298)	$ (16,530)	$ (23,220)	$ (4,142)	$ (4,418)
Net loss per common share: basic and diluted	$ (0.47)	$ (1.06)	$ (1.40)	$ (0.26)	$ (0.26)
Weighted-average number of shares used in per common share calculations: basic and diluted	15,647	15,659	16,602	15,878	16,881
Pro forma net loss per common share: basic and diluted			$ (0.75)		$ (0.13)
Pro forma weighted-average number of shares used in per common share calculations: basic and diluted			30,728		32,815

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

	Year Ended March 31,			Three Months Ended June 30,	
	2004	2005	2006	2005	2006
				(unaudited)	
Cost of revenues					
Product	$ —	$ 2	$ 2	$ 1	$ —
Service	10	3	1	—	—
Operating expenses					
Research and development	56	5	52	12	20
Selling, general and administrative	358	2,339	542	96	104

	As of June 30, 2006	
	Actual	Pro Forma As Adjusted
		(unaudited)
Consolidated Balance Sheet Data:		
Cash and cash equivalents(1)	$ 6,134	
Working capital(1)	3,393	
Total assets(1)	13,378	
Total liabilities	9,073	
Total stockholders' equity(1)	4,305	

(1) A $1.00 increase or decrease in the assumed initial public offering price of $ per share would increase or decrease, as applicable, 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, $23.1 million and $4.3 million for the years ended March 31, 2004, 2005 and 2006 and the three months ended June 30, 2006, respectively. Our accumulated deficit as of June 30, 2006 was $54.7 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 34.3% of our product revenues for the three months ended June 30, 2006, but were just 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.

One of our products was recently found to be ineffective as a high level disinfectant in killing certain strains of pathogens under current Environmental Protection Agency, or EPA, testing protocols. As a result, we have discontinued marketing our Cidalcyn disinfectant.

We previously offered our Microcyn-based pesticide product, Cidalcyn, as a hospital disinfectant, and stated on its label, registered with the EPA, that it was effective in eliminating a broad range of bacteria, as well as the HIV virus and certain fungi. Although we have not marketed Cidalcyn on a large commercial scale, we have provided it in small quantities to numerous hospitals for use in product evaluation. In August 2006, we received a "show cause" letter from the EPA, which stated that, in tests conducted by the EPA, Cidalcyn was found to be ineffective in killing three specified pathogens (pseudomonas aeginose, staphylococcus aureus and mycobacterium tuberculosis) when used according to label directions, which prevents us from marketing Cidalcyn as a hospital grade disinfectant. Our subsequent testing has confirmed two of the three EPA results. Based on its results, the EPA strongly recommended that we immediately recall all Cidalcyn distributed on and after September 28, 2005. Accordingly, we have commenced a voluntary recall of Cidalcyn under the current label. In a second letter, the EPA stated it intended to file a civil administrative complaint against us for violation of federal pesticide legislation. The EPA could assess civil penalties related to the sale and distribution of a pesticide product that does not meet the label's claims. We believe that such civil penalties could be up to $200,000. The EPA could also require us to stop selling our product, or require us to remove Cidalcyn from the market. Unless and until we prove the label claims of Cidalcyn to the EPA, there will not be any further sales of the product in the United States.

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. At a meeting in August 2006, the FDA requested an additional pivotal trial and additional microbiology and dermatology studies. We expect that this second pivotal trial will have the same design, size and endpoints as our prior pivotal trial, which was completed in July 2006. In the event that we proceed with the second pivotal trial and, assuming that the second pivotal trial and these additional studies are successful, we intend to file an NDA for Microcyn as a pre-operative skin preparation in late 2007. We also intend to seek FDA approval for the use of Microcyn to 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 2008, and any approval for the use of Microcyn to 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.

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 progress and timing of our clinical trials;
- 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.

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

Clinical trials can be long and expensive, and the outcome of clinical trials is 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. The FDA has requested an additional pivotal trial and microbiology and dermatology studies before we submit an NDA for Microcyn as a pre-operative skin preparation. We will be required to conduct additional clinical trials prior to seeking approval of Microcyn for additional indications. 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 United States, 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. In connection with our efforts to commercialize Microcyn as a pre-operative skin preparation, the FDA has requested an additional pivotal trial and additional microbiology and dermatology studies. Before we initiate our second pivotal trial, we plan to discuss with the FDA its request for an additional pivotal trial and additional data. Depending on the results of these discussions we may reassess our priorities, clinical timelines and schedules for filing the NDA for pre-operative skin preparation. We will be required to conduct additional clinical trials prior to seeking approval of Microcyn for additional indications. 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 relationship with a former 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. In connection with these agreements, an individual designated by us who is also one of our executive officers, concurrently acquired, in his individual capacity, a small equity interest in QP. We were granted 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 prior independent auditors informed us that we did not have effective anti-fraud programs designed to detect the type of activities in which QP's principals engaged or the personnel to effectively evaluate and determine the appropriate accounting for non-routine or complex accounting transactions. 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 do not believe that we are 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. We have been informed by counsel in Mexico that the statute of limitations, including for actions for fraud, is five years from the date of our last tax return, which was March 31, 2006.

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 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.

Our former independent registered public accounting firm has notified us of a number of reportable events constituting a material weakness over financial reporting which, if not successfully remedied, may among other things, impact our ability to develop reliable financial statements and comply with our reporting obligations as a public company.

In August 2006, our former independent registered public accounting firm, PricewaterhouseCoopers LLP, or PWC, notified us of a number of deficiencies it believes comprise reportable events that may, among other things, impact our ability to develop reliable financial statements. In its letter, PWC stated that it had advised our audit committee of the following:

- the absence of financial accounting personnel with sufficient skills and experience to effectively evaluate and determine the appropriate accounting for non-routine and/or complex accounting transactions consistent with accounting principles generally accepted in the United States, which resulted in a number of material audit adjustments to the financial statements during the course of audit procedures;
- the failure to maintain effective controls to ensure the identification of accounting issues related to and the proper accounting for stock options with the right of rescission that were granted under certain stock option plans that required registration or qualification under federal and state securities laws primarily due to insufficient oversight and lack of personnel in the accounting and finance organization with the appropriate level of accounting knowledge, experience and training;
- the failure to maintain an effective anti-fraud program designed to detect and prevent fraudulent activities in QP;
- the need to expand significantly the scope of the audit of QP to assess the impact of identified fraudulent activities on our financial statements, in which regard PWC advised our audit committee that the results of the fraud investigation may cause PWC to be unwilling to be associated with our financial statements;
- the "tone at the top" set by our senior management does not appear to encourage an attitude within our company that controls are important or that established controls cannot be circumvented;
- we did not have the appropriate financial management and reporting infrastructure in place to meet the demands that will be placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act of 2002, and that we will be unable to report our financial results accurately or in a timely manner; and
- significant control deficiencies, when considered in the aggregate, constituted a material weakness over financial reporting.

We have filed a copy of the letter from PWC as an exhibit to the registration statement of which this prospectus forms a part. For additional information, please see "Change in Independent Registered Public Accounting Firm."

We may agree to change the brand name of our product in Mexico, which may result in the loss of any brand recognition that we have established with users of our products.

We have marketed our products in Mexico under the brand name of Microcyn60. In accordance with the proposed settlement of a trademark confusion lawsuit filed against us in Mexico, we may agree to stop using the name Microcyn60 in Mexico. As a result, we may lose the benefit of the brand name recognition we have generated in the region and our product sales in Mexico could decline. In locations where we have distributed our products, we believe that the brand names of those products have developed name recognition among consumers who purchase them. Any change to the brand name of our other products may cause us to lose such name recognition, which may lead to confusion in the marketplace and a decline in sales of our products.

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 our medicial and clinical employees. We plan to sell directly into the United States markets and we plan to expand our domestic sales force in connection 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.

We intend to license or collaborate with third parties in various potential markets, and events involving these strategic partners or any future collaborations could delay or prevent us from developing or commercializing products.

Our business strategy and our short- and long-term operating results will depend in part on our ability to execute on existing strategic collaborations and to license or partner with new strategic partners. We believe collaborations allow us to leverage our resources and technologies and to access markets that are compatible with our own core areas of expertise while avoiding the cost of establishing a direct sales force in each market. To penetrate our target markets, we may need to enter into additional collaborative agreements to assist in the

development and commercialization of future products. For example, depending upon our analysis of the time and expense involved in obtaining FDA approval to sell a product to treat open wounds, we may chose to license our technology to a third party as opposed to pursuing commercialization ourselves. Establishing strategic collaborations is difficult and time-consuming. Potential collaborators may reject collaborations based upon their assessment of our financial, regulatory or intellectual property position and our internal capabilities. Our discussions with potential collaborators may not lead to the establishment of new collaborations on favorable terms. We have limited control over the amount and timing of resources that our current collaborators or any future collaborators devote to our collaborations or potential products. These collaborators may breach or terminate their agreements with us or otherwise fail to conduct their collaborative activities successfully and in a timely manner. Further, our collaborators may not develop or commercialize products that arise out of our collaborative arrangements or devote sufficient resources to the development, manufacture, marketing or sale of these products. By entering into a collaboration, we may preclude opportunities to collaborate with other third parties who do not wish to associate with our existing third party strategic partners. Moreover, in the event of termination of a collaboration agreement, termination negotiations may result in less favorable terms.

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. If the FDA determines that our promotional materials or activities constitute promotion of an unapproved use or we otherwise fail to comply with FDA regulations, we may be subject to regulatory enforcement actions, including a warning letter, injunction, seizure, civil fine or criminal penalties. 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, European 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.

We may experience difficulties in manufacturing Microcyn, which could prevent us from commercializing one or more of our products.

The machines used to manufacture our Microcyn-based products are complex, use complicated software and must be monitored by highly trained engineers. Slight deviations anywhere in our manufacturing process, including quality control, labeling and packaging, could lead to a failure to meet the specifications required by the FDA, EPA, European notified bodies and Mexican regulatory agencies, which may result in lot failures or product recalls. In August 2006, we received a “show cause” letter form the EPA, which stated that, in tests conducted by the EPA, Cidalcyn was found to be ineffective in killing specified pathogens when used

according to label directions. We have begun gathering records for review to determine if there might have been any problems in production of the lot tested by the EPA. We have also quarantined all remaining quantities of the production lot in question. If we are unable to obtain quality internal and external components, mechanical and electrical parts, if our software contains defects or is corrupted, or if we are unable to attract and retain qualified technicians to manufacture our products, our manufacturing output of Microcyn, or any other product candidate based on our platform that we may develop, could fail to meet required standards, our regulatory approvals could be delayed, denied or revoked, and commercialization of one or more of our Microcyn-based products may be delayed or foregone. Manufacturing processes that are used to produce the smaller quantities of Microcyn needed for our clinical test and current commercial sales may not be successfully scaled up to allow production of significant commercial quantities. Any failure to manufacture our products to required standards on a commercial scale could result in reduced revenues, delays in generating revenue and increased costs.

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, only one patent has been issued from these applications to date.

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 with 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. In May 2006, a second unrelated complaint was filed against us in Mexico claiming confusion in trademarks with respect to our Microcyn60 mark. We may agree to cease marketing our product in Mexico under the name Microcyn60 as a result of the proposed settlement of the initial lawsuit. 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 United States Congress and state legislatures will likely continue to focus on health care reform, the cost of prescription pharmaceuticals and 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 and the three months ended June 30, 2006, approximately 10%, 35%, 75% and 81%, 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, 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. We incurred foreign currency exchange losses of $4,000, $283,000 and $272,000 for the fiscal years ended March 31, 2004 and 2006 and the three months ended June 30, 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 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.

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 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. If there is a change in law, regulation or administrative or judicial interpretations of these laws, we may have to change our business practices or our existing business practices could be challenged as unlawful, which could have a negative effect on our business, financial condition and results of operations.

If our past or present operations are found to be in violation of these laws or other similar governmental regulations to which we or our customers are subject, we may be subject to penalties, which may include:

- criminal and civil sanctions;
- damages;
- fines;
- imprisonment;
- exclusion from participation in federal and state healthcare programs, including Medicare, Medicaid and Veterans Administration healthcare programs; and
- the curtailment or restructuring of our operations.

Healthcare fraud and abuse laws are complex and even minor, inadvertent irregularities can potentially give rise to claims that a statute or regulation has been violated.

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. Any violations of these laws, or any action against us for violation of these laws, even if we successfully defend against it, could harm our reputation, be costly to defend and divert management's attention from other aspects of our business. Similarly, if the physicians or other providers or entities with whom we do business are found to have violated abuse laws, they may be subject to sanctions, which could also have a negative impact on us.

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 Microcyn-based 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. In a letter following their dismissal, our prior independent auditors informed us that we did not have the appropriate financial management and reporting structure in place to meet the demands of a public company and

that our accounting and financial personnel lacked the appropriate level of accounting knowledge, experience and training. 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 experience with QP indicated 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 Global 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. 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
1,066,400 shares, or %	Immediately
1 share, or %	90 days after the date of this prospectus
26,145,765 shares, or %	Immediately upon expiration of the 180-day lock up agreement
5,951,636 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:

- the establishment of a classified board of directors requiring that not all directors be elected at one time;
- the ability of our board of directors to issue and designate the rights of, without stockholder approval, up to 5,000,000 shares of preferred stock, which rights could be senior to those of common stock;
- 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.

Purchasers in this offering may experience substantial dilution in the value of their investment if we issue additional shares of our capital stock.

Our charter documents allow us to issue up to 100,000,000 shares of our common stock and to issue and designate the rights of, without stockholder approval, up to 5,000,000 shares of preferred stock. In the event we issue additional shares of our capital stock, dilution to our stockholders could result. In addition, if we issue and designate a class of preferred stock, these securities may provide for rights, preferences or privileges senior to those of holders of our common stock.

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 regulatory 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;
- 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 which may 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 market data that we obtained from industry sources. These sources do not guarantee the accuracy or completeness of the information. Although we believe that the industry sources are reliable, we have not independently verified the 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 $ 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.

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 in Europe and the United States;
- 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 expenditures 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. Pending these uses described above, we intend to invest the net proceeds in short-term, investment grade securities.

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.

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 capitalization as of June 30, 2006:

- on an actual basis;
- on a pro forma as adjusted basis to give effect to:
  - the completion of the Series C Financing;
  - 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 June 30, 2006	
	Actual	Pro Forma As Adjusted
		(unaudited)
	(In thousands, except share and per share data)	
Short-term debt	$ 1,571	$
Long-term debt, less current portion	$ 3,251	$
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; 16,890,928 shares issued and outstanding, actual; shares issued and outstanding, pro forma as adjusted	3,399	
Additional paid-in capital(1)	5,667	
Deferred compensation	(650)	
Accumulated other comprehensive gain (loss)	217	
Accumulated deficit	(54,718)	
Total stockholders' equity(1)	4,305	
Total capitalization(1)	$ 9,127	$

(1) A $1.00 increase or decrease in the assumed initial public offering price of $ per share would increase or decrease, as applicable, 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 information set forth in the table excludes as of June 30, 2006:

- 8,741,074 shares of our common stock issuable upon the exercise of outstanding stock options and options to be granted in connection with this offering, at a weighted average exercise price of $1.19 per share;
- 3,892,296 shares of our common stock issuable upon the exercise of outstanding warrants, at a weighted average exercise price of $2.66 per share; and
- up to additional shares of our common stock reserved for future grant under our equity plans, including our 2006 Stock Incentive Plan.

DILUTION

Our net tangible book value as of June 30, 2006 was approximately $4.3 million, or $0.13 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 and giving effect to the sale of 338,156 shares of Series C convertible preferred stock at $4.50 per share on September 14, 2006, our pro forma as adjusted net tangible book value as of June 30, 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 June 30, 2006	$ 0.13	
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, pro forma as adjusted net tangible book value per share by $ per share and the dilution to 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 September 15, 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	33,163,802	%	$ 60,601,755	%	$ 1.83
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 33,163,802 shares of our common stock outstanding as of September 15, 2006, reflects the automatic conversion of our preferred stock into 16,272,874 shares of common stock and excludes:

- 8,741,074 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 $1.19 per share;
- 3,892,296 shares of our common stock issuable upon the exercise of outstanding warrants, at a weighted average exercise price of $2.66 per share; and
- up to additional shares of our common stock reserved for issuance under our equity plans, including our 2006 Stock Incentive Plan.

If all of our outstanding options and warrants as of September 15, 2006 were exercised, our 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 the three months ended June 30, 2005 and 2006 and the selected consolidated balance sheet data as of June 30, 2006 are derived from our unaudited 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 and related notes 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 as of March 31, 2002, 2003 and 2004 have been derived from our consolidated financial statements and related notes 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. The unaudited financial statements include, in the opinion of management, all adjustments that management considers necessary for the fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results that may be expected in the future.

	Year Ended March 31,					Three Months Ended June 30,	
	2002	2003	2004	2005	2006	2005	2006
		(unaudited)				(unaudited)	
	(In thousands, except per share data)						
Consolidated Statements of Operations Data:							
Revenues							
Product	$ —	$ —	$ 95	$ 473	$ 1,966	$ 255	$ 904
Service	2,000	2,470	807	883	618	151	174
Total revenues	2,000	2,470	902	1,356	2,584	406	1,078
Cost of revenues							
Product[1]	—	—	1,403	2,211	3,899	490	504
Service[1]	815	1,768	1,265	1,311	1,003	249	201
Total cost of revenues	815	1,768	2,668	3,522	4,902	739	705
Gross profit (loss)	1,185	702	(1,766)	(2,166)	(2,318)	(333)	373
Operating expenses							
Research and development[1]	6	68	1,413	1,654	2,600	256	767
Selling, general and administrative[1]	1,326	2,102	3,918	12,492	15,933	3,395	3,646
Total operating expenses	1,332	2,170	5,331	14,146	18,533	3,651	4,413
Loss from operations	(147)	(1,468)	(7,097)	(16,312)	(20,851)	(3,984)	(4,040)
Interest expense	(24)	(123)	(178)	(372)	(172)	(69)	(39)
Interest income	—	—	3	8	282	13	58
Other income (expense), net	4	(4)	(26)	146	(377)	(25)	(276)
Net loss from continuing operations	(167)	(1,595)	(7,298)	(16,530)	(21,118)	(4,065)	(4,297)
Loss on discontinued operations	—	—	—	—	(1,981)	(77)	—
Net loss	(167)	(1,595)	(7,298)	(16,530)	(23,099)	(4,142)	(4,297)
Preferred stock dividends	—	—	—	—	(121)	—	(121)
Net loss available to common stockholders	$ (167)	$ (1,595)	$ (7,298)	$ (16,530)	$ (23,220)	$ (4,142)	$ (4,418)
Net loss per common share: basic and diluted[2]							
Continuing operations	(0.01)	(0.10)	(0.47)	(1.06)	(1.28)	(0.26)	(0.26)
Discontinued operations	—	—	—	—	(0.12)	—	—
	$ (0.01)	$ (0.10)	$ (0.47)	$ (1.06)	$ (1.40)	$ (0.26)	$ (0.26)
Weighted average number of shares used in per common share calculations: basic and diluted	15,182	15,309	15,647	15,659	16,602	15,878	16,881
Pro forma net loss per common share: basic and diluted					$ (0.76)		$ (0.13)
Pro forma weighted average number of shares used in per common share calculations: basic and diluted					30,728		32,815

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

	Year Ended March 31,					Three Months Ended June 30,	
	2002	2003	2004	2005	2006	2005	2006
		(unaudited)				(unaudited)	
				(In thousands)			
Cost of revenues							
Product	$ —	$ —	$ —	$ 2	$ 2	$ 1	$ —
Service	—	55	10	3	1	—	—
Operating expenses							
Research and development	—	—	56	5	52	12	20
Selling, general and administrative	—	186	358	2,339	542	96	103

(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,					As of June 30,
	2002	2003	2004	2005	2006	2006
		(unaudited)				(unaudited)
			(In thousands)			
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 764	$ 177	$ 869	$ 3,287	$ 7,448	$ 6,134
Working capital	889	(145)	(1,186)	663	5,127	3,393
Total assets	1,687	961	2,992	6,940	12,689	13,378
Total liabilities	747	1,040	3,374	4,738	5,351	9,073
Total stockholders' equity (deficit)	940	(79)	(382)	2,202	7,338	4,305

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 wounds. In clinical testing, our products eliminated a wide range of pathogens and were found to be safe, easy to use and complementary to 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 respiratory, dermatology, mold and atmospheric remediation, hard surface disinfectant and dental markets.

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, we believe 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 our medical and clinical employees and through one national and five regional distributors. In Europe, we have a seven-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.

Our products have received CE Mark approval for wound cleaning and reduction of infection, three U.S. FDA 510(k) clearances 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. In July 2006, we completed a pivotal clinical trial for pre-operative skin preparation. The FDA has requested an additional pivotal trial and additional microbiology and dermatology studies. Before we initiate our second pivotal trial, we plan to discuss with the FDA its request for an additional pivotal trial and additional data. Depending on the results of these discussions, we may reassess our priorities, clinical timelines and schedules for filing the NDA for pre-operative skin preparation. In the event that we proceed with the second pivotal trial and, assuming that the second pivotal trial and the additional studies are successful, we intend to file an NDA for the use of Microcyn as a pre-operative skin preparation in late 2007.

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. This clinical trial is expected to cost approximately $3 million and will be funded through proceeds from this offering. We anticipate this clinical trial to be completed in late 2007.

In the event we choose to pursue a partnering arrangement to commercialize products, we would expect a larger portion of our revenues would be derived from licensing as opposed to direct sales.

We also have a non-Microcyn based compound in the research and development phase. This compound has potential applications in oncology. We anticipate spending approximately $500,000 on further clinical studies on this compound, funded by proceeds from this offering. We expect these studies to be completed in 2008.

We have incurred significant net losses since our inception and had an accumulated deficit of $54.7 million as of June 30, 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 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

Prior to April 1, 2006, we accounted 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 applied the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123." We used the minimum value method to measure the fair value of awards issued prior to April 1, 2006 with respect to its application requirements under SFAS No. 123.

Effective April 1, 2006, we adopted SFAS No. 123(R) "Share Based Payment," or SFAS 123(R). 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 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.

Under SFAS 123(R), nonpublic entities, including those that become public entities after June 15, 2005, that used the minimum value method of measuring equity share options and similar instruments for either recognition or pro forma disclosure purposes under Statement 123 are required to apply SFAS 123(R) prospectively to new awards and to awards modified, repurchased or cancelled after the date of adoption. In addition, SFAS 123(R) requires such entities to continue accounting for any portion of awards outstanding at the date of initial application using the accounting principles originally applied to those awards. Accordingly, we record stock-based compensation expense relating to awards granted prior to April 1, 2006 that are expected to vest in periods ending after April 1, 2006 in accordance with the provisions of APB No. 25 and related interpretive guidance.

We have adopted the prospective method with respect to accounting for our transition to SFAS 123(R). Accordingly, we recognized in salaries and related expense $52,000 of stock-based compensation expense in the three months ended June 30, 2006, which represents the intrinsic value of options granted prior to April 1, 2006 that we continue to account for using the recognition and measurement principles prescribed under APB No. 25.

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.

In connection with these agreements, an individual designated by us who is also one of our executive officers, concurrently acquired, in his individual capacity, a small interest in QP. We were granted 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. 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. In addition, 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 connection with an 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 fraudulent 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 prior independent auditors informed us that we did not have effective anti-fraud programs designed to detect the activities in which QP's principals engaged or the personnel to effectively evaluate and determine the accounting for non-

routine or complex accounting transactions. 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. Based on the results of this investigation, we terminated our agreements with QP on March 26, 2006. We estimate that taxes, interest and penalties related to these practices could amount to $7 million or more. QP had a well-established relationship with the MOH. Although we lost the benefit of this relationship when we terminated our agreements with QP, we continue to sell to the MOH through our dedicated direct sales force and through other distributors. As of June 30, 2006, our sales to the MOH were not negatively affected by the termination of our relationship with QP and we do not expect that it will have a significant effect on sales to the MOH in the future.

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 consisted 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 Three Months Ended June 30, 2006 and June 30, 2005

Revenues

Revenues increased $672,000, or 165%, to $1.1 million for the three months ended June 30, 2006, from $406,000 for the three months ended June 30, 2005. Product revenues increased $649,000, or 254%, to $904,000 for the three months ended June 30, 2006, from $255,000 for the three months ended June 30, 2005. This increase was primarily due to a $462,000 increase in sales of Microcyn products in Mexico and a $235,000 increase in the sale of Microcyn products in Europe.

Service revenues increased $23,000, or 15%, to $174,000 for the three months ended June 30, 2006, from $151,000 for the three months ended June 30, 2005.

We expect that product revenues will continue to increase as we expand our sales and marketing efforts worldwide. As of June 30, 2006, sales of our products to the MOH were not negatively affected by the

termination of our relationship with QP. We expect that our service revenues will significantly decline in future periods, as we continue to implement our strategy of focusing primarily on our Microcyn business.

Cost of Revenues

Cost of revenues decreased $35,000, or 5%, to $705,000 for the three months ended June 30, 2006, from $739,000 for the three months ended June 30, 2005. During the three months ended June 30, 2006, revenues from product sales exceeded cost of revenues from product sales as our sales volumes were sufficient to cover our fixed and variable cost components.

Cost of revenues from product sales remained relatively consistent at $504,000 for the three months ended June 30, 2006, compared with $490,000 for the three months ended June 30, 2005. Cost of revenues from product sales in the United States decreased $326,000 for the three months ended June 30, 2006, as compared to the three months ended June 30, 2005. Beginning in April 2006, we shifted the focus of our United States facility from manufacturing to activities related to the research and development of new Microcyn products. As a result, we began classifying the expense associated with our United States facility as a research and development expense, and therefore our fixed cost of product revenues decreased accordingly. Cost of revenues from product sales in Europe increased $234,000 to $350,000 for the three months ended June 30, 2006, compared to $116,000 for the three months ended June 30, 2005, as we expanded production capacity at our European manufacturing facility. Cost of revenues from products sales in Mexico for the three months ended June 30, 2006 increased by $105,000 primarily due to the increased product sales in Mexico and an increase in fixed costs of manufacturing in Mexico during the period.

We experienced positive gross margins during the three months ended June 30, 2006, and expect to experience positive gross margins in future periods. If we fail to increase our sales volume to sufficient levels in the future, we may have to examine strategies to reduce our recurring fixed costs of manufacturing. We expect that cost of revenues will continue to increase in absolute dollars as product sales increase in future periods.

Research and Development Expense

Research and development expense increased $511,000, or 199%, to $767,000 for the three months ended June 30, 2006, from $256,000 for the three months ended June 30, 2005. This increase was primarily attributable to a shift of approximately $326,000 from manufacturing costs to research and development. Additionally, $199,000 of this increase was attributable to higher salary and related expenses in the clinical and regulatory department. The expansion of our clinical and regulatory team was due to our increased focus on medical education, clinical trials and the management of regulatory trials designed to obtain FDA approvals for our Microcyn products.

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 $252,000, or 7%, to $3.6 million during the three months ended June 30, 2006, from $3.4 million during the three months ended June 30, 2005. This increase was primarily due to a $210,000 increase in accounting fees associated with completion of an audit of our last three fiscal years. Additionally, selling, general and administrative expense in Europe increased $297,000 due primarily to the salary and related fees of new sales and administrative personnel. These increases were partially offset by lower outside legal and other consulting fees in the United States of $164,000 and lower selling, general and administrative expenses in Mexico of $84,000.

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

Interest Expense and Interest Income

Interest expense decreased $30,000, or 43%, to $39,000 for the three months ended June 30, 2006 from $69,000 for the three months ended June 30, 2005. This decrease was primarily the result of repayment of borrowings during the year. Interest income increased $45,000, to $58,000 in the three months ended June 30, 2006, from $13,000 in the year ended March 31, 2005. This increase was primarily the result of higher balances of interest-bearing instruments during the three months ended June 30, 2006.

Other Income (Expense), Net

Other income (expense), net was $276,000 net expense in the three months ended June 30, 2006, compared with $25,000 net expense in the three months ended June 30, 2005. This change was primarily attributable to a $272,000 loss on foreign exchange translation adjustment for the three months ended June 30, 2006, compared to loss of $24,000 for the three months ended June 30, 2005.

Discontinued Operations

Loss on discontinued operations was $77,000 in the three months ended June 30, 2005. This charge represents the net assets associated with QP which were consolidated with our financial statements as required by FIN 46(R), and later deemed to be a discontinued operation.

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

Revenues

Revenues increased $1.2 million, or 91%, 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.

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 our shift in focus to product development and the sale of our Microcyn products during fiscal 2006.

We experienced a gross loss of $2.3 million during the year ended March 31, 2006. This gross loss was primarily due to relatively high fixed costs associated with manufacturing our products and a sales volume that was not sufficient to cover these costs. Additionally, there were several charges that we believe to be non-recurring that were incurred during the year ended March 31, 2006 that increased our gross loss for the period.

The most significant of these charges was the write off of inventory and the costs associated with the relocation of our Mexican manufacturing facility as described above.

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 to $497,000 in the year ended March 31, 2006, from $915,000 in the year ended March 31, 2005.

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 United States 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 of non-cash stock-based compensation expense 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.

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 translation 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. The loss from operations of discontinued business 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 fiscal 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.

We experienced gross losses during the years ended March 31, 2005 and March 31, 2004 of $2.2 million and $1.8 million, respectively. These gross losses were primarily due to the relatively high fixed costs associated with manufacturing our products and a sales volume that was not sufficient to cover these costs. During these years we developed 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 general and administrative expense, primarily 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 June 30, 2006, we had an accumulated deficit of approximately $54.7 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 June 30, 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 convertible preferred stock, $43.7 million from the sale of Series B convertible 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 June 30, 2006, we had cash and cash equivalents of $6.1 million and debt under our notes payable and equipment loans of $4.8 million.

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 issued 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 August 31, 2006, we had borrowed $4.2 million against this facility at an interest rate of 8.5%. Draws under this facility bear interest at prime plus one-half percent.

On September 14, 2006, we sold 338,156 units, consisting of 338,156 shares of our Series C convertible preferred stock and warrants to purchase 67,631 shares of our common stock at an exercise price of $4.50 per share, at a per unit price of $4.50 for aggregate gross proceeds of $1,521,702. In connection with this sale, we paid to Brookstreet Securities Corporation, as placement agent, an aggregate of $152,170 in commissions and issued to Brookstreet fully vested warrants to purchase an aggregate of 42,269 shares of our common stock at an exercise price of $4.50 per share.

Cash Flows

As of June 30, 2006, we had cash and cash equivalents of $6.1 million, compared to $7.4 million at March 31, 2006 and $3.3 million at March 31, 2005.

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, and $4.8 million for the three months ended June 30, 2006. 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, and $803,000 for the three months ended June 30, 2006. 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, and $4.1 million for the three months ended June 30, 2006. The net cash provided by financing activities for the year end periods was primarily attributable to the sale of convertible 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. In addition, net proceeds from debt financing added $574,000, $1.2 million and $257,000 for the years ended March 31, 2004, 2005 and 2006, respectively, and $4.3 million for the three months ended June 30, 2006. Debt financing consisted primarily of notes payable to individuals and secured notes issued to finance the purchase of capital equipment, corporate insurance premiums and general operations.

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	$ 93	$ 117	$ —
Capital leases	69	21	42	6	—
Operating leases	878	341	340	197	—
Total	$ 1,661	$ 866	$ 475	$ 320	$ —

We have leases covering approximately 31,000 square feet of office and manufacturing space, which will increase to approximately 40,000 square feet in October 2006, in Petaluma, California, expiring in 2007. This additional square footage will increase our monthly rent from $13,763 to $23,493. We also have leases covering 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.

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. As a result, our long-term debt has increased to $4.8 million as of June 30, 2006.

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 and the Series C Financing 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 and Europe, 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. 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 the Series C Financing 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 wounds. In clinical testing, our products eliminated a wide range of pathogens and were found to be safe, easy to use and complementary to 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 respiratory, dermatology, mold and atmospheric remediation, hard surface disinfectant, and dental markets.

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, $1.6 billion to treat burns and $4.7 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, we believe 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 thirteen 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. In July 2006, we completed a pivotal clinical trial for pre-operative skin preparation. The FDA has requested an additional pivotal trial and additional microbiology and dermatology studies. Before we initiate our second pivotal trial, we plan to discuss with the FDA its request for an additional pivotal trial and additional data. Depending on the results of these discussions, we may reassess our priorities, clinical timelines and schedules for filing a New Drug Application, or NDA, for pre-operative skin preparation. In the event that we proceed with the second pivotal trial and, assuming that the second pivotal trial and the additional studies are successful, we intend to file an NDA for the use of Microcyn as a pre-operative skin preparation in late 2007.

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 12 months.

Depending upon our analysis of the time and expense involved, we may choose to license our technology to a third-party as opposed to pursuing commercialization ourselves.

We currently sell Microcyn in the United States through our medical and clinical employees and through one national and five regional distributors. In Europe, we have a seven-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; and
- 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 as a result of diabetic foot ulcers is 27%.

The increasing prevalence 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 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 out 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 adult 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

According to the Committee to Reduce Infection Deaths, or RID, 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 RID's industry estimates, infections add more than $30 billion annually to health care costs in the United States. In addition, RID estimates that 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 effectiveness 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 therapeutic body cavity cleansing 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 process 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 and blood vessel formation and tissue growth. The final phase, maturation, occurs as the wound begins to take on its permanent form as collagen is reconstituted, 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, high pressure oxygen chambers and localized devices, sophisticated water-based tissue removal devices, 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-pronged, with a number of associated 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 effectiveness 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 bacteria that cause infection in a variety of acute and chronic wounds. In addition, because of its mechanism of action, we believe 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, our laboratory tests show 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 to most advanced technologies to treat serious wounds, 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 and physician clinical studies indicate that Microcyn eliminates infection, can accelerate healing time and, in some cases, 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. In July 2006, we completed a pivotal clinical trial for pre-operative skin preparation. The FDA has requested an additional pivotal trial and additional microbiology and dermatology studies. Before we initiate our second pivotal trial, we plan to discuss with the FDA its request for an additional pivotal trial and additional data. Depending on the results of these discussions, we may reassess our priorities, clinical timelines and schedules for filing the NDA for pre-operative skin preparation. In the event that we proceed with the second pivotal trial and assuming that the second pivotal trial and the additional studies are successful, we intend to file an NDA for use of Microcyn as a pre-operative skin preparation in late 2007. 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 effectiveness 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. We believe collaborations allow us to leverage our resources and technology. 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 respiratory, dermatology, veterinary, mold and atmospheric remediation, hard surface disinfectant 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

All our current products are based on our Microcyn platform technology. We are able to modify the chemistry of Microcyn by changing the oxidation-reduction potential, pH-level and concentrations of specific ions or chemicals, which allows us to manufacture of a variety of solutions, each specifically optimized for maximum efficacy and safety by indication. The following are products we currently offer:

Geographic Region	Brand Name	Approved Label 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, ulcers resulting from insufficient blood flow, diabetic ulcers, post-surgical wounds, first and second degree burns, abrasions and minor irritations of the skin.
	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.

Geographic Region	Brand Name	Approved Label Indication
European Union	Dermacyn Wound Care	A product intended for use in debriding, irrigating and moistening 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.
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 product intended for use in the cleaning and debriding, in wound management. 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, ulcers resulting from insufficient blood flow, diabetic ulcers, post-surgical wounds, first and second degree burns, abrasions, lacerations and minor irritations of the skin.

* We may stop using the name Microcyn60 in Mexico as a result of ongoing litigation.

In October 2004, we received EPA approval for a hospital disinfectant called Cidalcyn. In August 2006, we received a "show cause" letter from the EPA, which states that in tests conducted by the EPA, Cidalcyn was found to be ineffective in killing certain strains of specified pathogens when used according to label directions. In a second letter, the EPA stated it was prepared to issue a civil administrative complaint against us. We are currently conducting a voluntary withdrawal of Cidalcyn from the market as we seek to resolve the issue with the EPA. For additional information, please see "Risk Factors — Microcyn may be ineffective as a high level disinfectant in killing certain strains of pathogens under current Environmental Protection Agency, or EPA, testing protocols. We have discontinued marketing our Cidalcyn disinfectant in response to concerns raised by the EPA based on testing performed on this product.''

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 a 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 our 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 from mast cells. 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 response 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

Pre-Operative Skin Preparation Trial. In September 2005, we initiated a 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 volunteers were screened to ensure that each had a sufficient level of bacteria count on the groin and abdominal sites. The application of the Microcyn, Hibiclens and saline was randomized so that each patient had two of the three alternatives on a possible four sites per person. The amount of bacteria per square centimeter was measured initially to determine the baseline level. Then the amount of bacteria on the groin and abdominal sites were measured again after 30 seconds, 10 minutes and six hours. The trial was conducted by a third party laboratory that has completed numerous similar studies with other pre-operative skin preparation products. The trial was completed in July 2006.

We met with the FDA on August 8, 2006 concerning this pivotal trial, and the FDA requested completion of a second pivotal trial with the same design, size and endpoints as the prior one to confirm the results. We expect that this second pivotal trial will take approximately four months to complete. In addition, the FDA indicated that several additional studies would be required to test safety, ability to kill resistant bacterial strains and the chemistry of Microcyn. We plan to discuss with the FDA its request for an additional pivotal trial and additional data. Depending on the results of these discussions, we may reassess our priorities, clinical timelines and schedules for filing the NDA for pre-operative skin preparation.

Open Wound Trial. We have drafted a Phase IIb clinical trial protocol to conduct a randomized, multicenter, double-blind, placebo controlled trial of the safety and efficacy of Dermacyn as an adjunctive treatment to antimicrobial therapy in complicated skin and skin structure infections. We designed this trial to demonstrate clinical efficacy and microbiological response to Dermacyn compared to treatments other than Microcyn. Our intent is to study a wide range of complicated skin and skin structure infections, including diabetic foot infections, pressure ulcers, and post-operative abdominal infections. The number and types of infections will be determined by patient enrollment at the various sites. We have received comments from the FDA regarding our proposed Phase IIb protocol and we plan to discuss these comments and finalize the trial design elements of the protocol with clinical and regulatory experts before initiating the trial. The results of this Phase IIb trial will be used to determine the design and sample sizes for subsequent Phase III trials. These Phase IIb and Phase III clinical trials are intended to provide the clinical basis for submission of an NDA for wound closure with the FDA.

Depending upon our analysis of the time and expense involved, we may choose to license our technology to a third-party as opposed to pursuing commercialization ourselves.

Physician Clinical Studies

Physicians in the United States, Europe and Mexico have conducted twelve 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 Medical and Business Advisory Board, completed a retrospective study in January 2006 comparing the use of Microcyn on 60 patients to a comparable matched control group. Dr. Allie was given an unrestricted research grant of $36,000 and we paid his expenses, including travel, hotels, meals and honorarium of $2,000, to attend medical conferences to present his findings. We also provided Dr. Allie with all the Microcyn necessary to complete this study. 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 irritationwhile 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 and a member of our Medical and Business Advisory Board, 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. Although we did not compensate Dr. Dalla Paola for this study, we did pay his expenses, including travel, hotels and meals, to attend medical conferences to present his findings and provided him with all the Microcyn necessary to complete this study. 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. We paid Dr. Barrera $6,000 of the $12,000 due to him in connection with this study and we paid his expenses, including travel, hotels and meals, to attend medical conferences to present his findings. We also provided

Dr. Barrera with all the Microcyn necessary to complete this study. 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. We paid Dr. Miranda approximately $40,450 in connection with this study, including travel, hotels and meals, to attend medical conferences to present his findings. We also provided Dr. Miranda with all the Microcyn necessary to complete this study. 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

Nine 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 of $100,000 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, an aggressive debridement 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 another antimicrobial agent in the treatment of diabetic foot necrobiosis, with time to wound healing the primary endpoint. We have given Dr. Tom Wolvos, a board certified surgeon who is the Medical Director at the Scottsdale Healthcare Wound Management Center in Arizona, an unrestricted research grant of $36,000 to conduct a 40 patient study comparing Microcyn to saline solution with the VAC, a negative pressure wound

therapy system, 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 provided each of these doctors with Microcyn and may pay their expenses, including travel, hotels and meals, to attend medical conferences to present their findings. We have also paid approximately $37,600 in consulting fees and expenses to Dr. Wolvos in connection with corporate development and licensing evaluations.

In addition, Drs. Allie and Dalla Paola are members of our Medical and Business Advisory Board. Dr. Dalla Paola is compensated $1,000 per month for his participation on this Board. 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 completed a pivotal pre-operative skin trial using 64 healthy volunteers in the third quarter of 2006. The FDA has requested an additional pivotal trial and microbiology and dermatology studies. We plan to discuss with the FDA its request for an additional pivotal trial and additional studies. Depending on the results of these discussions, we may reassess our priorities, clinical timelines and schedule for filing a NDA for pre-operative skin preparation. In the event that we proceed with the second pivotal trial, and assuming that the second pivotal trial and the additional studies are successful, we intend to file an NDA for the use of Microcyn as a pre-operative skin preparation in late 2007. 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 a wide range of complicated skin and skin structure infections, including diabetic foot infections, pressure ulcers and post operative abdominal infections comparing the healing time of wounds treated with Microcyn with those not treated with Microcyn. We plan to discuss the protocol with the FDA and finalize the trial design elements of the protocol with clinical and regulatory experts before initiating the trial. The results of this Phase IIb trial will be used to determine the design and sample sizes for subsequent Phase III trials. 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. The Phase IIb and Phase III clinical trials are intended to provide the clinical basis for submission of an NDA for wound closure for the FDA.

Depending upon our analysis of the time and expense involved, we may choose to license our technology to a third-party as opposed to pursuing commercialization ourselves.

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 medical and clinical professionals, 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 in connection with the anticipated the FDA approval of our product for pre-operative skin preparation and additional indications. Our products may be used by physicians and patients for uses other than those approved by regulatory authorities. Although the FDA does not regulate the practice of medicine, it does restrict our communications and activities with respect to off-label use.

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 a seven-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 October 2004, we received regulatory approval to use Microcyn as a wound cleanser from the Medical Device Bureau of Health Canada. In order to obtain a drug identification number from the Therapeutic Products Directorate we must conduct additional clinical trials. We currently expect to complete these clinical trials and have our application for a drug identification number to be reviewed in 2008. We plan to recruit wound care specialty distributors and expect to commence product sales following receipt of our drug identification number. Sales in Canada are currently supported by one employee.

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. We have entered into distribution or license agreements in some of these markets; however, we have not generated meaningful revenue from any of these agreements. In addition, we plan to develop new applications of our products in the respiratory, dermatology and oral care markets. These markets opportunities include:

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, or inflammation of the nasal sinuses. In animal studies, Microcyn 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 candidate and indication.

Rhinosinusitis affects an estimated 35 million people in the United States. 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 that may affect approximately 30 million people in North America.

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 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.

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. Vetericyn has uses 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 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 our drug identification number from the Therapeutic Products Directorates. We expect our application for a drug identification number to be reviewed in late 2006.

Hard Surface Disinfectant

In the United States, we obtained EPA clearance for use of the Microcyn technology as a disinfectant in May 2004. Our product, Cidalcyn, is a multi-purpose disinfectant cleaner intended for use in patient care

areas, households, child care facilities, health clubs, laboratories where cross-contamination of treated surfaces can occur.

Disinfectants currently in the marketplace, such as bleach and ammonia, may have adverse effects for the person applying the disinfectant after extended use, 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.

We stated on Cidalcyn's label that it was effective in eliminating certain strains of bacteria, the HIV virus and certain fungi. In July 2006, we received a "show cause" letter from the EPA, which stated that, in tests conducted by the EPA, Cidalcyn was found to be ineffective in killing certain specified pathogens (pseudomones aerginose, staphylococus aureus and mycobacterium tuberculosis) when used according to label directions. Our subsequent testing has confirmed two of the three EPA results. We believe our product failed EPA testing because of changes in the EPA's testing methods since receiving our original clearance. Currently, EPA testing requires a higher bacterial concentration embedded in the coating material than previously required by EPA for testing Cidalcyn.

The current EPA test method uses an organic material as a coating for the bacteria. This coating, which does not naturally occur in most environments in which Microcyn is used, is generally not present in wound environments and is difficult to penetrate. We believe that due to the non-toxic nature of Microcyn and its mode of action, when our product comes in contact with the coating material, our product is neutralized before reaching the bacteria. Consequently, the effectiveness of Microcyn in killing certain pathogens is reduced.

Based on its results, the EPA strongly recommended that we immediately recall all Cidalcyn distributed on and after September 28, 2005. Accordingly, we have commenced a voluntary recall of Cidalcyn. Although we have not marketed Cidalcyn on a large commercial scale, we have provided it in small quantities to numerous hospitals for use in product evaluation exercises. In a second letter, the EPA stated it intended to file a civil administrative complaint against us for violation of the Federal Insecticide, Fungicide, and Rodenticide Act, or FIFRA. Under FIFRA, the EPA could assess civil penalties related to the sale and distribution of a pesticide product not meeting the label's claims as a broad-spectrum hospital disinfectant. We believe that such civil penalties could be up to $200,000. The EPA could also cause us to stop selling our product, or require us to remove it from the market. As a result of the EPA action, there will be no further sales in the United States of Cidalcyn unless and until we modify our label claims of Cidalcyn to the EPA's acceptance.

In December 2005, we entered into an exclusive distribution agreement with a 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, the Caribbean and Latin America, excluding Mexico. Unless and until we reach resolution with the EPA, we will not be able to sell our Cidalcyn product under this agreement.

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 United States 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 physician 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 main 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. We are also continuing research and development activities related to a compound that may have applications in certain cancers. Our research and development efforts with our Microcyn-based products 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, or stomatitis, and inflammation of oral tissues, or 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 devote attention to our L3 compound, which our research has shown to be a cell cycle inhibitor and anti-viral molecule, for the treatment of human papilloma virus, which causes cervical dysplasia. Based on our research, L3 has inhibited the growth of certain cancer cells both in vitro and in vivo. Our research also has shown that the L3 compound prevents cell growth in various cell types including melanoma, breast cancer and small lung carcinomas. Given the large population of cervical cancer patients in Latin America, and the authorization of a division of the MOH in Mexico to conduct a Phase I clinical trial, we expect to begin treating cervical dysplasia as L3's first clinical indication with Phase I of a clinical trial in Mexico City. We may use the results in Mexico as safety data for future filings in the United States and in Europe.

As of August 31, 2006, we had 11 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 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. Slight deviations in our manufacturing process, including quality control, labeling and packaging, could lead to a failure to meet the specifications required by the FDA, EPA, European notified bodies and Mexican regulatory agencies, which may result in lot failures or product recalls. 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 August 29, 2006, we had one issued U.S. patent, 12 pending U.S. patent applications and 18 foreign pending patent applications generally relating to super-oxidized water. These applications include three U.S. provisional applications for which the one-year period to file a non-provisional application has not yet expired as well as three international PCT applications that have not yet reached the deadline to file counterpart phase applications. We filed the provisional U.S. patent applications as a way of deferring the payment of U.S. and foreign patent office fees while we decide whether the invention merits a full examination based on the development of the market for the product. In addition, a provisional patent application gives us the opportunity to continue to develop the inventive concepts further before filing further U.S. and foreign patent applications that are subject to examination. Our portfolio of pending applications can be divided into

two groups. The first group includes one U.S. issued patent and three pending U.S. patent applications 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. The second group includes nine pending U.S. patent applications, including three provisional applications, and 11 foreign patent 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 and 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 to 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.

FDA regulations prohibit the advertising and promotion of a medical device for any use outside the scope of a 510(k) clearance or PMA approval or for unsupported safety or effectiveness claims. Although the FDA does not regulate physicians' practice of medicine, the FDA does regulate manufacturer communications with respect to off-label use.

If the FDA finds that a manufacturer has failed to comply with FDA laws and regulations 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 United States, 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.

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 United States.

Under the United States 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 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, cancellation of our registration, 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 United States. 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 laws pertaining to healthcare fraud and abuse, 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 include the federal Anti-Kickback Statute, the False Claim Act and comparable state laws. 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, or OIG, has issued Compliance Guidance for pharmaceutical manufacturers which, among other things, identifies manufacturer practices implicating the federal Anti-Kickback Statute and describes elements of an effective compliance program. Similarly, a recently enacted California law requires pharmaceutical companies to comply with both the federal guidance and the July 2002 Pharmaceutical Research and Manufacturers of America Code on Interactions with Healthcare Professionals.

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, which are discussed more fully below, can lead to civil and criminal penalties, damages, imprisonment, fines, exclusion from participation in Medicare, Medicaid and other federal health care programs, and the curtailment or restructuring of our operations. Any such violations could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Anti-Kickback Laws. Our operations are subject to federal and state anti-kickback laws. The federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, receiving, offering or providing remuneration directly or indirectly to induce either the referral of an individual, or the furnishing, recommending, or arranging of a good or service, for which payment may be made under a federal healthcare program, such as Medicare or Medicaid. The definition of "remuneration" has been broadly interpreted to include anything of value, including such items as gifts, discounts, the furnishing of supplies or equipment, waiver of payments, and providing anything at less than its fair market value. HHS has issued regulations, commonly known as "safe harbors," that set forth certain provisions which, if fully met, will assure healthcare providers and other parties that they will not be prosecuted under the federal Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities, such as OIG. In addition, many states have adopted laws similar to the federal Anti-Kickback Statute which apply to the referral of patients for healthcare services reimbursed by any source, not only by the Medicare and Medicaid programs.

False Claims Laws. The federal False Claims Act prohibits the knowing filing of a false claim or the knowing use of false statements to obtain payment from the federal government. Suits filed under the False Claims Act, known as "qui tam" actions, can be brought by any individual on behalf of the government and such individuals, commonly known as "whistleblowers," may share in any amounts paid by the entity to the government in fines or settlement. In addition, certain states have enacted laws modeled after the Federal False Claims Act. Qui tam actions have increased significantly in recent years, causing greater numbers of healthcare companies to have to defend a false claims action, pay fines or be excluded from Medicare, Medicaid or other federal or state government healthcare programs as a result of investigations arising out of such actions.

HIPAA. Two federal crimes were created under the Health Insurance Portability and Accountability Act of 1996, or HIPAA: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services.

Health Information Privacy and Security

Individually identifiable health information is subject to an array of federal and state regulation. Federal rules promulgated pursuant to HIPAA regulate the use and disclosure of health information by "covered entities." Covered entities include 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 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.

European Union Regulation

Medical Device Regulation. Our Microcyn products are classified as medical devices in the European Union. In order to sell our medical device products within the European Union, we are required to comply with the requirements of the Medical Devices Directive, or MDD, and its national implementations, including affixing CE Marks on our products. In order to comply with the MDD, we must meet certain requirements relating to the safety and performance of our products and, prior to marketing our products, we must successfully undergo verification of our product's regulatory compliance, or conformity assessment.

Medical devices are divided into three regulatory classes: Class I, Class IIb and Class III. The nature of the conformity assessment procedures depends on the regulatory class of the product. We executed the conformity assessment for production quality assurance for Class IIb products for Dermacyn Wound Care. Compliance with production quality assurance is audited every year by a private entity certified by government regulators. In order to comply with the examination, we completed, among other things, a risk analysis and presented clinical data, which demonstrated that our products met the performance specifications claimed by us, provided sufficient evidence of adequate assessment of unwanted side effects and demonstrated that the benefits to the patient outweigh the risks associated with the device. We will be subject to continued supervision and will be required to report any serious adverse incidents to the appropriate authorities. We will also be required to comply with additional national requirements that are beyond the scope of the MDD.

We received our CE certificate for Dermacyn Wound Care as a Class IIb medical device in February 2005. There can be no assurance that we will be able to maintain the requirements established for CE Marks for any or all of our products or that we will be able to produce these products in a timely and profitable manner while complying with the requirements of the MDD and other regulatory requirements.

Marketing Authorizations for Drugs. In order to obtain marketing approval of any of our drug products in Europe, we must submit for review an application similar to a U.S. NDA to the relevant authority. In contrast to the United States, where the FDA is the only authority that administers and approves NDAs, in Europe there are multiple authorities that administer and approve these applications. Marketing authorizations in Europe expire after five years but may be renewed.

We believe that our Microcyn based drugs will be reviewed by the Committee for Medicinal Products for Human Use, or CHMP, on behalf of the European Medicines Agency, or EMEA. Based upon the review of the CHMP, the EMEA provides an opinion to the European Commission on the safety, quality and efficacy of the drug. The decision to grant or refuse an authorization is made by the European Commission.

Approval of applications can take several months to several years, or may be denied. This approval process can be affected by many of the same factors relating to safety, quality and efficacy as in the approval process for NDAs in the United States. As in the United States, European drug regulatory authorities can require us to perform additional non-clinical studies and clinical trials. The need for such studies or trials, if imposed, may delay marketing approval and involve unanticipated costs. Inspection of clinical investigation sites by a competent authority may also be required as part of the regulatory approval procedure. In addition, as a condition of marketing approval, regulatory agencies in Europe may require post-marketing surveillance to monitor for adverse effects, or other additional studies as deemed appropriate. The terms of any approval, including labeling content, may be more restrictive than expected and could affect the marketability of a product. In addition, after approval for the initial indication, further clinical studies are usually necessary to gain approval for any additional indications.

European GMP. In the European Union, the manufacture of pharmaceutical products and clinical trial supplies is subject to good manufacturing practice, or GMP, as set forth in the relevant laws and guidelines. Compliance with GMP is generally assessed by the competent regulatory authorities. They may conduct inspections of relevant facilities, and review manufacturing procedures, operating systems and personnel qualifications. In addition to obtaining approval for each product, in many cases each drug manufacturing facility must be approved. Further inspections may occur over the life of the product.

Mexico

The MOH is the authority in charge of sanitary controls in Mexico. Sanitary controls are a group of practices related to the orientation, education, testing, verification and application of security measures and sanctions exercised by the MOH. The MOH acts by virtue of the Federal Commission for the Protection against Sanitary Risks, or COFEPRIS, a decentralized entity of the MOH whose mission is to protect the population against sanitary risks, by means of centralized sanitary regulations, controls and by raising public awareness.

The MOH is responsible for the issuance of Official Mexican Standards and specifications for drugs subject to the provisions of the General Health Law, which govern the process and specifications of drugs, including the obtaining, preparation, manufacturing, maintenance, mixture, conditioning, packaging, handling, transport, distribution, storage and supply of products to the public at large. In addition, a medical device is defined as a device that may contain antiseptics or germicides used in surgical practice or in the treatment of continuity solutions, skin injuries or its attachments.

Regulations applicable to medical devices and drugs are divided into two sections: the business that manufacture the medical device or drug and the product itself.

Manufacturing a Medical Device or Drug. Under the General Health Law, a business that manufactures drugs is either required to obtain a Sanitary Authorization or to file an Operating Notice. Our Mexico subsidiary is considered a business that manufactures medical devices and therefore is not subject to a Sanitary Authorization, but rather only an Operating Notice.

In addition to its Operating Notice, our Mexico subsidiary has obtained a “Good Processing Practices Certificate” issued by COFEPRIS, which demonstrates that the manufacturing of Microcyn at the facility located in Zapopan, Mexico, operates in accordance with the applicable official standards.

Commercialization of Drugs and Medical Devices. Drugs and medical devices should be commercialized in appropriate packaging containing labels printed in accordance with specific official standards. For medical devices, there are no specific standards or regulations related to the labeling of the product, but rather only a general standard related to the labeling for all types of products to be commercialized in Mexico. Advertising of medical devices is regulated in the General Health Law and in the specific regulations of the

General Health Law related to advertising. Generally, the advertising of medical devices is subject to a permit only in the case that such advertising is directed to the general public.

Medical Devices and Drugs as a Product. To produce, sell or distribute medical devices, a Sanitary Registry is required in accordance with the General Health Law and the Regulation for Drugs. Such registry is granted for a term of five years, and this term may be extended. The Sanitary Registry may be revoked if the interested party does not request the extension in the term or the product or the manufacturer or the raw material is changed without the permission of the MOH.

The MOH classifies the medical devices in three classes:

- Class I. Devices for which safety and effectiveness have been duly proved and are generally not used inside the body;
- Class II. Devices that may vary with respect to the material used for its fabrication or in its concentration and generally used in the inside of the body for a period no greater than 30 days; and
- Class III. New devices or recently approved devices in the medical practice or those used inside the body and which shall remain inside the body for a period greater than 30 days.

Violation of these regulations may result in the revocation of the registrations or approvals, and, in addition, economic fines. In some cases, such violations may constitute criminal actions.

In addition, regulatory approval of prices is required in most countries other than the United States, which could result in lengthy negotiations delaying our ability to commercialize our products. We face the risk that the prices which result from the regulatory approval process would be insufficient to generate an acceptable return.

Employees

As of August 31, 2006, we had 82 full-time employees, including 23 in manufacturing, 11 in research and development, three in regulatory and clinical, 16 in sales and marketing and 29 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, which will increase to 28,000 square feet in October 2006. 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 September 2006. We are currently in settlement

negotiations with the plaintiff. If these negotiations are not successful, we intend to vigorously defend this action. If the claims are litigated, we may incur considerable litigation costs. We expect our insurance carrier to cover 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. We may stop using the name Microcyn60 in Mexico as a result of the proposed settlement of this lawsuit. A second unrelated claim was filed against us in Mexico in May 2006, claiming confusion in trademarks with respect to our Microcyn60 mark in Mexico.

In September 2006, a consulting firm in Mexico City contacted us threatening legal action in Mexico, alleging breach of contract and claiming damages of $225,000. A formal compliant has not been served and no trial date has been set. We are currently in settlement negotiations with the plaintiff. If these negotiations are not successful, we intend to vigorously defend this action. If the claims are litigated, we may incur considerable litigation costs.

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 (antiseptics), or on environmental surfaces (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.
Pathogen	A specific causative agent of disease, such as a bacteria, virus or fungus.
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 August 31, 2006:

Name	Age	Position(s)
Hojabr Alimi	46	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	Director of Marketing and Sales-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 1999 and was appointed as Chairman of the board of directors in June 2006. Prior to co-founding our company with his spouse in 1999, 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 Global 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 PanVera Corporation and then Aurora Biosciences Corporation, both drug discovery subsidiary companies of Vertex Pharmaceuticals, 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 Inc. 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 has served as a director of Scanis, Inc. since 1998 and served 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 Director of Marketing and Sales - Europe, Middle East and Africa of 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 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 Carolina 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 are actively seeking two additional independent board members. 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.

Upon completion of our reincorporation in the State of Delaware, our board of directors will be divided into three classes, each serving staggered three-year terms:

- Our Class I directors will consist of Edward Brown and James Schutz, and their terms will expire at the first annual meeting of stockholders following the date of this prospectus;
- Our Class II directors will consist of Richard Conley and Gregory French, and their terms will expire at the second annual meeting of stockholders following the date of this prospectus; and
- Our Class III directors will consist of Hojabr Alimi and Akihisa Akao, and their terms will expire at the third annual meeting of stockholders following the date of this prospectus.

As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective terms. Each executive officer is appointed by the board of directors and serves at its discretion. This classification of the board of directors may delay or prevent a change in control of Oculus or in our management.

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 Stock 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 outstanding 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, respectively, of our common stock 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

Name and Position(s)	Annual Compensation		Long-Term Compensation	All Other
	Salary ($)	Bonus ($)	Shares Underlying Options (#)	Compensation ($)
Hojabr Alimi President and Chief Executive Officer	$262,885	$ 26,250	50,000	$ 4,517(1)
Robert Miller Chief Financial Officer	183,038	1,250	25,000	—
James Schutz Vice President of Corporate Development, General Counsel and Corporate Secretary	185,961	1,250	25,000	6,246(2)
Theresa Mitchell Vice President of Regulatory, Clinical Affairs, Quality Assurance and Research and Development	170,077	6,250	402,500	—
Bruce Thornton Vice President of International Operations and Sales	171,851	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.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(4)	
	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) 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) 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.

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Hojabr Alimi	—	—	1,659,314	108,969	$	$
Robert Miller	240,000	—	295,256	25,000		
James Schutz	—	—	195,000	405,000		
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 granted him an option to purchase 500,000 shares of our common stock on July 27, 2006, at an exercise price of $3.00 per share 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. Separate from this agreement, we paid Mr. Wokasch a one time signing bonus of $25,000.

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 reserved 4,605,000 shares of our common stock for issuance. As of June 30, 2006, 1,894,599 shares of common stock remained available for future issuance under our 1999 stock plan. As of June 30, 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. In June 2006, our board determined that no additional grants would be made under our 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 reserved 1,395,000 shares of our common stock for issuance. As of June 30, 2006, 1,223,800 shares of common stock remained available for future issuance under our 2000 stock plan. As of June 30, 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. In June 2006, our board determined that no additional grants would be made under our 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 June 30, 2006, 2,626,868 shares of common stock remained available for future issuance under our 2003 stock plan. As of June 30, 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. In June 2006, our board determined that no additional grants would be made under our 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 reserved 6,000,000 shares of our common stock for issuance. As of June 30, 2006, 2,257,243 shares of common stock remained available for future issuance under our 2004 stock plan. As of June 30, 2006, options to purchase a total of 3,502,756 shares of common stock were outstanding under the 2004 stock plan at a weighted average exercise price of $1.97 per share. Our board determined that no additional grants under the 2004 stock plan will be made following the completion of this offering.

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.

2006 Stock Incentive Plan

General. Our 2006 stock incentive plan was adopted by our board of directors in August 2006, subject to stockholder approval, and will become effective upon the completion of this offering.

The 2006 stock plan provides for the granting of incentive stock options within the meaning of Section 422 to employees and the granting of nonstatutory stock options to employees, non-employee directors, advisors, and consultants. The 2006 stock incentive plan also provides for grants of restricted stock, stock appreciation rights and stock units awards to employees, non-employee directors, advisors and consultants.

- *Stock Options.* The compensation committee, a plan administrator, determines to whom to grant awards, the number of shares under the awards, 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 2006 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 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. The exercise price for the shares of common stock subject to option grants made under our 2006 stock plan may be paid in cash or in shares of our common stock held by the optionee. The option may be exercised through a same-day sale program without any cash outlay by the optionee. In addition, the administrator may provide financial assistance to an optionee, provided such optionee is not an executive officer or board member, in the exercise of the optionee's outstanding options by allowing such individual to deliver a full-recourse, interest-bearing promissory note in payment of the exercise price and any associated withholding taxes incurred in connection with such exercise.

- *Restricted Stock.* Participants who are granted restricted stock awards generally have all of the rights of a stockholder with respect to such stock. Restricted stock may generally be subject to a repurchase right by us in the event the recipient ceases to be employed. Restricted stock may be issued for consideration determined by the compensation committee, including cash, promissory notes and past or future services. Restricted Stock may be subject to vesting over time or upon achievement of milestones.
- *Stock Units.* Stock units are denominated in unit equivalent of shares of our common stock. They are typically awarded to participants without payment of consideration, but are subject to vesting conditions based upon a vesting schedule or performance criteria established by the plan administrator. Unlike restricted stock, the stock underlying stock units will not be issued until the stock units have vested, and recipients of stock units generally will have no voting or dividend rights prior to the time the vesting conditions are satisfied.
- *Stock Appreciation Rights.* Stock appreciation rights may be granted independently or in consideration of a reduction in the recipient's compensation. Stock appreciation rights typically will provide for payments to the holder based upon increases in the price of our common stock over the exercise price of the related option. The exercise price of a stock appreciation right will be determined by the committee and may vary in accordance with a predetermined formula while the stock appreciation right is outstanding. The plan administrator may elect to pay stock appreciation rights in cash or in common stock or in a combination of cash and common stock.

Administration. The compensation committee of our board of directors will administer the 2006 stock plan. Our board of directors may appoint one or more separate committees of our board of directors, each consisting of one or more members of our board of directors, to administer our 2006 stock plan with respect to participants other than employees who are subject to Section 16 of the Exchange Act. Our board of directors may also authorize one or more officers to designate employees, other than employees who are subject to Section 16 of the Exchange Act, to receive awards under our 2006 stock plan and/or to determine the number of such awards to be received by such employees subject to limits specified by our board of directors.

Authorized Shares. Under our 2006 stock plan, shares of our common stock have been authorized for issuance. Shares subject to awards that expire unexercised or are forfeited or terminated will again become available for issuance under the 2006 stock plan. No participant in the 2006 stock plan can receive option grants, restricted shares, stock appreciation rights or stock units for more than shares total in any calendar year.

Plan Features. Under the 2006 stock plan:

- Nondiscretionary, automatic grants of nonstatutory stock options will be made to outside directors. Any current outside director and any outside director joining our board of directors after August 25, 2006 will be granted automatically an initial option to purchase 50,000 shares upon first becoming a member of our board. The initial option will vest and become exercisable over three years, with the first one-third of the shares subject to the initial option vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. Immediately after each of our regularly scheduled annual meetings of stockholders, each outside director will be automatically granted a nonstatutory option to

purchase 15,000 shares of our common stock, provided the director has served on our board for at least six months. Each annual option will vest and become exercisable monthly over the course of 12 months from the grant date. The options granted to outside directors will have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant, and will become fully vested if we are subject to a change of control.

- Generally, if we merge with or into another corporation, we may accelerate the vesting or exercisability of outstanding options and terminate any unexercised options unless they are assumed or substituted for by any surviving entity or a parent or subsidiary of the surviving entity.
- The administrator may permit or require a participant have cash otherwise payable to a participant on exercise of a stock appreciation right or settlement of stock units credited to a deferred compensation account, have shares that would otherwise be deliverable to a participant on exercise of an option or stock appreciation right converted into an equal number of stock units or have shares otherwise deliverable upon exercise of an option or stock appreciation right or settlement of stock units converted into amounts credited to a deferred compensation account.
- Awards under our 2006 stock plan may provide for the number of shares of our common stock or other benefits granted, issued, retained or vested under the award are subject to the attainment of performance criteria including cash flow, earnings per share, earnings before interest, taxes and amortization, return on equity, total stockholder return, share price performance, return on capital, return on assets or net assets, revenue, income or net income, operating income or net operating income, operating profit or net operating profit, operating margin or profit shares. The administrator may structure such awards to be qualified performance-based compensation under Section 162(m) of the Code.
- The 2006 stock plan terminates ten years after its initial adoption, unless terminated earlier by the board. The board of directors may amend or terminate the plan at any time, subject to stockholder approval where required by applicable law. Any amendment or termination may not impair the rights of holders of outstanding awards without their consent.

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 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.

Advisory Boards

We have two advisory boards: Medical and Business 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. At least once per year we meet with each advisory board and each member is available to us as needed.

Our Medical and Business 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 physician clinical studies and presenting the results to other physicians.

Our Medical and Business 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
Philip J. Kearney	not applicable	Assistant United States Attorney
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 reviewing 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 members on the Medical and Business Advisory Board a quarterly stipend, except for Dr. Allie and Mr. Kearney. Drs. Cline, Schnur, Woolam, Dalla Paola and Wilson each receive $3,000 per quarter and Dr. Wukasch receives $6,000 per quarter. We also have a consulting agreement with Dr. Wilson and pay him an additional $12,000 per quarter pursuant to this agreement. 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 Dr. Dalla Paola, warrants to purchase shares of our common stock with a conversion price of $4.50 per share. Dr. Allie has a warrant to purchase 10,000 shares, Drs. Cline, Schnur, Wilson and Woolam each have a warrant to purchase 15,000 shares, and Dr. Wukasch has a warrant to purchase 25,000 shares. We also compensate our Medical Advisory Board members for physician clinical studies they conduct for us.

We do not provide cash compensation to members of our Clinical Investigation Board. However, we granted Drs. Keusch and Marks each a warrant to purchase 10,000 shares with a conversion price of $4.50 per share. 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.

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. Payments to White Moon Medical through August 31, 2006 amounted to $135,840.

We 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.

In accordance with the terms of the underlying option agreements, the vesting of options to purchase 340,248 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. Assuming an initial public offering price of $, we would recognize approximately $ of stock-based compensation expense related to this option grant.

We entered into a managing dealer agreement with Brookstreet Securities Corporation, or Brookstreet, in May 2006, as amended, pursuant to which Brookstreet acted as managing dealer, on a best-efforts basis, for the sale of units of our securities. Each unit consisted of one share of our Series C convertible preferred stock, and a warrant to purchase that number of shares of our common stock equal to one-fifth of the number of Series C shares underlying the unit, at an exercise price of $4.50 per share. In connection with the Series C Financing, we paid to Brookstreet $152,170 in commissions and issued to Brookstreet fully vested warrants to purchase an aggregate of 42,269 shares of our common stock, at an exercise price of $4.50 per share. In addition, we paid Brookstreet $10,000 upon the execution of a term sheet regarding the terms of this offering, and an additional $10,000 on May 31, 2006, to defray the costs associated with the solicitation of stockholder approval.

Brookstreet also acted as managing dealer in the sale of our Series A convertible preferred stock and our Series B convertible preferred stock. In connection with the Series A convertible preferred stock offering, we paid Brookstreet $1,123,746 in commissions and issued Brookstreet and its affiliates warrants to purchase an aggregate of 1,735,123 shares of our common stock, at an exercise price of $0.75 per share. In connection with the Series B convertible preferred stock offering, we paid Brookstreet $3,413,818 in commissions and issued Brookstreet and its affiliates warrants to purchase an aggregate of 1,317,933 shares of our common stock at an exercise price of $4.50 per share.

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 September 15, 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 33,163,802 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 September 15, 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
5% Stockholders:			
Brookstreet Securities Corporation and related parties(2)	3,131,436	9.4%	
Executive Officers and Directors:			
Hojabr Alimi(3)	5,756,116	17.4%	
Robert Miller(4)	780,672	2.4%	
James Schutz(5)	290,416	*	
Theresa Mitchell(6)	83,874	*	
Bruce Thornton(7)	101,208	*	
Akihisa Akao(8)	2,164,616	6.5%	
Edward Brown(9)	200,000	*	
Richard Conley(10)	754,616	2.3%	
Gregory French(11)	294,033	*	
All directors and executive officers as a group (9 persons) (12)	10,425,551	31.4%	

* 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) Principal address is 2361 Campus Drive, Suite 210, Irvine, California 92612. Consists of shares issuable under warrants that are immediately exercisable.

(3) Includes 1,689,804 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 2006 and 31,312 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

(4) Includes 300,672 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 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.

(5) Includes 275,416 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 2006 and 15,000 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

(6) Consists of 83,874 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 2006.

(7) Consists of 101,208 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 2006.

(8) Includes 43,647 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 2006 and 31,312 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

(9) Consists of 200,000 shares issued upon exercise of options that will become exercisable upon completion of this offering.

(10) Includes 563,304 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 2006 and 31,312 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

(11) Includes 120,064 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 2006 and 31,312 shares issuable upon exercise of options that will become exercisable upon completion of this offering.

(12) Includes 3,177,989 shares issuable upon exercise of options that are exercisable within 60 days of September 15, 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 September 15, 2006, there were 33,163,802 shares of common stock outstanding held by approximately 625 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 16,272,874 shares of common stock issued upon conversion of the preferred stock 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 3,539,492 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 Global Market under the symbol "OCLS."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Mellon Investor Services LLC.

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 32,097,401 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:

- 1,066,400 shares will be eligible for sale immediately following the date of this prospectus;
- 32,097,401 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
- 4,287,414 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 Global 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, one share may be sold by persons other than affiliates subject only to the manner of sale provisions of Rule 144 and no 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 16,272,874 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 Global 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. Valuation Research Corporation issued our July 2005 valuation report.

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, or M&K, effective April 12, 2006. We did not consult with M&K on any accounting or financial reporting matters prior to M&K's appointment.

We engaged PWC on June 14, 2005, to perform an audit of our financial statements for our fiscal years ended March 31, 2003, 2004 and 2005. PWC did not issue a report on our financial statements for the years ended March 31, 2004 or 2005, or through April 12, 2006. For the years ended March 31, 2003, 2004 and 2005, and through April 12, 2006, there were no disagreements with PWC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to PWC's satisfaction, would have caused PWC to make reference thereto in their report on the financial statements for such years if they had delivered a report. In March 2006, and prior to its dismissal, PWC advised our Audit Committee orally of the following:

- the absence of financial accounting personnel with sufficient skills and experience to effectively evaluate and determine the appropriate accounting for non-routine and/or complex accounting transactions consistent with accounting principles generally accepted in the United States, which resulted in a number of material audit adjustments to the financial statements during the course of audit procedures;
- the failure to maintain effective controls to ensure the identification of accounting issues related to and the proper accounting for stock options with the right of rescission that were granted under certain stock option plans that required registration or qualification under federal and state securities laws primarily due to insufficient oversight and lack of personnel in the accounting and finance organization with the appropriate level of accounting knowledge, experience and training;
- the failure to maintain an effective anti-fraud program designed to detect and prevent fraudulent activities in QP;
- the need to expand significantly the scope of the audit of QP to assess the impact of identified fraudulent activities on the our financial statements, in which regard PWC advised our audit committee that the results of the fraud investigation may cause PWC to be unwilling to be associated with our financial statements;
- the "tone at the top" set by our senior management does not appear to encourage an attitude within our company that controls are important and that established controls cannot be circumvented;
- we did not have the appropriate financial management and reporting infrastructure in place to meet the demands that will be placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act of 2002, and that we will be unable to report our financial results accurately or in a timely manner; and
- significant control deficiencies, when considered in the aggregate, constituted a material weakness over financial reporting.

We have authorized PWC to respond fully to the inquiries of M&K concerning the foregoing. We have taken the following steps designed to address PWC's concerns and to implement the recommendations made by our special counsel to our audit committee in connection with its investigation of QP:

- we have implemented a training program to continue to educate our finance personnel on accounting developments and the application of accounting principles to complex transactions, emerging and higher-risk areas and the application of significant accounting policies and judgments;
- we have implemented programs so that all employees in finance responsible for overseeing the consolidation of financial results of any subsidiary, foreign or domestic, have the requisite knowledge to understand the potential issues that are peculiarly important in dealing with our operations, including the potential for fraud;
- we will continue engaging outside consultants to provide accounting, tax and Sarbanes-Oxley advice to our finance personnel;
- with regard to any future material acquisition or partnership that does not involve a well-known entity, management will present a written report to our board of directors concerning the proposed transaction, including a vetting of the management team or practices of the third party;
- we are continuing our efforts to streamline our monthly closing and reporting processes and have implemented financial statement review procedures with the Audit Committee;
- we have adopted a code of ethics for all directors, employees and advisors in compliance with Nasdaq regulations;
- we have adopted a whistleblower policy and are implementing procedures that will allow for anonymous reporting of any potential violations of law; and
- we have hired an experienced Chief Operating Officer to oversee our day-to-day operations, further strengthening our commitment to ensure accurate financial reporting, as well as compliance with laws and regulations.

Under the oversight of our audit committee, we are continuing to review our processes and procedures to strengthen and improve our internal controls, with the goals of ensuring accurate financial reporting and complying with laws and regulations applicable to us.

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

Contents

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	June 30, 2006 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 3,287	$ 7,448	$ 6,134
Accounts receivable, net	227	1,076	1,444
Inventories	868	317	362
Prepaid expenses and other current assets	499	1,386	1,275
Total current assets	4,881	10,227	9,215
Property and equipment, net	1,959	1,940	2,074
Notes receivable	55	—	—
Restricted cash	45	44	44
Deferred offering costs	—	478	1,010
Debt issue costs	—	—	1,035
Total assets	$ 6,940	$ 12,689	$ 13,378
LIABILITIES			
Current liabilities:			
Accounts payable	$ 906	$ 2,774	$ 2,057
Accrued expenses and other current liabilities	2,335	1,686	1,952
Dividend payable	—	121	242
Current portion of long-term debt	950	504	1,556
Current portion of capital lease obligations	27	15	15
Total current liabilities	4,218	5,100	5,822
Long-term debt, less current portion	460	210	3,213
Capital lease obligations, less current portion	60	41	38
Total liabilities	4,738	5,351	9,073
Commitments, Contingencies and Other Matters			
Stockholders' Equity			
Convertible preferred stock, no par value; 30,000,000 shares authorized,			
Series A 5,351,244 shares issued and outstanding at March 31, 2005 and 5,391,244 shares issued and outstanding at March 31, 2006 and June 30, 2006 (unaudited)	6,628	6,668	6,668
Series B 4,056,568 shares issued and outstanding at March 31, 2005 and 10,543,474 shares issued and outstanding at March 31, 2006 and June 30, 2006 (unaudited)	16,696	43,722	43,722
Common stock, no par value; 100,000,000 shares authorized, 15,658,614 and 16,875,928 and 16,890,928 shares issued and outstanding at March 31, 2005 and 2006 and June 30, 2006 (unaudited), respectively	3,101	3,399	3,399
Additional paid-in capital	3,674	4,644	5,667
Deferred compensation	(676)	(798)	(650)
Accumulated other comprehensive (loss) income	(141)	3	217
Accumulated deficit	(27,080)	(50,300)	(54,718)
Total stockholders' equity	2,202	7,338	4,305
Total liabilities and stockholders' equity	$ 6,940	$ 12,689	$ 13,378

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,			Three Months Ended June 30,	
	2004	2005	2006	2005	2006
				(unaudited)	
Revenues					
Product	$ 95	$ 473	$ 1,966	$ 255	$ 904
Service	807	883	618	151	174
Total revenues	902	1,356	2,584	406	1,078
Cost of revenues					
Product	1,403	2,211	3,899	490	504
Service	1,265	1,311	1,003	249	201
Total cost of revenues	2,668	3,522	4,902	739	705
Gross profit (loss)	(1,766)	(2,166)	(2,318)	(333)	373
Operating expenses					
Research and development	1,413	1,654	2,600	256	767
Selling, general and administrative	3,918	12,492	15,933	3,395	3,646
Total operating expenses	5,331	14,146	18,533	3,651	4,413
Loss from operations	(7,097)	(16,312)	(20,851)	(3,984)	(4,040)
Interest expense	(178)	(372)	(172)	(69)	(39)
Interest income	3	8	282	13	58
Other income (expense), net	(26)	146	(377)	(25)	(276)
Net loss from continuing operations	(7,298)	(16,530)	(21,118)	(4,065)	(4,297)
Discontinued operations					
Loss from operations of discontinued business	—	—	(818)	—	—
Loss on disposal of discontinued business	—	—	(1,163)	(77)	—
Loss on discontinued operations	—	—	(1,981)	(77)	—
Net loss	(7,298)	(16,530)	(23,099)	(4,142)	(4,297)
Preferred stock dividends	—	—	(121)	—	(121)
Net loss available to common stockholders	$ (7,298)	$ (16,530)	$ (23,220)	$ (4,142)	$ (4,418)
Net loss per common share: basic and diluted					
Continuing operations	$ (0.47)	$ (1.06)	$ (1.28)	$ (0.26)	$ (0.26)
Discontinued operations	—	—	(0.12)	—	—
	$ (0.47)	$ (1.06)	$ (1.40)	$ (0.26)	$ (0.26)
Weighted-average number of shares used in per common share calculations:					
Basic and diluted	15,647	15,659	16,602	15,878	16,881
Other comprehensive loss, net of tax					
Net loss	$ (7,298)	$ (16,530)	$ (23,099)	$ (4,142)	$ (4,418)
Foreign currency translation adjustments	(14)	(127)	144	(24)	214
Comprehensive loss	$ (7,312)	$ (16,657)	$ (22,955)	$ (4,166)	$ (4,204)

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

	Convertible Preferred Stock										
	Series A		Series B		Common Stock		Additional Paid in Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
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
Deferred stock-based compensation	—	—	—	—	—	—	(96)	96	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	—	—	52	—	—	52
Non-employee stock-based compensation	—	—	—	—	—	—	3	—	—	—	3
Issuance of common stock in exchange for services	—	—	—	—	15,000	—	43	—	—	—	43
Fair value of common warrants issued in exchange for services	—	—	—	—	—	—	26	—	—	—	26
Issuance of Series B preferred warrants in connection with line of credit	—	—	—	—	—	—	1,047	—	—	—	1,047
Dividend payable to Series A preferred stockholders	—	—	—	—	—	—	—	—	—	(121)	(121)
Translation adjustment	—	—	—	—	—	—	—	—	214	—	214
Net loss	—	—	—	—	—	—	—	—	—	(4,297)	(4,297)
Balance, June 30, 2006 (unaudited)	5,391,244	$ 6,668	10,543,474	$ 43,722	16,890,928	$ 3,399	$ 5,667	$ (650)	$ 217	$ (54,718)	$ 4,305

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,			Three Months Ended June 30,	
	2004	2005	2006	2005	2006
				(unaudited)	
Cash flows from operating activities:					
Net loss from continuing operations	$ (7,298)	$ (16,530)	$ (21,118)	$ (4,065)	$(4,297)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:					
Depreciation and amortization	163	434	651	138	161
Stock-based compensation	424	2,349	597	109	124
Non-cash interest expense	37	131	21	15	17
Loss on disposal of assets	10	2	113	—	—
Changes in operating assets and liabilities					
Accounts receivable, net of doubtful accounts	(195)	217	(849)	(204)	(382)
Inventory	(119)	(748)	551	(57)	(35)
Prepaid expenses and other current assets	(163)	(278)	(887)	(258)	71
Accounts payable	857	(165)	1,868	62	(709)
Accrued expenses and other current liabilities	726	1,055	(649)	(762)	259
Net cash used in operating activities	(5,558)	(13,533)	(19,702)	(5,022)	(4,791)
Cash flows from investing activities:					
Purchases of property and equipment	(982)	(1,042)	(475)	(76)	(272)
Issuance of note receivable	—	(55)	55	—	—
Changes in restricted cash	(25)	(21)	1	—	—
Deferred offering costs	—	—	(478)	(12)	(531)
Net cash used in investing activities	(1,007)	(1,118)	(897)	(88)	(803)
Cash flows from financing activities:					
Proceeds from the issuance of common stock	203	—	—	—	—
Issuance of common stock upon exercise of stock options	6	—	298	247	—
Proceeds from the issuance of preferred stock	6,628	16,696	27,026	15,426	—
Proceeds from issued debt	574	1,205	257	56	4,250
Principal payments on debt	(106)	(664)	(953)	(341)	(195)
Payments on capital leases	(34)	(41)	(31)	(5)	(4)
Net cash provided by financing activities	7,271	17,196	26,597	15,383	4,051
Cash flows from discontinued operations					
Operating cash flows	—	—	(818)	—	—
Investing cash flows	—	—	(1,163)	(77)	—
Net cash used in discontinued operations	—	—	(1,981)	(77)	—
Effect of exchange rate on cash and cash equivalents	(14)	(127)	144	(24)	229
Net increase (decrease) in cash and cash equivalents	692	2,418	4,161	10,172	(1,314)
Cash and equivalents, beginning of period	177	869	3,287	3,287	7,448
Cash and equivalents, end of period	$ 869	$ 3,287	$ 7,448	$ 13,459	$ 6,134
Supplemental disclosure of cash flow information:					
Cash paid for interest	$ 134	$ 221	$ 125	$ 54	$ 19
Equipment purchased under capital leases	$ 40	$ 37	$ —	$ —	$ —
Conversion of note into Series A preferred stock	$ —	$ —	$ 40	$ —	$ —
Fair value of warrants issued with line of credit	$ —	$ —	$ —	$ —	$ 1,047

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

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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.

As discussed in Note 18, the Company's articles of incorporation were amended on August 28, 2006, authorizing it to issue up to 3,500,000 of Series C convertible preferred stock.

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, and $4,297,000 for the three months ended June 30, 2006. At March 31, 2006 and June 30, 2006, the Company's accumulated deficit amounted to $50,300,000 and $54,718,000, respectively.

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 and $3,393,000 as of June 30, 2006. In addition, in June 2006, the Company entered into a $5,000,000 credit facility, from which it drew $4,182,000, to fund its operations, and invest in new equipment (Note 9).

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. On September 14, 2006, the Company sold 338,156 units, consisting of 338,156 shares of Series C convertible preferred stock and warrants to purchase 67,631 shares of the Company's common stock, for gross proceeds of $1,521,702 ($1,369,532 net of offering costs). The Company cannot provide any assurance that it will successfully raise any additional capital under this offering 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

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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.

Unaudited Interim Results

The accompanying consolidated balance sheet as of June 30, 2006, statement of changes in stockholders' equity (deficit) for the three months ended June 30, 2006, and the consolidated statements of operations and statements of cash flows for the three months ended June 30, 2005 and 2006 are unaudited. The unaudited interim consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position and results of operations and cash flows for the three months ended June 30, 2005 and 2006. The financial data and other information disclosed in the notes to the consolidated financial statements related to the three month periods are unaudited. The results for the three months ended June 30, 2006 are not necessarily indicative of the results to be expected for the year ending March 31, 2007 or for any other interim period or for any future year.

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.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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 and for the three months ended June 30, 2006.

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.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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. Restricted cash held as security under this arrangement amounted to $45,000, $44,000 and $44,000 at March 31, 2005 and 2006, and June 30, 2006, respectively.

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 chargebacks 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. With respect to government chargebacks, the Mexican Ministry of Health's ("MOH") policy is to levy penalties on its vendors for product received after scheduled delivery times. The Company has not incurred any such chargebacks to date; however such penalties (if incurred) would be recorded as a reduction of revenue and the related accounts receivable balance.

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 and June 30, 2006 represents probable credit losses in the amounts of $90,000 and $100,000, respectively.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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. In the three month period ended June 30, 2006, the Company discarded inventory reserved for in prior periods.

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.

Debt Issue Costs

Costs of obtaining lines of credit or revolving credit arrangements (which could include cash or the fair value of equity securities) are deferred and amortized over the term of the related facility in accordance with Accounting Principles Board Opinion (“APB”) No. 21 “Debt Issue Costs.” (“APB 21”).

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. For the three months ended June 30, 2005 and 2006, research and development expense amounted to $256,000 and $767,000, 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. Advertising costs amounted to $48,000 and $14,000 for the three months ended June 30, 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. To date, shipping and handling costs billed to customers have been insignificant.

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, and $(24,000) and $(272,000) for the three months ended June 30, 2005 and 2006, respectively. The related gains (losses) were recorded in other income (expense) in the accompanying statements of operations.

Stock-Based Compensation

Prior to April 1, 2006, the Company accounted for stock-based employee compensation arrangements in accordance with the provisions of APB No. 25, "Accounting for Stock Issued to Employees," and its related interpretations and applied the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123." The Company used the minimum value method to measure the fair value of awards issued prior to April 1, 2006 with respect to its application of the disclosure requirements under SFAS 123.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

Effective April 1, 2006, the Company adopted SFAS No. 123(R) "Share Based Payment" ("SFAS 123(R)"). This statement is a revision of SFAS Statement No. 123, 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.

Under SFAS 123(R), nonpublic entities, including those that become public entities after June 15, 2005, that used the minimum value method of measuring equity share options and similar instruments for either recognition or pro forma disclosure purposes under Statement 123 are required to apply SFAS 123(R) prospectively to new awards and to awards modified, repurchased, or cancelled after the date of adoption. In addition, SFAS 123(R), requires such entities to continue accounting for any portion of awards outstanding at the date of initial application using the accounting principles originally applied to those awards. Accordingly, stock based compensation expense relating to awards granted prior to April 1, 2006 that are expected to vest in periods ending after April 1, 2006 are being recorded in accordance with the provisions of APB 25 and its related interpretive guidance.

The Company has adopted the prospective method with respect to accounting for its transition to SFAS 123(R). Accordingly, the Company recognized in salaries and related expense in the statement of operations $52,000 of stock based compensation expense in the three month period ended June 30, 2006, which represents the intrinsic value of options granted prior to April 1, 2006 that the Company is continuing to account for using the recognition and measurement principles prescribed under APB 25.

The following table illustrates the effect on net loss as if the Company had applied the fair value recognition provisions of SFAS 123/ SFAS 123(R) to stock-based compensation arrangements (in thousands, except per share data):

	Year Ended March 31,			Three Months Ended June 30,	
	2004	2005	2006	2005	2006
				(unaudited)	
Net loss available to common stockholders, as reported	$ (7,298)	$ (16,530)	$ (23,220)	$ (4,142)	$(4,418)
Add: Total stock-based employee compensation expenses included in net loss	30	2,297	279	85	52
Deduct: Total stock-based employee compensation determined under the fair-value based method for all awards	(81)	(2,448)	(503)	(112)	(127)
Net loss available to common stockholders, pro forma	$ (7,349)	$ (16,681)	$ (23,444)	$ (4,169)	$(4,493)
Net loss per common share, basic and diluted:					
As reported	$ (0.47)	$ (1.06)	$ (1.40)	$ (0.26)	$ (0.26)
Pro forma	$ (0.47)	$ (1.07)	$ (1.41)	$ (0.26)	$ (0.27)

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

In accordance with the provisions of SFAS No. 123, the fair value of each employee option granted in reporting periods prior to the adoption of SFAS 123(R) was estimated on the date of grant using the minimum value method with the following weighted-average assumptions:

	Year Ended March 31,			Three Months Ended June 30,
	2004	2005	2006	2005
Estimated life	6 yrs	6 yrs	6 yrs	6 yrs
Risk-free interest rate	3.18%	3.95%	4.27%	3.76%
Dividend yield	0.00%	0.00%	0.00%	0.00%

Non-Employee Stock Based Compensation

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123(R) 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, 2006, and the three months ended June 30, 2005 and 2006 excludes potentially dilutive securities because their inclusion would be anti-dilutive.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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,			Three Months Ended June 30,	
	2004	2005	2006	2005	2006
				(unaudited)	
Options to purchase common stock	6,138	5,360	7,876	5,829	7,820
Warrants to purchase common stock	121	1,856	3,430	1,856	3,430
Convertible preferred stock (as if converted)	5,351	9,408	15,935	13,145	15,935
Warrants to purchase preferred Series A stock (as if converted)	—	67	67	67	67
Warrants to purchase preferred Series B stock (as if converted)	—	—	—	—	286
Convertible debt	80	40	—	—	—
	11,690	16,731	27,308	20,897	27,538

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.

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.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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 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.

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.

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

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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.

The FASB issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes," on July 13, 2006. The new rules will be effective for the Company in fiscal 2008. At this time, we have not completed our review and assessment of the impact of the adoption of FIN 48.

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,		June 30,
	2005	2006	2006
			(unaudited)
Accounts receivable	$ 227	$ 1,166	$ 1,544
Less: allowance for doubtful accounts	—	(90)	(100)
	$ 227	$ 1,076	$ 1,444

NOTE 5 — Inventories

Inventories consisted of the following (in thousands):

	March 31,		June 30,
	2005	2006	2006
			(unaudited)
Raw materials	$ 272	$ 267	$ 304
Finished goods	817	1,046	58
	1,089	1,313	362
Less: inventory allowances	(221)	(996)	—
	$ 868	$ 317	$ 362

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

NOTE 6 — Prepaid Expenses and Other Current Assets

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

	March 31,		June 30,
	2005	2006	2006
			(unaudited)
Prepaid expenses	$ 355	$ 304	$ 246
Value added tax receivable	—	722	790
Other current assets	144	360	239
	$ 499	$ 1,386	$ 1,275

NOTE 7 — Property and Equipment

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

	March 31,		June 30,
	2005	2006	2006
			(unaudited)
Manufacturing and other equipment	$ 1,834	$ 1,866	$ 2,140
Office equipment	447	653	679
Furniture and fixtures	200	209	212
Leasehold improvements	219	498	470
Capital projects in progress	51	—	—
	2,751	3,226	3,501
Less accumulated depreciation and amortization	(792)	(1,286)	(1,427)
	$ 1,959	$ 1,940	$ 2,074

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, $108,000 and $116,000 as of March 31, 2005 and 2006 and June 30, 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, and $138,000 and $161,000 for the three months ended June 30, 2005 and 2006, respectively.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

NOTE 8 — Accrued Expenses and Other Current Liabilities

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

	March 31,		June 30,
	2005	2006	2006
			(unaudited)
Accrued salaries	$ 220	$ 267	$ 421
Accrued professional fees	641	673	738
Estimated liability for pending litigation	335	300	300
Investor deposits	497	—	—
Accrued stock option rescission	250	—	—
Accrued value added tax payable	285	220	160
Deferred revenue	—	156	197
Accrued other	107	70	136
	$ 2,335	$ 1,686	$ 1,952

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

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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.

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 (Note 12). 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 and $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, and $45,000 for the three months ended June 30, 2006. 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, and $3,000 for the three months ended June 30, 2006. 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 (Note 12). 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 respecitvely, and $92,000 for the three months ended June 30, 2006. Interest expense under this obligation amounted to $83,000 and $73,000 for the years ended March 31, 2005 and 2006, respectively, and $41,000 for the three months ended June 30, 2006. 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

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

$1,000, and $24,000 during the years ending March 31, 2005 and 2006, respectively, and $8,000 for the three months ended June 30, 2006. Aggregate interest expense under these obligations amounted to $1,000 and $8,900 for the years ended March 31, 2005 and 2006, respectively, and $3,000 for the three months ended June 30, 2006. 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.

In June 2006, the Company entered into a credit facility providing it with up to $5,000,000 of available credit. The facility permitted the Company to borrow up to a maximum of $2,750,000 for growth capital, $1,250,000 for working capital based on eligible accounts receivable and $1,000,000 in equipment financing. During the three months ended June 30, 2006, the Company drew an aggregate of $4,182,000 of borrowings under this facility. These borrowings are payable in 30 to 33 fixed monthly installments with interest at rates ranging from 12.4% to 12.7% per annum, maturing at various times through April 9, 2009. The Company has no unused availability under this credit facility since amounts drawn under the working capital facility were based upon an initial measurement of eligible accounts receivable.

The Company also issued to the lender warrants to purchase up to 286,137 shares of its Series B preferred stock upon originating the loan. In addition, the Company will issue warrants to purchase up to 13,863 additional shares of its Series B preferred stock in connection with its utilization of the line of credit. The aggregate fair value of all warrants issued to the lender under this arrangement amounts to $1,047,000 (Note 12). This amount was recorded as debt issue costs in the June 30, 2006 balance sheet and is being amortized as interest expense over the term of the credit facility.

Borrowings under the growth capital line are collateralized by the total assets of the Company other than the Company's intellectual property, and the security interest extends to the intellectual property under certain circumstances. Borrowings under the equipment line are collateralized by the underlying assets funded, and borrowings under the working capital line are collateralized by eligible accounts receivable. On a monthly basis, the Company must maintain a 1:1 ratio of borrowing under the working capital line to eligible accounts receivable. The Company has 30 days from each measurement date to either increase eligible accounts receivable or pay the excess principal in the event that the ratio is less than 1:1. No restrictive covenants exist for either the equipment line or the growth capital line. The Company made $49,000 of principal payments on these notes during the three months ended June 30, 2006. The Company is not required to direct customer remittances to a lock box, nor does the credit agreement provide for subjective acceleration of the loans. The aggregate remaining principal balance under this facility amounted to $4,133,000, including $1,161,000 in the current portion of long term debt in the accompanying balance sheet at June 30, 2006.

In June 2006, the Company entered into a note agreement for $69,000 with interest rate of 7.94% percent per annum. The proceeds of this note were used to purchase an automobile. This note is payable in monthly installments of $1,200 through May 2012. The remaining balance of this note amounted to $68,000 at June 30, 2006, including $9,000 in the current portion of long-term debt in the accompanying balance sheet.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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, and $3,000 for the three months ended June 30, 2006. 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, and $1,000 for the three months ended June 30, 2006. 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, and $2,000 for the three months ended June 30, 2006.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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. Rent expense amounted to $143,000 and $135,000 for the three months ended June 30, 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.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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 misappropriation 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 agreed with one of the parties to stop using the name Microcyn60 by September 2007. 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.

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 by the Company. 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 the 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.

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 is or 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 White Moon Medical. Akihisa Akao, a member of the Board of Directors, is the sole stockholder of White Moon. 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. In accordance with the terms of this agreement, the Company made payments in the amount of $110,000 for the period of October 1, 2005 to June 30, 2006.

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 and $557,000 of costs in the three months ended June 30, 2006 in connection with its proposed IPO, which amounts are presented as deferred offering costs in the accompanying balance sheet at March 31, 2006 and June 30, 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.

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, 11,222,222 shares have been designated as Series B preferred stock and 3,500,000 shares have been designated Series C 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 commitment 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 for both the year ended March 31, 2006 and the three months ended June 30, 2006, 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 1,735,123 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.

During the three month period ended June 30, 2006, the Company issued warrants to purchase 286,137 shares of Series B preferred stock at an exercise price of $4.50 per share in connection with the new financing facility described in Note 9. The warrants were valued using the Black-Scholes pricing model. Assumptions used were as follows: Fair value of the underlying stock $4.50; risk-free interest rate 5.15% percent; contractual life of 11 years; dividend yield of 0%; and volatility of 70%. The fair value of the warrants, which amounted to $1,047,000, was recorded as deferred debt issue costs in the June 30, 2006

balance sheet and is being amortized as interest expense over the term of the credit facility. Amortization of the these costs amounted to $17,000 and is included as a component of interest expense in the accompanying statement of operations for the three months ended June 30, 2006.

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.

During the three month period ended June 30, 2006, the Company issued 15,000 shares of common stock to a consultant in exchange for services provided. The fair value of the underlying stock was valued at $2.82 per share. The shares were fully vested and were non-forfeitable when issued with no future performance obligation by the consultant. The aggregate fair value of the shares, which amounted to $43,000, was recorded as a selling, general and administrative expense in the accompanying statement of operations for the three months ended June 30, 2006.

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.

In June 2006, 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 $2.82 per share. Accordingly, the fair value of the Company's common stock underlying all equity transactions completed during the three months ended June 30, 2006 was based on the results of the valuation study.

NOTE 13 — Stock Compensation Plans

1999, 2000 and 2003 Stock Plans

The 1999, 2000 and 2003 Stock Option Plans became effective May 1999, June 2000 and July 2003, respectively. The Plans provide for grants of both incentive stock options (ISO's) and non-qualified stock options (NSO's) 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, stated exercise price shall not be less than 100% and 85% of the estimated fair market value of the Company's 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 was not to exceed 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 of the board of directors determined that it would not approve any further grants under its 1999, 2000, and 2003 Plans. At March 31, 2006 there were 5,745,267 options available for issue in the 1999, 2000, and 2003 Plans that will not be issued.

On June 29, 2006, the compensation committee of the Company's board of directors adopted a resolution authorizing the Company to cancel these plans. Accordingly, 5,745,267 options previously available for issue are no longer available for future grants.

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.

Options issued under the Plan have a ten-year term and generally become exercisable over a five-year period.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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.

A summary of option activity as of June 30, 2006 (unaudited), and changes during the the three month period ended June 30, 2006 is presented below (unaudited):

Options	Shares ($000)	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at April 1, 2006	7,876	$ 1.06		
Forfeited or expired	(56)	2.36		
Outstanding at June 30, 2006	7,820	1.05	7.18	$ 13,901
Exercisable at June 30, 2006	4,137	$ 0.29	5.82	$ 10,482

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock ($2.82 per share) for stock options that are in-the-money as of June 30, 2006.

At June 30, 2006, there was $650,000 of unrecognized compensation cost related to options that the Company accounted for under APB 25 through March 31, 2006. These costs are expected to be recognized over a weighted average 1.75 years.

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 and $1.78 for the three months ended June 30, 2005.

In the three months ended June 30, 2006, the Company did not grant any share based arrangements to employees or non-employees. In addition, the Company did not modify any stock options granted to employees or non-employees under share based arrangements or capitalize the cost associated with stock based compensation.

The Company issues new shares of common stock upon exercise of stock options.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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,			Three Months Ended June 30,	
	2004	2005	2006	2005	2006
				(unaudited)	
Estimated life	8.25 yrs	9.06 yrs	8.67 yrs	8.99 yrs	8.61 yrs
Risk-free interest rate	3.88%	4.50%	4.27%	4.01%	5.13%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Volatility	70%	70%	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, and $30,000 and $3,000 for the three months ended June 30, 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)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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 has incurred losses for both financial reporting and income tax purposes for the three months ended June 30, 2006 and anticipates it will incur such losses for the year ended March 31, 2007. Accordingly, the Company is continuing to fully reserve for its deferred tax assets. 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, and $12,000 and $15,000 for the three months ended June 30, 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 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.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

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	368	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
Three months ended June 30, 2005 (unaudited):				
Product revenues	$ 77	$ 45	$ 133	$ 255
Service revenues	151	—	—	151
Total revenues	229	45	133	406
Depreciation expense	112	20	6	138
Operating loss	(2,412)	(325)	(1,247)	(3,984)
Interest expense	(69)	—	—	(69)
Interest income	13	—	—	13
Total assets	14,852	1,059	1,665	17,576

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(INFORMATION AS OF JUNE 30, 2006 AND FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2006 IS UNAUDITED)

	U.S.	Europe	Mexico	Total
Three months ended June 30, 2006 (unaudited):				
Product revenues	$ 29	$ 280	$ 595	$ 904
Service revenues	174	—	—	174
Total revenues	203	280	595	1,078
Depreciation expense	93	45	23	161
Operating loss	(2,598)	(620)	(822)	(4,040)
Interest expense	(39)	—	—	(39)
Interest income	58	—	—	58
Total assets	8,586	2,529	2,263	13,378

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. In connection with these agreements, an individual designated by the Company who is also one of the Company's executive officers concurrently acquired, in his individual capacity and for no additional consideration, a 0.25% equity interest in QP. The Company was granted 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.

Based on an opinion of Mexico counsel, the 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. However, 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

On July 27, 2006, the Company granted options to purchase an aggregate of 680,500 shares of common stock with an exercise price of $3.00 per share.

On August 31, 2006, the Company filed an amendment to its Articles of Incorporation authorizing the Company to issued 3,500,000 shares of Series C preferred stock. On September 14, 2006, the Company sold 338,156 units, consisting of 338,156 shares of Series C convertible preferred stock and warrants to purchase 67,631 shares of the Company's common stock at $4.50 per share, at a per unit price of $4.50. Gross proceeds from this sale amounted to $1,521,702 and proceeds net of commissions amounted to $1,369,532. In addition, the Company issued to the placement agent warrants to purchase 42,269 shares of the Company's common stock at $4.50 per share. These shares were sold in connection with an agreement entered into between the Company and a placement agent in May 2006.

In August 2006, the Company received a "show cause" letter from the Environmental Protection Agency ("EPA"), which stated that, in tests conducted by the EPA, Cidalcyn was found to be ineffective in killing certain specified pathogens when used according to label directions. Based on its results, the EPA strongly recommended that the Company immediately recall all Cidalcyn distributed on and after September 28, 2005. Accordingly, the Company has commenced a voluntary recall of Cidalcyn. Although the Company has not marketed Cidalcyn on a large commercial scale, it has provided it in small quantities to numerous hospitals solely for use in product evaluation exercises. In a second letter, the EPA stated it intended to file a civil administrative complaint against the Company for violation of the Federal Insecticide, Fungicide, and Rodenticide Act ("FIFRA"). Under FIFRA, the EPA could assess civil penalties related to the sale and distribution of a pesticide product not meeting the label's claims as a broad-spectrum hospital disinfectant. The Company believes that such civil penalties could be up to $200,000. The Company currently cannot estimate the actual amount of penalties which may be incurred.

In September 2006, a consulting firm in Mexico City contacted the Company threatening legal action in Mexico, alleging breach of contract and claiming damages of $225,000. A formal compliant has not been served and no trial date has been set. The Company is currently in settlement negotiations with the plaintiff. If these negotiations are not successful, the Company intends to vigorously defend this action. If the claims are litigated, the Company may incur considerable litigation costs.

Table of Contents

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.

Exercises of Stock Options

On various dates between January 14, 2002 and August 31, 2006, the Registrant sold 1,364,916 shares of its common stock to employees and directors 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.

The sales of the above securities were considered to be exempt from registration under the Securities Act in reliance on Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions under compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The sale of the above securities in a 12 months period did not exceed the greater of (a) $1,000,000, (b) 15% of total assets as of the Registrant's most recent balance sheet or (c) 15% of the number of outstanding shares of the Registrant's common stock sold in reliance of this Rule.

Issuances of Capital Stock in Financing Rounds

On various dates between August 7, 2003 and February 25, 2004, the Registrant sold 5,391,244 shares of series A convertible preferred stock for aggregate consideration of $8,066,866 to 198 accredited investors. In connection with these sales the Registrant paid to Brookstreet Securities Corporation, as placement agent, an aggregate of $1,123,746 in commissions and issued to Brookstreet and its affiliates warrants to purchase an aggregate of 1,735,123 shares of the Registrant's common stock. The Registrant also issued a warrant to purchase 66,667 shares of its series A convertible preferred stock and a promissory note that could be converted into 40,000 shares of series A convertible preferred stock. On June 30, 2005, this convertible note was converted into 40,000 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 Rule 506 of Regulation D promulgated under the Securities Act, as transactions by an issuer not involving a public offering. The purchasers of these securities were accredited investors, 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 the transaction. All purchasers had adequate access, through their relationship with the Registrant, to information about the Registrant.

On various dates between April 30, 2004 and October 27, 2005, the Registrant sold 10,543,474 shares of series B convertible preferred stock for aggregate consideration of $47,445,663 to 361 accredited investors. In connection with these sales the Registrant paid to Brookstreet, as placement agent, 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 Rule 506 of Regulation D promulgated under the Securities Act, as transactions by an issuer not involving a public offering. The purchasers of these securities were accredited investors, 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 the transaction. All purchasers had adequate access, through their relationship with the Registrant, to information about the Registrant.

On September 14, 2006, the Registrant sold 338,156 units, consisting of 338,156 shares of Series C convertible preferred stock and warrants to purchase 67,631 shares of common stock at $4.50 per share, at a per unit price of $4.50 for aggregate gross proceeds of $1,521,702. In connection with this sale, the Registrant paid to Brookstreet Securities Corporation, as placement agent, an aggregate of $152,170 in commissions and issued to Brookstreet fully vested warrants to purchase an aggregate of 42,269 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 Rule 506 of Regulation D promulgated under the Securities Act, as transactions by an issuer not involving a public offering. The purchasers of these securities were qualified institutional buyers or institutional accredited investors, 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 the transaction. All purchasers had adequate access, through their relationship with the Registrant, to information about the Registrant.

Issuance of Securities in Debt Financing

In June 2006, the Registrant entered into a Loan and Security Agreement with a financial institution. In conjunction with this agreement, the Registrant issued warrants to purchase an aggregate of 300,000 shares of its series B preferred stock at an exercise price of $4.50 per shares. The sale of these securities was considered to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D promulgated under the Securities Act, as a transaction by an issuer not involving a public offering. The purchaser is an accredited investor, represented its intention to acquire the securities for investment only and not with a view to or fore sale with any distribution thereof, and appropriate legends were affixed to the instruments issued in the transaction. The purchaser had access, through its 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.
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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.

Exhibit Number	Description
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.
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10.20**	Form of Director Agreement.
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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.
10.23	Amendment No. 3 to Lease dated August 23, 2006, between the Registrant and RNM Lakeville, L.P.
10.24	Stock Purchase Agreement, dated June 16, 2005, between the Registrant, Quimica Pasteur, S de R.L., Francisco Javier Orozco Gutierrez and Jorge Paulino Hermosillo Martin.
10.25	Framework Agreement, dated June 16, 2005, between Javier Orozco Gutierrez, Quimica Pasteur, S de R.L., Jorge Paulino Hermosillo Martin, the Registrant and Oculus Technologies de Mexico, S.A. de C.V.
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23.10	Consent of Luca Dalla-Paola, M.D.
23.11	Consent of Andrew Boulton, M.D.
23.12	Consent of Dr. Ariel Miranda
24.1**	Power of Attorney (see page II-5 of this Registration Statement).

* To be filed by amendment.

** Previously filed.

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) For the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(4) 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 Amendment No. 1 to 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 18th day of September, 2006.

Oculus Innovative Sciences, Inc.

By /s/ Hojabr Alimi
Hojabr Alimi
President and Chief Executive Officer

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	September 18, 2006
/s/ Robert E. Miller Robert E. Miller	Chief Financial Officer (Principal Financial and Accounting Officer)	September 18, 2006
/s/ Akihisa Akao* Akihisa Akao	Director	September 18, 2006
/s/ Edward M. Brown* Edward M. Brown	Director	September 18, 2006
/s/ Richard Conley* Richard Conley	Director	September 18, 2006
/s/ Gregory M. French* Gregory M. French	Director	September 18, 2006
/s/ James J. Schutz* James J. Schutz	Director	September 18, 2006
*/s/ Hojabr Alimi Hojabr Alimi	Attorney-in-fact	September 18, 2006

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* To be filed by amendment.

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Exhibit 3.5

RESTATED CERTIFICATE OF INCORPORATION

OF

OCULUS INNOVATIVE SCIENCES, INC.

Oculus Innovative Sciences, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

FIRST: The name of the Corporation is Oculus Innovative Sciences.

SECOND: The Corporation was incorporated pursuant to an original Certificate of Incorporation of the Corporation filed with the Secretary of State of the State of Delaware on _____ ___, 2006 under the name OIS Reincorporation Sub, Inc., and a Restated Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on _____ ___, 2006. On _____ ___, 2006, the Corporation filed with the Secretary of State of the State of Delaware a Certificate of Merger pursuant to which Oculus Innovative Sciences, Inc., a California corporation, merged with and into the Corporation with the Corporation surviving such merger.

THIRD: Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, this Restated Certificate of Incorporation restates, integrates and further amends the provisions of the Certificate of Incorporation of the Corporation.

FOURTH: The Certificate of Incorporation of the Corporation shall be amended and restated to read in full as follows:

ARTICLE I

The name of the Corporation is Oculus Innovative Sciences, Inc.

ARTICLE II

The registered agent and the address of the registered office in the State of Delaware are: The Corporation Trust Company, 1209 Orange Street, Wilmington, County of New Castle, 19801.

ARTICLE III

The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware (the "DGCL").

ARTICLE IV

A. Authorized Stock. The Corporation is authorized to issue two classes of stock to be designated respectively Preferred Stock ("Preferred Stock") and Common Stock ("Common Stock"). The total number of all shares of all classes of capital stock the Corporation shall have authority to issue is one hundred five million (105,000,000). The total number of shares of Preferred Stock the Corporation shall have authority to issue is five million (5,000,000). The total number of shares of Common Stock the Corporation shall have authority to issue is one hundred million (100,000,000). The Preferred Stock and the Common Stock each shall have a par value of one one-hundredth of one cent ($0.0001) per share. The number of authorized shares of Common Stock or Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the then outstanding shares of Common Stock, without a vote of the holders of Preferred Stock, or of any series thereof, unless a vote of any such holders of Preferred Stock is required pursuant to the provisions established by the Board of Directors of the Corporation (the "Board of Directors") in the resolution or resolutions providing for the issue of such Preferred Stock, and if such holders of such Preferred Stock are so entitled to vote thereon, then, except as may otherwise be set forth in this Restated Certificate of Incorporation, the only stockholder approval required shall be the affirmative vote of a majority of the combined voting power of the Common Stock and the Preferred Stock so entitled to vote.

B. Preferred Stock. The Preferred Stock may be issued from time to time in one or more series, as determined by the Board of Directors. The Board of Directors is expressly authorized to provide for the issue, in one or more series, of all or any of the remaining shares of Preferred Stock and, in the resolution or resolutions providing for such issue, to establish for each such series the number of its shares, the voting powers, full or limited, of the shares of such series, or that such shares shall have no voting powers, and the designations, preferences, and relative participating, optional, or other special rights of the shares of such series and the qualifications, limitations, or restrictions thereof. The Board of Directors is also expressly authorized (unless forbidden in the resolution or resolutions providing for such issue) to 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. In case the number of shares of any such series shall be so decreased, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

C. Common Stock.

1. Relative Rights of Preferred Stock and Common Stock. All preferences, voting powers, relative, participating, optional or other special rights and privileges, and qualifications, limitations, or restrictions, of the Common Stock are expressly made subject and subordinate to those that may be fixed with respect to any shares of the Preferred Stock.

2. Voting Rights. Except as otherwise required by law or this Restated Certificate of Incorporation, each holder of Common Stock shall have one vote in respect of each share of stock held by such holder of record on the books of the Corporation for the election of directors and on all matters submitted to a vote of stockholders of the Corporation.

3. Dividends. Subject to the preferential rights of the Preferred Stock, the holders of shares of Common Stock shall be entitled to receive, when and if declared by the Board of Directors, out of the assets of the Corporation which are by law available therefor, dividends payable either in cash, in property or in shares of capital stock.

4. Dissolution, Liquidation or Winding Up. In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of the Preferred Stock, holders of Common Stock shall be entitled, unless otherwise provided by law or this Restated Certificate of Incorporation, to receive all of the remaining assets of the Corporation of whatever kind available for distribution to stockholders ratably in proportion to the number of shares of Common Stock held by them respectively.

ARTICLE V

A. Number of Directors. The authorized number of directors of the Corporation shall be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board of Directors at any regular or special meeting of such Board of Directors, within any limits prescribed in the bylaws of the Corporation.

B. Classes of Directors. The Board of Directors, other than those directors elected by the holders of any series of Preferred Stock as provided for or fixed pursuant to the provisions of Article IV of this Restated Certificate of Incorporation, shall be divided into three classes, designated Class I, Class II and Class III, as nearly equal in number as possible, and the term of office of directors of one class shall expire at each annual meeting of stockholders, and in all cases as to each director such term shall extend until his or her successor shall be elected and shall qualify or until his or her earlier resignation, removal from office, death or incapacity. Additional directorships resulting from an increase in number of directors shall be apportioned among the classes as equally as possible. The initial term of office of directors of Class I shall expire at the annual meeting of stockholders in 2007, the initial term of office of directors of Class II shall expire at the annual meeting of stockholders in 2008 and the initial term of office of directors of Class III shall expire at the annual meeting of stockholders in 2009. At each annual meeting of stockholders a number of directors equal to the number of directors of the class whose term expires at the time of such meeting (or, if less, the number of directors properly

nominated and qualified for election) shall be elected to hold office until the third succeeding annual meeting of stockholders after their election.

At each annual election, directors chosen to succeed those whose terms then expire shall be of the same class as the directors they succeed, unless by reason of any intervening changes in the authorized number of directors, the Board of Directors shall designate one or more directorships whose term then expires as directorships of another class in order to more nearly achieve equality of number of directors among the classes.

Notwithstanding the rule that the three classes shall be as nearly equal in number of directors as possible, in the event of any change in the authorized number of directors, each director then continuing to serve as such shall nevertheless continue as a director of the class of which such director is a member until the expiration of his or her current term, or his or her prior death, resignation or removal. If any newly created directorship may, consistently with the rule that the three classes shall be as nearly equal in number of directors as possible, be allocated to either class, the Board of Directors shall allocate it to that of the available class whose term of office is due to expire at the earliest date following such allocation.

C. Vacancies. Except as otherwise provided for or fixed pursuant to the provisions of Article IV of this Restated Certificate of Incorporation relating to the rights of the holders of any series of Preferred Stock to elect directors, and subject to the provisions hereof, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or another cause may be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or in which the vacancy occurred, and until such director's successor shall have been duly elected and qualified or until his or her earlier resignation, removal from office, death or incapacity. Subject to the provisions of this Restated Certificate of Incorporation, no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

ARTICLE VI

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware:

A. The Board of Directors is expressly authorized to adopt, amend or repeal the bylaws of the Corporation; provided, however, that the bylaws may only be amended in accordance with the provisions thereof.

B. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

C. The books of the Corporation may be kept at such place within or without the State of Delaware as the bylaws of the Corporation may provide or as may be designated from time to time by the Board of Directors.

ARTICLE VII

A. Power of Stockholders to Act by Written Consent. No action required or permitted to be taken at any annual or special meeting of the stockholders may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

B. Special Meetings of Stockholders. Special meetings of the stockholders of the Corporation may be called only by the Chairman of the Board or the Chief Executive Officer of the Corporation or by a resolution adopted by the affirmative vote of a majority of the Board of Directors.

ARTICLE VIII

A. Limitation on Liability. To the fullest extent permitted by the DGCL, as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

B. Indemnification. Each person who is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, employee benefit plan or other enterprise (including the heirs, executors, administrators or estate of such person), shall be indemnified and advanced expenses by the Corporation, in accordance with the bylaws of the Corporation, to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment) or any other applicable laws as presently or hereinafter in effect. The right to indemnification and advancement of expenses hereunder shall not be exclusive of any other right that any person may have or hereafter acquire under any statute, provision of the Restated Certificate of Incorporation, bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

C. Insurance. The Corporation may, to the fullest extent permitted by law, purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any expense, liability or loss incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

D. Repeal and Modification. Any repeal or modification of the foregoing provisions of this Article VIII shall not adversely affect any right or protection existing hereunder immediately prior to such repeal or modification.

ARTICLE IX

Notwithstanding any other provision of this Restated Certificate of Incorporation, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of the stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend in any respect or repeal this Article IX, or any provision of Articles VII or VIII.

***

FIFTH: This Restated Certificate of Incorporation was duly adopted by the Board of Directors of the corporation.

SIXTH: This Restated Certificate of Incorporation was duly adopted by the stockholders in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware. Written consent of the stockholders has been given with respect to this Restated Certificate of Incorporation in accordance with Section 228 of the General Corporation Law of the State of Delaware, and written notice has or shall been given as provided in Section 228.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by its duly authorized officer this ___ day of _____, 2006.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Hojabr Alimi
Chief Executive Officer

Exhibit 3.8

AMENDED AND RESTATED
BY LAWS
OF
OCULUS INNOVATIVE SCIENCES, INC.
(a Delaware corporation)

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

AMENDED AND RESTATED

BY LAWS

OF

OCULUS INNOVATIVE SCIENCES, INC.
(a Delaware corporation)

ARTICLE 1

Offices

1.1 Registered Office. The registered office of the corporation shall be set forth in the certificate of incorporation of the corporation.

1.2 Other Offices. The corporation may also have offices at such other places, either within or without the State of Delaware, as the Board of Directors of the corporation (the "Board") may from time to time designate or the business of the corporation may require.

ARTICLE 2

Meeting of Stockholders

2.1 Place of Meeting. Meetings of stockholders may be held at such place, either within or without of the State of Delaware, as may be designated by or in the manner provided in these bylaws, or, if not so designated, at the registered office of the corporation or the principal executive offices of the corporation.

2.2 Annual Meeting. Annual meetings of stockholders shall be held each year at such date and time as shall be designated from time to time by the Board or the Chief Executive Officer and stated in the notice of the meeting. At each such annual meeting, the stockholders shall elect by a plurality vote the number of directors equal to the number of directors of the class whose term expires at such meeting (or, if fewer, the number of directors properly nominated and qualified for election) to hold office until the third succeeding annual meeting of stockholders after their election. The stockholders shall also transact such other business as may properly be brought before the meeting.

To be properly brought before the annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board or the Chief Executive Officer, (b) otherwise properly brought before the meeting by or at the direction of the Board or the Chief Executive Officer, or (c) otherwise properly brought before the meeting by a stockholder of record. A motion related to business proposed to be brought before any stockholders' meeting may be made by any stockholder entitled to vote if the business proposed is otherwise proper to be brought before the meeting. However, any such stockholder may propose business to be brought before a meeting only if such stockholder has given timely notice to the Secretary of the corporation in proper written form of the stockholder's intent to propose

such business. To be timely, the stockholder's notice must be delivered by a nationally recognized courier service or mailed by first class United States mail, postage or delivery charges prepaid, and received at the principal executive offices of the corporation addressed to the attention of the Secretary of the corporation not earlier than ninety (90) days nor more than one hundred twenty (120) days in advance of the date the corporation's proxy statement was released to the stockholders in connection with the previous year's annual meeting of stockholders; *provided, however*, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder must be received by the Secretary of the corporation not later than the close of business on the later of (x) the ninetieth (90th) day prior to such annual meeting and (y) the seventh (7th) days following the day on which public announcement of the date of such meeting is first made. For the purposes of these bylaws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of stockholder's notice as described above. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class, series and number of shares of the corporation that are owned beneficially and of record by the stockholder and such beneficial owner, (iv) any material interest of the stockholder in such business, and (v) any other information that is required to be provided by the stockholder pursuant to Section 14 of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder (collectively, the "1934 Act") in such stockholder's capacity as a proponent of a stockholder proposal.

Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section; *provided, however*, that nothing in this Section shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting.

The Chairman of the Board (or such other person presiding at the meeting in accordance with these bylaws) shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

2.3 Special Meetings. Special meetings of the stockholders may be called for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, by the Secretary only at the request of the Chairman of the Board, the Chief Executive Officer or by a resolution duly adopted by the affirmative vote of a majority of the Board. Such request

shall state the purpose or purposes of the proposed meeting. Business transacted at any special meeting shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

2.4 Notice of Meetings. Except as otherwise provided by law, written notice of each meeting of stockholders, annual or special, stating the place, if any, date and time of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which such special meeting is called, shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

When a meeting is adjourned to another place, date or time, notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; *provided, however*, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, if any, date, time and means of remote communications, if any, of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted that might have been transacted at the original meeting.

2.5 List of Stockholders. The officer in charge of the stock ledger of the corporation or the transfer agent shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least ten days prior to the meeting, (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. If the meeting is to be held at a place, then the list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to gain access to such list shall be provided with the notice of the meeting.

2.6 Organization and Conduct of Business. The Chairman of the Board or, in his or her absence, the Chief Executive Officer or President of the corporation or, in their absence, such person as the Board may have designated or, in the absence of such a person, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as chairman of the meeting. In the absence of the Secretary of the corporation, the secretary of the meeting shall be such person as the chairman of the meeting appoints.

The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seems to him or her in order.

2.7 Quorum. Except where otherwise provided by law or the certificate of incorporation of the corporation or these bylaws, the holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented in proxy, shall constitute a quorum at all meetings of the stockholders.

2.8 Adjournments. Any meeting of stockholders may be adjourned from time to time to any other time and to any other place at which a meeting of stockholders may be held under these bylaws, which time and place shall be announced at the meeting, by a majority of the stockholders present in person or represented by proxy at the meeting and entitled to vote, though less than a quorum, or, if no stockholder is present or represented by proxy, by any officer entitled to preside at or to act as secretary of such meeting, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 Voting Rights. Unless otherwise provided in the certificate of incorporation of the corporation, each stockholder shall at every meeting of the stockholders be entitled to one vote for each share of the capital stock having voting power held by such stockholder.

2.10 Majority Vote. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the certificate of incorporation of the corporation or of these bylaws, a different vote is required in which case such express provision shall govern and control the decision of such question.

2.11 Record Date for Stockholder Notice and Voting. For purposes of determining the stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any right in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than sixty (60) days nor fewer than ten (10) days before the date of any such meeting nor more than sixty (60) days before any other action to which the record date relates. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the Board may fix a new record date for the adjourned meeting. If the Board does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders 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. The record date for determining stockholders

for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating to such purpose.

2.12 Proxies. Each stockholder entitled to vote at a meeting of stockholders, or to express consent or dissent to corporate action in writing without a meeting, may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. All proxies must be filed with the Secretary of the corporation at the beginning of each meeting in order to be counted in any vote at the meeting. Subject to the limitation set forth in the last clause of the first sentence of this Section 2.12, a duly executed proxy that does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy, 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.

2.13 Inspectors of Election. The corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors of election to act at the meeting and make a written report thereof. The corporation may designate one or more persons to act as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability.

2.14 Action Without a Meeting. No action required or permitted to be taken at any annual or special meeting of the stockholders of the corporation may be taken without a meeting and the power of the stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

ARTICLE 3

Directors

3.1 Number, Election, Tenure and Qualifications. The number of directors that shall constitute the entire Board shall not be less than five (5) nor more than nine (9), and initially shall be set at six (6); *provided, however*, that the number of directors that shall constitute the entire Board shall be fixed from time to time by resolution adopted by a majority of the entire Board. The classes of directors that shall constitute the entire Board shall be as provided in the certificate of incorporation of the corporation.

The directors shall be elected at the annual meetings of the stockholders, except as otherwise provided in Section 3.2, and each director elected shall hold office until such director's successor is elected and qualified or until such director's earlier resignation, removal, death or incapacity.

Subject to the rights of holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation, nominations of persons for election to the Board by or at the direction of the Board may be made by any nominating committee or person appointed by the Board; nominations may also be made by any stockholder of record of the corporation entitled to vote for the election of directors at the applicable meeting who complies with the notice procedures set forth in this Section. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice shall be delivered by a nationally recognized courier service or mailed by first class United States mail, postage or delivery charges prepaid, and received at the principal executive offices of the corporation addressed to the attention of the Secretary of the corporation not earlier than ninety (90) days nor more than one hundred twenty (120) days in advance of the date the corporation's proxy statement was released to the stockholders in connection with the previous year's annual meeting of stockholders; *provided, however*, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder must be received by the Secretary of the corporation not later than the close of business on the later of (x) the ninetieth (90th) day prior to such annual meeting and (y) the seventh (7th) day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class, series and number of shares of capital stock of the corporation that are owned beneficially by the person, (iv) a statement as to the person's citizenship, and (v) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the 1934 Act, and (b) as to the stockholder giving the notice, (i) the name and record address of the stockholder and (ii) the class, series and number of shares of capital stock of the corporation that are owned beneficially by the stockholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein.

In connection with any annual meeting of the stockholders (or, if and as applicable, any special meeting of the stockholders), the Chairman of the Board (or such other person presiding at such meeting in accordance with these bylaws) shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

3.2 Enlargement and Vacancies. The number of members of the Board may be increased at any time as provided in Section 3.1 above. Sole power to fill vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be vested in the Board through action by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and each director so chosen shall hold office until the next annual election at which the term of the class to which they have been elected expires and

until such director's successor is duly elected and qualified or until such director's earlier resignation, removal from office, death or incapacity. If there are no directors in office, then an election of directors may be held in the manner provided by statute. In the event of a vacancy in the Board, the remaining directors, except as otherwise provided by law or these bylaws, may exercise the powers of the full board until the vacancy is filled.

3.3 Resignation and Removal. Any director may resign at any time upon written notice to the corporation at its principal place of business or to the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt of such notice unless the notice specifies such resignation to be effective at some other time or upon the happening of some other event. Any director or the entire Board may be removed by the holders of a majority of the shares then entitled to vote at an election of directors, unless otherwise specified by law or the certificate of incorporation of the corporation.

3.4 Composition. The corporation shall use commercially reasonable efforts to ensure that a majority of the members of the Board qualify as "independent directors" (each an "Independent Director") under the then current rules and regulations of the United States Securities and Exchange Commission and the primary stock exchange, stock market or quotation system on which the corporation's stock is then listed or quoted, as applicable.

3.5 Powers. The business of the corporation shall be managed by or under the direction of the Board, which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation of the corporation or by these bylaws directed or required to be exercised or done by the stockholders.

3.6 Chairman of the Board. If the Board appoints a Chairman of the Board, such Chairman shall, when present, preside at all meetings of the stockholders and the Board. The Chairman shall perform such duties and possess such powers as are customarily vested in the office of the Chairman of the Board or as may be vested in the Chairman by the Board.

3.7 Place of Meetings. The Board may hold meetings, both regular and special, either within or without the State of Delaware.

3.8 Annual Meetings. The annual meetings of the Board shall be held immediately following the annual meeting of stockholders, and no notice of such meeting shall be necessary to the Board, provided a quorum shall be present, or shall be held at the next regularly scheduled meeting of the Board or at such other date, time and place as shall be designated from time to time by the Board and stated in the notice of the meeting. The annual meetings shall be for the purposes of organization, and an election of officers and the transaction of other business.

3.9 Regular Meetings. Regular meetings of the Board may be held without notice at such time and place as may be determined from time to time by the Board; provided that any director who is absent when such a determination is made shall be given prompt notice of such determination.

3.10 Special Meetings. Special meetings of the Board may be called by the Chairman of the Board, the Chief Executive Officer, the President or the Secretary, or on the written request of two or more directors, or by one director in the event that there is only one director in

office. Notice of the time and place, if any, of special meetings shall be delivered personally or by telephone to each director, or sent by first-class mail or commercial delivery service, facsimile transmission, or by electronic mail or other electronic means, charges prepaid, sent to such director's business or home address as they appear upon the records of the corporation. In case such notice is mailed, it shall be deposited in the United States mail at least four (4) days prior to the time of holding of the meeting. In case such notice is delivered personally or by telephone or by commercial delivery service, facsimile transmission, or electronic mail or other electronic means, it shall be so delivered at least twenty-four (24) hours prior to the time of the holding of the meeting. A notice or waiver of notice of a meeting of the Board need not specify the purposes of the meeting.

3.11 Quorum, Action at Meeting, Adjournments. At all meetings of the Board, a majority of directors then in office, but in no event less than one-third (1/3) of the entire Board, shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may be otherwise specifically provided by law or by the certificate of incorporation of the corporation. For purposes of this Section, the term "entire Board" shall mean the number of directors last fixed by directors in accordance with these bylaws; *provided, however*, that if fewer than all the number of directors so fixed have been elected (by the stockholders or the Board), the "entire Board" shall mean the greatest number of directors so elected to hold office at any one time pursuant to such authorization. If a quorum shall not be present at any meeting of the board of directors, a majority of the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

3.12 Action Without Meeting. Unless otherwise restricted by the certificate of incorporation of the corporation or these bylaws, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee.

3.13 Telephone Meetings. Unless otherwise restricted by the certificate of incorporation of the corporation or these bylaws, any member of the Board or any committee thereof may participate in a meeting of the Board or of any committee, as the case may be, by means of conference telephone or by any form of communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.14 Committees. The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not the member or members present constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board, shall have and may exercise all the powers

and authority of the Board in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval or (ii) adopting, amending or repealing any of these bylaws. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board. Each committee shall keep regular minutes of its meetings and make such reports to the Board as the Board may request. Except as the Board may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these bylaws for the conduct of its business by the Board.

3.15 Fees and Compensation of Directors. Unless otherwise restricted by the certificate of incorporation of the corporation or these bylaws, the Board shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board and may be paid a fixed sum for attendance at each meeting of the Board or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.16 Rights of Inspection. Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director.

ARTICLE 4

Officers

4.1 Officers Designated. The officers of the corporation shall be chosen by the Board and shall be a Chief Executive Officer, a President, a Secretary and a Chief Financial Officer or Treasurer. The Board may also choose a Chief Operating Officer, one or more Vice Presidents, and one or more assistant Secretaries or assistant Treasurers. Any number of offices may be held by the same person, unless the certificate of incorporation of the corporation or these bylaws otherwise provide.

4.2 Election. The Board at its first meeting after each annual meeting of stockholders shall choose a Chief Executive Officer, a President, a Secretary and a Chief Financial Officer or Treasurer. Other officers may be appointed by the Board of Directors at such meeting, at any other meeting, or by written consent or may be appointed by the Chief Executive Officer pursuant to a delegation of authority from the Board.

4.3 Tenure. Each officer of the corporation shall hold office until such officer's successor is elected and qualified, unless a different term is specified in the vote choosing or appointing such officer, or until such officer's earlier death, resignation, removal or incapacity. Any officer elected or appointed by the Board or by the Chief Executive Officer may be removed

with or without cause at any time by the affirmative vote of a majority of the Board or a committee duly authorized to do so, except that any officer appointed by the Chief Executive Officer may also be removed at any time by the Chief Executive Officer. Any vacancy occurring in any office of the corporation may be filled by the Board, at its discretion. Any officer may resign by delivering such officer's written resignation to the corporation at its principal place of business or to the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

4.4 The Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board to the Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the stockholders and in the absence of the Chairman of the Board, or if there be none, at all meetings of the Board, shall have general and active management of the business of the corporation and shall see that all orders and resolutions of the Board are carried into effect. He or she shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board to some other officer or agent of the corporation.

4.5 The President. The President shall, in the event there be no Chief Executive Officer or in the absence of the Chief Executive Officer or in the event of his or her disability or refusal to act, perform the duties of the Chief Executive Officer, and when so acting, shall have the powers of and be subject to all the restrictions upon the Chief Executive Officer. The President shall perform such other duties and have such other powers as may from time to time be prescribed for such person by the Board, the Chairman of the Board, the Chief Executive Officer or these bylaws.

4.6 The Vice President. The Vice President (or in the event there be more than one, the Vice Presidents in the order designated by the directors, or in the absence of any designation, in the order of their election), shall, in the absence of the President or in the event of his or her disability or refusal to act, perform the duties of the President, and when so acting, shall have the powers of and be subject to all the restrictions upon the President. The Vice President(s) shall perform such other duties and have such other powers as may from time to time be prescribed for them by the Board, the President, the Chairman of the Board or these bylaws.

4.7 The Secretary. The Secretary shall attend all meetings of the Board and the stockholders and record all votes and the proceedings of the meetings in a book to be kept for that purpose and shall perform like duties for the standing committees, when required. The Secretary shall give, or cause to be given, notice of all meetings of stockholders and special meetings of the Board, and shall perform such other duties as may from time to time be prescribed by the Board, the Chairman of the Board or the Chief Executive Officer, under whose supervision he or she shall act. The Secretary shall have custody of the seal of the corporation, and the Secretary, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it, and, when so affixed, the seal may be attested by his or her signature or by the signature of such Assistant Secretary. The Board may give general authority to any other officer to affix the seal of the corporation and to attest the affixing thereof by his or her signature. The Secretary shall keep, or cause to be kept, at the principal executive office or at the

office of the corporation's transfer agent or registrar, as determined by resolution of the Board, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same and the number and date of cancellation of every certificate surrendered for cancellation.

4.8 The Assistant Secretary. The Assistant Secretary, or if there be more than one, any Assistant Secretaries in the order designated by the Board (or in the absence of any designation, in the order of their election) shall assist the Secretary in the performance of his or her duties and, in the absence of the Secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as may from time to time be prescribed by the Board.

4.9 The Chief Financial Officer . The Chief Financial Officer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the Board. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board, at its regular meetings, or when the Board so requires, an account of all his or her transactions as Chief Financial Officer and of the financial condition of the corporation. The Chief Financial Officer shall perform such other duties and have other powers as may from time to time be prescribed by the Board of Directors or the Chief Executive Officer.

4.10 The Treasurer and Assistant Treasurers. The Treasurer (if one is appointed) shall have such duties as may be specified by the Chief Financial Officer to assist the Chief Financial Officer in the performance of his or her duties and to perform such other duties and have other powers as may from time to time be prescribed by the Board or the Chief Executive Officer. It shall be the duty of any Assistant Treasurers to assist the Treasurer in the performance of his or her duties and to perform such other duties and have other powers as may from time to time be prescribed by the Board or the Chief Executive Officer.

4.11 Bond. If required by the Board, any officer shall give the corporation a bond in such sum and with such surety or sureties and upon such terms and conditions as shall be satisfactory to the Board, including without limitation a bond for the faithful performance of the duties of such officer's office and for the restoration to the corporation of all books, papers, vouchers, money and other property of whatever kind in such officer's possession or under such officer's control and belonging to the corporation.

4.12 Delegation of Authority. The Board may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

ARTICLE 5

Notices

5.1 Delivery. Whenever, under the provisions of law, or of the certificate of incorporation of the corporation or these bylaws, written notice is required to be given to any director or stockholder, such notice may be given by mail, addressed to such director or stockholder, at such person's address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail or delivered to a nationally recognized courier service. Unless written notice by mail is required by law, written notice may also be given by commercial delivery service, facsimile transmission, electronic means or similar means addressed to such director or stockholder at such person's address as it appears on the records of the corporation, in which case such notice shall be deemed to be given when delivered into the control of the persons charged with effecting such transmission, the transmission charge to be paid by the corporation or the person sending such notice and not by the addressee. Oral notice or other in-hand delivery, in person or by telephone, shall be deemed given at the time it is actually given.

5.2 Waiver of Notice. Whenever any notice is required to be given under the provisions of law or of the certificate of incorporation of the corporation or of these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

ARTICLE 6

Indemnification and Insurance

6.1 Indemnification.

(a) Each person who was or is made a party or is threatened to be made a party to or is involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the corporation (or any predecessor), or is or was serving at the request of the corporation (or any predecessor) as a director, officer, employee or agent of another corporation or of a partnership, limited liability company, joint venture, trust, employee benefit plan sponsored or maintained by the corporation, or other enterprise (or any predecessor of any of such entities) (hereinafter an "Indemnitee"), shall be indemnified and held harmless by the corporation to the fullest extent authorized by the General Corporation Law of the State of Delaware (the "DGCL"), as the same exists or may hereafter be amended (but, in the case of any

such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), or by other applicable law as then in effect, against all expense, liability and loss (including attorneys' fees and related disbursements, judgments, fines, excise taxes or penalties under the Employee Retirement Income Security Act of 1974, as amended from time to time, penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such Indemnitee in connection therewith. Each person who is or was serving as a director, officer, employee or agent of a subsidiary of the corporation shall be deemed to be serving, or have served, at the request of the corporation. The right to indemnification conferred in this Section 6.1 shall be a contract right.

(b) Any indemnification (but not advancement of expenses) under this Article 6 (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the DGCL, as the same exists or hereafter may be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment). Such determination shall be made with respect to a person who is a director or officer at the time of such determination (A) by a majority vote of the directors who are not or were not parties to the proceeding in respect of which indemnification is being sought by Indemnitee (the "Disinterested Directors"), even though less than a quorum, (B) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum, (C) if there are no such Disinterested Directors, or if the Disinterested Directors so direct, by independent legal counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee, or (D) by the stockholders.

6.2 Advance Payment. The right to indemnification under this Article 6 shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the corporation within thirty (30) days after the receipt by the corporation of a statement or statements from the claimant requesting such advance or advances from time to time; *provided, however*, that if the DGCL requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking by or on behalf of such director or officer to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under Section 6.1 or otherwise.

Notwithstanding the foregoing, unless otherwise determined pursuant to this Article 6, no advance shall be made by the corporation to an officer of the corporation (except by reason of the fact that such officer is or was a director of the corporation, in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made (i) by the Board by a majority vote of the Disinterested Directors, even though less than a quorum, or (B) by a committee of Disinterested Directors designated by majority vote of the Disinterested Directors, even though

less than a quorum, or (C) if there are no Disinterested Directors or the Disinterested Directors so direct, by independent legal counsel in a written opinion to the Board, a copy of which shall be delivered to the claimant, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

6.3 Non-Exclusivity and Survival of Rights; Amendments. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article 6 shall not be deemed exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the certificate of incorporation of the corporation, bylaws, agreement, vote of stockholders or Disinterested Directors or otherwise, and shall continue as to a person who has ceased to be a director, officer, employee or agent of the corporation and shall inure to the benefit of the heirs, executors and administrators of such a person. Any repeal or modification of the provisions of this Article 6 shall not in any way diminish or adversely affect the rights of any director, officer, employee or agent of the corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

6.4 Insurance. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any expense, liability or loss asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under the DGCL.

6.5 Reliance. Persons who after the date of the adoption of this provision become or remain directors or officers of the corporation shall be conclusively presumed to have relied on the rights to indemnity, advance of expenses and other rights contained in this Article 6 in entering into or continuing such service. The rights to indemnification and to the advance of expenses conferred in this Article 6 shall apply to claims made against an Indemnitee arising out of acts or omissions that occurred or occur both prior and subsequent to the adoption hereof.

6.6 Severability. If any word, clause, provision or provisions of this Article 6 shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Article 6 (including, without limitation, each portion of any section or paragraph of this Article 6 containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Article 6 (including, without limitation, each such portion of any section or paragraph of this Article 6 containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

ARTICLE 7

Capital Stock

7.1 Certificates for Shares. The shares of the corporation shall be represented by certificates or shall be uncertificated. Certificates shall be signed by, or in the name of the corporation by, the Chairman of the Board, the Chief Executive Officer, the President or a Vice President and by the Chief Financial Officer, the Treasurer or an Assistant Treasure, or the Secretary or an Assistant Secretary of the corporation. Certificates may be issued for partly paid shares and in such case upon the face or back of the certificates issued to represent any such partly paid shares, the total amount of the consideration to be paid therefor, and the amount paid thereon shall be specified.

Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required by the DGCL or a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

7.2 Signatures on Certificates. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have 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 he were such officer, transfer agent or registrar at the date of issue.

7.3 Transfer of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate of shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, and proper evidence of compliance or other conditions to rightful transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions, and proper evidence of compliance or other conditions to rightful transfer, from the registered owner of uncertificated share, such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the corporation.

7.4 Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

7.5 Lost, Stolen or Destroyed Certificates. The corporation may direct that a new certificate or certificates be issued to replace any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of

that fact by the person claiming the certificate of stock to be lost, stolen or destroyed and on such terms and conditions as the corporation may require. When authorizing the issue of a new certificate or certificates, the corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of the lost, stolen or destroyed certificate or certificates, or his or her legal representative, to advertise the same in such manner as it shall require, to indemnify the corporation in such manner as it may require, and/or to give the corporation a bond or other adequate security in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

ARTICLE 8

Certain Transactions

8.1 Transactions with Interested Parties. No contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee thereof which authorizes the contract or transaction or solely because the vote or votes of such director or officer are counted for such purpose, if:

(a) the material facts as to such director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(b) the material facts as to such director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the stockholders.

8.2 Quorum. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which authorizes the contract or transaction.

ARTICLE 9

General Provisions

9.1 Dividends. Dividends upon the capital stock of the corporation, subject to any restrictions contained in the DGCL or the provisions of the certificate of incorporation of the corporation, if any, may be declared by the Board at any regular or special meeting or by

unanimous written consent. Dividends may be paid in cash, in property or in shares of capital stock, subject to the provisions of the certificate of incorporation of the corporation.

9.2 Dividend Reserve. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

9.3 Checks. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the Board may from time to time designate.

9.4 Corporate Seal. The Board of Directors may, by resolution, adopt a corporate seal. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the word "Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced. The seal may be altered from time to time by the Board.

9.5 Execution of Corporate Contracts and Instruments. The Board, 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 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.

9.6 Representation of Shares of Other Corporations. The Chief Executive Officer, the President or any Vice President, the Chief Financial Officer or the Treasurer or any Assistant Treasurer, or the Secretary or any Assistant Secretary of the corporation is authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares of any corporation or corporations standing in the name of the corporation. The authority herein granted to said officers to vote or represent on behalf of the corporation any and all shares held by the corporation in any other corporation or corporations may be exercised either by such officers in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officers.

ARTICLE 10

Amendments

The Board is expressly empowered to adopt, amend or repeal these bylaws; *provided, however*, that any adoption, amendment or repeal of these bylaws by the Board shall require the approval of at least sixty-six and two-thirds percent of the total number of directors then in office. The stockholders shall also have power to adopt, amend or repeal these bylaws at any regular or special meeting of stockholders; *provided, however*, that in addition to any vote of the

holders of any class or series of stock of the corporation required by law or by the certificate of incorporation of the corporation, the affirmative vote of the holders of at least sixty-six and two-thirds percent of the voting power of all of the then outstanding shares of the stock of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required for such adoption, amendment or repeal by the stockholders of any provision of these bylaws and notice of such adoption, amendment or repeal shall be contained in the notice of such meeting.

SECRETARY'S CERTIFICATE OF ADOPTION OF THE AMENDED AND RESTATED BYLAWS OF

OCULUS INNOVATIVE SCIENCES, INC.

I, the undersigned, do hereby certify:

1. That I am the duly elected and acting Secretary of Oculus Innovative Sciences, Inc., a Delaware corporation; and

2. That the foregoing is a full, true and correct copy of the Amended and Restated Bylaws of the corporation as adopted by the directors of said corporation and to become effective as of _____ ___, 2006, the date of the corporation's initial public offering of its common stock.

IN WITNESS WHEREOF, I have hereunto subscribed my name this ___ day of ___, 2006.

Jim Schutz
Secretary

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: _____

Schedule to Exhibit 4.7 — Form of Promissory Note

Name of Holder	Date	Amount	Interest Rate
Venture Lending & Leasing III	August 2, 2004	$ 20,175.15	10.047%
Venture Lending & Leasing III	August 2, 2004	$ 96,882.50	10.047%
Venture Lending & Leasing III	July 29, 2004	$ 180,645.30	10.047%
Venture Lending & Leasing III	April 30, 2004	$ 202,875.45	9.797%
Venture Lending & Leasing III	April 1, 2004	$ 493,761.54	9.797%

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: _____

Schedule to Exhibit 4.8 — Form of Promissory Note (Equipment and Soft Cost Loans)

Name of Holder	Date	Amount	Interest Rate
Venture Lending & Leasing IV	June 23, 2006	$ 717,385.72	8.5%

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: _____

Schedule to Exhibit 4.9 — Form of Promissory Note (Growth Capital Loans)

Name of Holder	Date	Amount	Interest Rate
Venture Lending & Leasing IV	June 16, 2006	$ 2,750,000.00	8.5%

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: _____

Schedule to Exhibit 4.10 — Form of Promissory Note (Working Capital Loans)

Name of Holder	Date	Amount	Interest Rate
Venture Lending & Leasing IV	June 28, 2006	$ 714,164.00	8.5%

Exhibit 10.1

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Agreement"), is dated as of _____, 2006, between Oculus Innovative Sciences, Inc., a Delaware corporation (the "Corporation"), and _____ ("Indemnitee").

W I T N E S S E T H:

WHEREAS, Indemnitee is either a member of the board of directors of the Corporation (the "Board of Directors") or an officer of the Corporation, or both, and in such capacity or capacities, or otherwise as an Agent (as hereinafter defined) of the Corporation, is performing a valuable service for the Corporation; and

WHEREAS, the Corporation is aware that competent and experienced persons are increasingly reluctant to serve as directors or officers of corporations unless they are protected by comprehensive indemnification and liability insurance, due to increased exposure to litigation costs and risks resulting from their service to such corporations, and because the exposure frequently bears no reasonable relationship to the compensation of such directors and officers; and

WHEREAS, the Board of Directors of the Corporation has concluded that, to retain and attract talented and experienced individuals to serve or continue to serve as officers or directors of the Corporation, and to encourage such individuals to take the business risks necessary for the success of the Corporation, it is necessary for the Corporation contractually to indemnify directors and officers and to assume for itself to the fullest extent permitted by law expenses and damages in connection with claims against such officers and directors in connection with their service to the Corporation; and

WHEREAS, Section 145 of the General Corporation Law of Delaware, under which the Corporation is organized (the "DGCL"), empowers the Corporation to indemnify by agreement its officers, directors, employees and agents, and persons who serve, at the request of the Corporation, as directors, officers, employees or agents of other corporations or enterprises, and expressly provides that the indemnification provided by the DGCL is not exclusive; and

WHEREAS, the Corporation desires and has requested the Indemnitee to serve or continue to serve as a director, officer or agent of the Corporation free from undue concern for claims for damages arising out of or related to such services to the Corporation; and

WHEREAS, Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Corporation on the condition that he or she be indemnified as herein provided; and

WHEREAS, it is intended that Indemnitee shall be paid promptly by the Corporation all amounts necessary to effectuate in full the indemnity provided herein:

NOW, THEREFORE, in consideration of the premises and the covenants in this Agreement, and of Indemnitee serving or continuing to serve the Corporation as an Agent and intending to be legally bound hereby, the parties hereto agree as follows:

1. Services by Indemnitee. Indemnitee agrees to serve or continue to serve (a) as a director or an officer of the Corporation, or both, so long as Indemnitee is duly appointed or elected and qualified in accordance with the applicable provisions of the Certificate of Incorporation and bylaws of the Corporation, and until such time as Indemnitee resigns or fails to stand for election or is removed from Indemnitee's position, or (b) otherwise as an Agent of the Corporation. Indemnitee may from time to time also perform other services at the request or for the convenience of, or otherwise benefiting the Corporation. Indemnitee may at any time and for any reason resign or be removed from such position (subject to any other contractual obligation or other obligation imposed by operation of law), in which event the Corporation shall have no obligation under this Agreement to continue Indemnitee in any such position.

2. Indemnification of Indemnitee. Subject to the limitations set forth herein and particularly in Section 6 hereof, the Corporation hereby agrees to indemnify Indemnitee as follows:

(a) The Corporation shall, with respect to any Proceeding (as hereinafter defined) associated with Indemnitee's being an Agent of the Corporation, indemnify Indemnitee to the fullest extent permitted by applicable law or as such law may from time to time be amended (but, in the case of any such amendment, only to the extent such amendment permits the Corporation to provide broader indemnification rights than the law permitted the Corporation to provide before such amendment). The right to indemnification conferred herein shall be presumed to have been relied upon by Indemnitee in serving or continuing to serve the Corporation as an Agent and shall be enforceable as a contract right. Without in any way diminishing the scope of the indemnification provided by this Section 2(a), the rights of indemnification of Indemnitee shall include but shall not be limited to those rights hereinafter set forth.

(b) The Corporation shall indemnify Indemnitee if Indemnitee is or was a party or is threatened to be made a party to any threatened, pending or completed Proceeding (other than an action by or in the right of the Corporation) by reason of the fact that Indemnitee is or was an Agent of the Corporation, or any subsidiary of the Corporation, or by reason of the fact that Indemnitee is or was serving at the request of the Corporation as an Agent of another corporation, partnership, joint venture, trust or other enterprise, against Expenses (as hereinafter defined) or Liabilities (as hereinafter defined), actually and reasonably incurred by Indemnitee in connection with such Proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful.

(c) The Corporation shall indemnify Indemnitee if Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed Proceeding by or in the right of the Corporation or any subsidiary of the Corporation to procure a judgment in its favor by reason of the fact that Indemnitee is or was an Agent of the Corporation, or any subsidiary of the Corporation, or by reason of the fact that Indemnitee is or was serving at the request of the

Corporation as an Agent of another corporation, partnership, joint venture, trust or other enterprise, against Expenses and, to the fullest extent permitted by law, Liabilities if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

3. Advancement of Expenses. All reasonable Expenses incurred by or on behalf of Indemnitee (including costs of enforcement of this Agreement) shall be advanced from time to time by the Corporation to Indemnitee within thirty (30) days after the receipt by the Corporation of a written request for an advance of Expenses, whether prior to or after final disposition of a Proceeding (except to the extent that there has been a Final Adverse Determination (as hereinafter defined) that Indemnitee is not entitled to be indemnified for such Expenses), including without limitation any Proceeding brought by or in the right of the Corporation. The written request for an advancement of any and all Expenses under this paragraph shall contain reasonable detail of the Expenses incurred by Indemnitee. In the event that such written request shall be accompanied by an affidavit of counsel to Indemnitee to the effect that such counsel has reviewed such Expenses and that such Expenses are reasonable in such counsel's view, then such expenses shall be deemed reasonable in the absence of clear and convincing evidence to the contrary. By execution of this Agreement, Indemnitee shall be deemed to have made whatever undertaking as may be required by law at the time of any advancement of Expenses with respect to repayment to the Corporation of such Expenses. In the event that the Corporation shall breach its obligation to advance Expenses under this Section 3, the parties hereto agree that Indemnitee's remedies available at law would not be adequate and that Indemnitee would be entitled to specific performance.

4. Presumptions and Effect of Certain Proceedings. Upon making a request for indemnification, Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Corporation shall have the burden of proof to overcome that presumption in reaching any contrary determination. The termination of any Proceeding by judgment, order, settlement, arbitration award or conviction, or upon a plea of nolo contendere or its equivalent shall not affect this presumption or, except as determined by a judgment or other final adjudication adverse to Indemnitee, establish a presumption with regard to any factual matter relevant to determining Indemnitee's rights to indemnification hereunder. If the person or persons so empowered to make a determination pursuant to Section 5 hereof shall have failed to make the requested determination within sixty (60) days after any judgment, order, settlement, dismissal, arbitration award, conviction, acceptance of a plea of nolo contendere or its equivalent, or other disposition or partial disposition of any Proceeding or any other event that could enable the Corporation to determine Indemnitee's entitlement to indemnification, the requisite determination that Indemnitee is entitled to indemnification shall be deemed to have been made.

5. Procedure for Determination of Entitlement to Indemnification.

(a) Whenever Indemnitee believes that Indemnitee is entitled to indemnification pursuant to this Agreement, Indemnitee shall submit a written request for indemnification to the Corporation. Any request for indemnification shall include sufficient documentation or information reasonably available to Indemnitee for the determination of entitlement to indemnification. In any event, Indemnitee shall submit Indemnitee's claim for indemnification within a reasonable time, not to exceed five (5) years after any judgment, order, settlement, dismissal, arbitration award, conviction, acceptance of a plea of nolo contendere or its equivalent, or final determination, whichever is the later date for which Indemnitee requests indemnification. The Secretary or other appropriate officer shall, promptly upon receipt of Indemnitee's request for indemnification, advise the Board of Directors in writing that Indemnitee has made such request. Determination of Indemnitee's entitlement to indemnification shall be made not later than sixty (60) days after the Corporation's receipt of Indemnitee's written request for such indemnification, provided that any request for indemnification for Liabilities, other than amounts paid in settlement, shall have been made after a determination thereof in a Proceeding. If it is so determined that the Indemnitee is entitled to indemnification, payment to the Indemnitee shall be made within ten (10) days after such determination.

(b) The Corporation shall be entitled to select the forum in which Indemnitee's entitlement to indemnification will be heard; provided, however, that if there is a Change in Control of the Corporation, Independent Legal Counsel (as hereinafter defined) shall determine whether Indemnitee is entitled to indemnification. The forum shall be any one of the following:

(i) a majority vote of Disinterested Directors (as hereinafter defined), even though less than a quorum;

(ii) by a committee of Disinterested Directors designated by majority vote of Disinterested Directors, even though less than a quorum;

(iii) Independent Legal Counsel, whose determination shall be made in a written opinion; or

(iv) the stockholders of the Corporation.

6. Specific Limitations on Indemnification. Notwithstanding anything in this Agreement to the contrary, the Corporation shall not be obligated under this Agreement to make any payment to Indemnitee with respect to any Proceeding:

(a) To the extent that payment is actually made to Indemnitee under any insurance policy, or is made to Indemnitee by the Corporation or an affiliate otherwise than pursuant to this Agreement. Notwithstanding the availability of such insurance, Indemnitee also may claim indemnification from the Corporation pursuant to this Agreement by assigning to the Corporation any claims under such insurance to the extent Indemnitee is paid by the Corporation;

(b) Provided there has been no Change in Control, for Liabilities in connection with Proceedings settled without the Corporation's consent, which consent, however, shall not be unreasonably withheld;

(c) For an accounting of profits made from the purchase or sale by Indemnitee of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or similar provisions of any state statutory or common law;

(d) To the extent it would be otherwise prohibited by law, if so established by a judgment or other final adjudication adverse to Indemnitee; or

(e) In connection with a Proceeding commenced by Indemnitee (other than a Proceeding commenced by Indemnitee to enforce Indemnitee's rights under this Agreement) unless the commencement of such Proceeding was authorized by the Board of Directors.

7. Fees and Expenses of Independent Legal Counsel or Arbitrators. The Corporation agrees to pay the reasonable fees and expenses of Independent Legal Counsel should such Independent Legal Counsel be retained to make a determination of Indemnitee's entitlement to indemnification pursuant to Section 5(b) of this Agreement, and to fully indemnify such Independent Legal Counsel against any and all expenses and losses incurred by any of them arising out of or relating to this Agreement or their engagement pursuant hereto.

8. Remedies of Indemnitee.

(a) In the event that (i) a determination pursuant to Section 5 hereof is made that Indemnitee is not entitled to indemnification, (ii) advances of Expenses are not made pursuant to this Agreement, (iii) payment has not been timely made following a determination of entitlement to indemnification pursuant to this Agreement, or (iv) Indemnitee otherwise seeks enforcement of this Agreement, Indemnitee shall be entitled to a final adjudication in the Court of Chancery of the State of Delaware of the remedy sought. Alternatively, unless court approval is required by law for the indemnification sought by Indemnitee, Indemnitee at Indemnitee's option may seek an award in arbitration to be conducted by a single arbitrator pursuant to the commercial arbitration rules of the American Arbitration Association now in effect, which award is to be made within ninety (90) days following the filing of the demand for arbitration. The Corporation shall not oppose Indemnitee's right to seek any such adjudication or arbitration award. In any such proceeding or arbitration Indemnitee shall be presumed to be entitled to indemnification and advancement of Expenses under this Agreement and the Corporation shall have the burden of proof to overcome that presumption.

(b) In the event that a determination that Indemnitee is not entitled to indemnification, in whole or in part, has been made pursuant to Section 5 hereof, the decision in the judicial proceeding or arbitration provided in paragraph (a) of this Section 8 shall be made *de novo* and Indemnitee shall not be prejudiced by reason of a determination that Indemnitee is not entitled to indemnification.

(c) If a determination that Indemnitee is entitled to indemnification has been made pursuant to Section 5 hereof, or is deemed to have been made pursuant to Section 4 hereof or

otherwise pursuant to the terms of this Agreement, the Corporation shall be bound by such determination.

(d) The Corporation shall be precluded from asserting that the procedures and presumptions of this Agreement are not valid, binding and enforceable. The Corporation shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Agreement and is precluded from making any assertion to the contrary.

(e) Expenses reasonably incurred by Indemnitee in connection with Indemnitee's request for indemnification under, seeking enforcement of or to recover damages for breach of this Agreement shall be borne by the Corporation when and as incurred by Indemnitee irrespective of any Final Adverse Determination that Indemnitee is not entitled to indemnification.

9. Contribution. To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Corporation, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Corporation and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Corporation (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

10. Maintenance of Insurance. The Corporation represents that it presently has in place certain directors' and officers' liability insurance policies covering its directors and officers. Subject only to the provisions within this Section 10, the Corporation agrees that so long as Indemnitee shall have consented to serve or shall continue to serve as a director or officer of the Corporation, or both, or as an Agent of the Corporation, and thereafter so long as Indemnitee shall be subject to any possible Proceeding (such periods being hereinafter sometimes referred to as the "Indemnification Period"), the Corporation will use all reasonable efforts to maintain in effect for the benefit of Indemnitee one or more valid, binding and enforceable policies of directors' and officers' liability insurance from established and reputable insurers, providing, in all respects, coverage both in scope and amount which is no less favorable than that presently provided. Notwithstanding the foregoing, the Corporation shall not be required to maintain said policies of directors' and officers' liability insurance during any time period if during such period such insurance is not reasonably available or if it is determined in good faith by the then directors of the Corporation either that:

(i) The premium cost of maintaining such insurance is substantially disproportionate to the amount of coverage provided thereunder; or

(ii) The protection provided by such insurance is so limited by exclusions, deductions or otherwise that there is insufficient benefit to warrant the cost of maintaining such insurance.

Anything in this Agreement to the contrary notwithstanding, to the extent that and for so long as the Corporation shall choose to continue to maintain any policies of directors' and officers' liability insurance during the Indemnification Period, the Corporation shall maintain similar and equivalent insurance for the benefit of Indemnitee during the Indemnification Period (unless such insurance shall be less favorable to Indemnitee than the Corporation's existing policies).

11. Modification, Waiver, Termination and Cancellation. No supplement, modification, termination, cancellation or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver.

12. Subrogation. In the event of payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Corporation effectively to bring suit to enforce such rights.

13. Notice by Indemnitee and Defense of Claim. Indemnitee shall promptly notify the Corporation in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter, whether civil, criminal, administrative or investigative, but the omission so to notify the Corporation will not relieve it from any liability that it may have to Indemnitee if such omission does not prejudice the Corporation's rights. If such omission does prejudice the Corporation's rights, the Corporation will be relieved from liability only to the extent of such prejudice. Notwithstanding the foregoing, such omission will not relieve the Corporation from any liability that it may have to Indemnitee otherwise than under this Agreement. With respect to any Proceeding as to which Indemnitee notifies the Corporation of the commencement thereof:

(a) The Corporation will be entitled to participate therein at its own expense; and

(b) The Corporation jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee; provided, however, that the Corporation shall not be entitled to assume the defense of any Proceeding if there has been a Change in Control or if Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee with respect to such Proceeding. After notice from the Corporation to Indemnitee of its election to assume the defense thereof, the Corporation will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee in connection with the defense thereof, other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ Indemnitee's own counsel in such Proceeding, but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of Indemnitee unless:

(i) the employment of counsel by Indemnitee has been authorized by the Corporation;

(ii) Indemnitee shall have reasonably concluded that counsel engaged by the Corporation may not adequately represent Indemnitee due to, among other things, actual or potential differing interests; or

(iii) the Corporation shall not in fact have employed counsel to assume the defense in such Proceeding or shall not in fact have assumed such defense and be acting in connection therewith with reasonable diligence; in each of which cases the fees and expenses of such counsel shall be at the expense of the Corporation.

(c) The Corporation shall not settle any Proceeding in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent; provided, however, that Indemnitee will not unreasonably withhold his or her consent to any proposed settlement.

14. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to:

_____
_____
_____
_____

(b) If to the Corporation, to:
Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
Attn: General Counsel

or to such other address as may have been furnished to Indemnitee by the Corporation or to the Corporation by Indemnitee, as the case may be.

15. Nonexclusivity. The rights of Indemnitee hereunder shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under applicable law, the Corporation's Certificate of Incorporation or bylaws, or any agreements, vote of stockholders, resolution of the Board of Directors or otherwise, and to the extent that during the Indemnification Period the rights of the then existing directors and officers are more favorable to such directors or officers than the rights currently provided to Indemnitee thereunder or under this Agreement, Indemnitee shall be entitled to the full benefits of such more favorable rights.

16. Certain Definitions.

(a) "Agent" shall mean any person who is or was, or who has consented to serve as, a director, officer, employee, agent, fiduciary, joint venturer, partner, manager or other official of the Corporation or a subsidiary or an affiliate of the Corporation, or any other entity (including without limitation, an employee benefit plan) either at the request of, for the convenience of, or

otherwise to benefit the Corporation or a subsidiary of the Corporation. Any person who is or was serving as a director, officer, employee or agent of a subsidiary of the Corporation shall be deemed to be serving, or have served, at the request of the Corporation.

(b) "Change in Control" shall mean the occurrence of any of the following:

(i) Both (A) any "person" (as defined below) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing at least twenty percent (20%) of the total voting power represented by the Corporation's then outstanding voting securities and (B) the beneficial ownership by such person of securities representing such percentage is not approved by a majority of the "continuing directors" (as defined below);

(ii) Any "person" is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing at least fifty percent (50%) of the total voting power represented by the Corporation's then outstanding voting securities;

(iii) A change in the composition of the Board of Directors occurs, as a result of which fewer than two-thirds of the incumbent directors are directors who either (A) had been directors of the Corporation on the "look-back date" (as defined below) (the "Original Directors") or (B) were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority in the aggregate of the Original Directors who were still in office at the time of the election or nomination and directors whose election or nomination was previously so approved (the "continuing directors");

(iv) The stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, if such merger or consolidation would result in the voting securities of the Corporation outstanding immediately prior thereto representing (either by remaining outstanding or by being converted into voting securities of the surviving entity) 50% or less of the total voting power represented by the voting securities of the Corporation or such surviving entity outstanding immediately after such merger or consolidation; or

(v) The stockholders of the Corporation approve (A) a plan of complete liquidation of the Corporation or (B) an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets.

For purposes of Subsections (i) and (ii) above, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act, but shall exclude (x) a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or of a parent or subsidiary of the Corporation or (y) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of the common stock of the Corporation.

For purposes of Subsection (iii) above, the term "look-back date" shall mean the later of (x) the date first written above in the preamble to this Agreement or (y) the date 24 months prior to the date of the event that may constitute a "Change in Control."

Any other provision of this Section 16(b) notwithstanding, the term "Change in Control" shall not include a transaction, if undertaken at the election of the Corporation, the result of which is to sell all or substantially all of the assets of the Corporation to another corporation (the "surviving corporation"); provided that the surviving corporation is owned directly or indirectly by the stockholders of the Corporation immediately following such transaction in substantially the same proportions as their ownership of the Corporation's common stock immediately preceding such transaction; and provided, further, that the surviving corporation expressly assumes this Agreement.

(c) "Disinterested Director" shall mean a director of the Corporation who is not or was not a party to the Proceeding in respect of which indemnification is being sought by Indemnitee.

(d) "Expenses" shall include all direct and indirect costs (including, without limitation, attorneys' fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, all other disbursements or out-of-pocket expenses and reasonable compensation for time spent by Indemnitee for which Indemnitee is otherwise not compensated by the Corporation or any third party) actually and reasonably incurred in connection with either the investigation, defense, settlement or appeal of a Proceeding or establishing or enforcing a right to indemnification under this Agreement, applicable law or otherwise; provided, however, that "Expenses" shall not include any Liabilities.

(e) "Final Adverse Determination" shall mean that a determination that Indemnitee is not entitled to indemnification shall have been made pursuant to Section 5 hereof and either (1) a final adjudication in the Court of Chancery of the State of Delaware or decision of an arbitrator pursuant to Section 8(a) hereof shall have denied Indemnitee's right to indemnification hereunder, or (2) Indemnitee shall have failed to file a complaint in a Delaware court or seek an arbitrator's award pursuant to Section 8(a) for a period of one hundred twenty (120) days after the determination made pursuant to Section 5 hereof.

(f) "Independent Legal Counsel" shall mean a law firm or a member of a firm selected by the Corporation and approved by Indemnitee (which approval shall not be unreasonably withheld) or, if there has been a Change in Control, selected by Indemnitee and approved by the Corporation (which approval shall not be unreasonably withheld), that neither is presently nor in the past five (5) years has been retained to represent: (i) the Corporation or any of its subsidiaries or affiliates, or Indemnitee or any corporation of which Indemnitee was or is a director, officer, employee or agent, or any subsidiary or affiliate of such a corporation, in any material matter, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Legal Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Corporation or Indemnitee in an action to determine Indemnitee's right to indemnification under this Agreement.

(g) "Liabilities" shall mean liabilities of any type whatsoever including, but not limited to, any judgments, fines, ERISA excise taxes and penalties, penalties and amounts paid in settlement (including all interest assessments and other charges paid or payable in connection

with or in respect of such judgments, fines, penalties or amounts paid in settlement) of any Proceeding.

(h) "Proceeding" shall mean any threatened, pending or completed action, claim, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative, that is associated with Indemnitee's being an Agent of the Corporation.

17. Binding Effect; Duration and Scope of Agreement. This Agreement shall be binding upon the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Corporation), spouses, heirs and personal and legal representatives. This Agreement shall be deemed to be effective as of the commencement date of the Indemnitee's service as an officer or director of the Corporation and shall continue in effect during the Indemnification Period, regardless of whether Indemnitee continues to serve as an Agent.

18. Severability. If any provision or provisions of this Agreement (or any portion thereof) shall be held to be invalid, illegal or unenforceable for any reason whatsoever:

(a) the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby; and

(b) to the fullest extent legally possible, the provisions of this Agreement shall be construed so as to give effect to the intent of any provision held invalid, illegal or unenforceable.

19. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within the State of Delaware, without regard to conflict of laws rules.

20. Consent to Jurisdiction. The Corporation and Indemnitee each irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding that arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of Delaware.

21. Entire Agreement. This Agreement represents the entire agreement between the parties hereto, and there are no other agreements, contracts or understandings between the parties hereto with respect to the subject matter of this Agreement, except as specifically referred to herein or as provided in Section 15 hereof.

22. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by a duly authorized officer and Indemnitee has executed this Agreement as of the date first above written.

OCULUS INNOVATIVE SCIENCES, INC., a Delaware corporation

By _____

Its _____

INDEMNITEE

_____

Exhibit 10.6

OCULUS INNOVATIVE SCIENCES, INC.

2006 STOCK INCENTIVE PLAN

(Adopted by the Board on ___, 2006)

Oculus Innovative Sciences, Inc.
2006 Stock Incentive Plan

Table of Contents

OCULUS INNOVATIVE SCIENCES, INC.

2006 STOCK INCENTIVE PLAN

SECTION 1. ESTABLISHMENT AND PURPOSE.

The Plan was adopted by the Board of Directors on ___, 2006, and shall be effective as of the date of the initial offering of Stock to the public pursuant to a registration statement filed by the Company with the Securities and Exchange Commission (the "Effective Date"). The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Employees, Outside Directors and Consultants to focus on critical long-range objectives, (b) encouraging the attraction and retention of Employees, Outside Directors and Consultants with exceptional qualifications and (c) linking Employees, Outside Directors and Consultants directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of restricted shares, stock units, options (which may constitute incentive stock options or nonstatutory stock options) or stock appreciation rights.

SECTION 2. DEFINITIONS.

(a) "Affiliate" shall mean any entity other than a Subsidiary, if the Company and/or one of more Subsidiaries own not less than 50% of such entity.

(b) "Award" shall mean any award of an Option, a SAR, a Restricted Share or a Stock Unit under the Plan.

(c) "Board of Directors" shall mean the Board of Directors of the Company, as constituted from time to time.

(d) "Change in Control" shall mean the occurrence of any of the following events:

(i) A change in the composition of the Board of Directors occurs, as a result of which fewer than one-half of the incumbent directors are directors who either:

(A) Had been directors of the Company on the "look-back date" (as defined below) (the "original directors"); or

(B) Were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved (the "continuing directors"); or

(ii) Any "person" (as defined below) who by the acquisition or aggregation of securities, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right

to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company; or

(iii) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (A) the continuing or surviving entity and (B) any direct or indirect parent corporation of such continuing or surviving entity; or

(iv) The sale, transfer or other disposition of all or substantially all of the Company's assets.

For purposes of subsection (d)(i) above, the term "look-back" date shall mean the later of (1) the Effective Date or (2) the date 24 months prior to the date of the event that may constitute a Change in Control.

For purposes of subsection (d)(ii)) above, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude (1) a trustee or other fiduciary holding securities under an employee benefit plan maintained by the Company or a Parent or Subsidiary and (2) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the Stock.

Any other provision of this Section 2(d) notwithstanding, a transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction, and a Change in Control shall not be deemed to occur if the Company files a registration statement with the United States Securities and Exchange Commission for the initial offering of Stock to the public.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(f) "Committee" shall mean the Compensation Committee as designated by the Board of Directors, which is authorized to administer the Plan, as described in Section 3 hereof.

(g) "Company" shall mean Oculus Innovative Sciences, Inc., a Delaware corporation.

(h) "Consultant" shall mean a consultant or advisor who provides bona fide services to the Company, a Parent, a Subsidiary or an Affiliate as an independent contractor (not including service as a member of the Board of Directors) or a member of the board of directors of a Parent or a Subsidiary, in each case who is not an Employee.

(i) "Employee" shall mean any individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(j) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(k) "Exercise Price" shall mean, in the case of an Option, the amount for which one Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. "Exercise Price," in the case of a SAR, shall mean an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of one Share in determining the amount payable upon exercise of such SAR.

(l) "Fair Market Value" with respect to a Share, shall mean the market price of one Share, determined by the Committee as follows:

(i) If the Stock was traded over-the-counter on the date in question, then the Fair Market Value shall be equal to the last transaction price quoted for such date by the OTC Bulletin Board or, if not so quoted, shall be equal to the mean between the last reported representative bid and asked prices quoted for such date by the principal automated inter-dealer quotation system on which the Stock is quoted or, if the Stock is not quoted on any such system, by the Pink Sheets LLC;

(ii) If the Stock was traded on The NASDAQ Stock Market, then the Fair Market Value shall be equal to the last reported sale price quoted for such date by The NASDAQ Stock Market;

(iii) If the Stock was traded on a United States stock exchange other than The NASDAQ Stock Market on the date in question, then the Fair Market Value shall be equal to the closing price reported for such date by the applicable composite-transactions report; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

In all cases, the determination of Fair Market Value by the Committee shall be conclusive and binding on all persons.

(m) "ISO" shall mean an employee incentive stock option described in Section 422 of the Code.

(n) "Nonstatutory Option" or *"NSO"* shall mean an employee stock option that is not an ISO.

(o) "Offeree" shall mean an individual to whom the Committee has offered the right to acquire Shares under the Plan (other than upon exercise of an Option).

(p) "Option" shall mean an ISO or Nonstatutory Option granted under the Plan and entitling the holder to purchase Shares.

(q) "Optionee" shall mean an individual or estate who holds an Option or SAR.

(r) "Outside Director" shall mean a member of the Board of Directors who is not a common-law employee of, or paid consultant to, the Company, a Parent or a Subsidiary.

(s) "Parent" shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be a Parent commencing as of such date.

(t) "Participant" shall mean an individual or estate who holds an Award.

(u) "Plan" shall mean this 2006 Stock Incentive Plan of Oculus Innovative Sciences, Inc., as amended from time to time.

(v) "Purchase Price" shall mean the consideration for which one Share may be acquired under the Plan (other than upon exercise of an Option), as specified by the Committee.

(w) "Restricted Share" shall mean a Share awarded under the Plan.

(x) "Restricted Share Agreement" shall mean the agreement between the Company and the recipient of a Restricted Share which contains the terms, conditions and restrictions pertaining to such Restricted Shares.

(y) "SAR" shall mean a stock appreciation right granted under the Plan.

(z) "SAR Agreement" shall mean the agreement between the Company and an Optionee which contains the terms, conditions and restrictions pertaining to his or her SAR.

(aa) "Service" shall mean service as an Employee, Consultant or Outside Director, subject to such further limitations as may be set forth in the Plan or the applicable Stock Option Agreement, SAR Agreement, Restricted Share Agreement or Stock Unit Agreement. Service does not terminate when an Employee goes on a bona fide leave of absence, that was approved by the Company in writing, if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by applicable law. However, for purposes of determining whether an Option is entitled to ISO status, an Employee's employment will be treated as terminating 90 days after such Employee went on leave, unless such Employee's right to return to active work is guaranteed by law or by a contract. Service terminates in any event when the approved leave ends, unless such Employee immediately returns to active work. The Company determines which leaves count toward Service, and when Service terminates for all purposes under the Plan.

(bb) "Share" shall mean one share of Stock, as adjusted in accordance with Section 8 (if applicable).

(cc) "Stock" shall mean the Common Stock of the Company.

(dd) "Stock Option Agreement" shall mean the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to his Option.

(ee) "Stock Unit" shall mean a bookkeeping entry representing the equivalent of one Share, as awarded under the Plan.

(ff) "Stock Unit Agreement" shall mean the agreement between the Company and the recipient of a Stock Unit which contains the terms, conditions and restrictions pertaining to such Stock Unit.

(gg) "Subsidiary" shall mean any corporation, if the Company and/or one or more other Subsidiaries own not less than 50% of the total combined voting power of all classes of outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(hh) "Total and Permanent Disability" shall mean permanent and total disability as defined by section 22(e)(3) of the Code.

SECTION 3. ADMINISTRATION.

(a) Committee Composition. The Plan shall be administered by the Committee. The Committee shall consist of two or more directors of the Company, who shall be appointed by the Board. In addition, the composition of the Committee shall satisfy (i) such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and (ii) such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under Section 162(m)(4)(C) of the Code.

(b) Committee for Non-Officer Grants. The Board may also appoint one or more separate committees of the Board, each composed of one or more directors of the Company who need not satisfy the requirements of Section 3(a), who may administer the Plan with respect to Employees who are not considered officers or directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Employees and may determine all terms of such grants. Within the limitations of the preceding sentence, any reference in the Plan to the Committee shall include such committee or committees appointed pursuant to the preceding sentence. The Board of Directors may also authorize one or more officers of the Company to designate Employees, other than officers under Section 16 of the Exchange Act, to receive Awards and/or to determine the number of such Awards to be received by such persons; provided, however, that the Board of Directors shall specify the total number of Awards that such officers may so award.

(c) Committee Procedures. The Board of Directors shall designate one of the members of the Committee as chairman. The Committee may hold meetings at such times and places as it shall determine. The acts of a majority of the Committee members present at meetings at which a quorum exists, or acts reduced to or approved in writing by all Committee members, shall be valid acts of the Committee.

(d) Committee Responsibilities. Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take the following actions:

(i) To interpret the Plan and to apply its provisions;

(ii) To adopt, amend or rescind rules, procedures and forms relating to the Plan;

(iii) To adopt, amend or terminate sub-plans established for the purpose of satisfying applicable foreign laws including qualifying for preferred tax treatment under applicable foreign tax laws;

(iv) To authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan;

(v) To determine when Awards are to be granted under the Plan;

(vi) To select the Offerees and Optionees;

(vii) To determine the number of Shares to be made subject to each Award;

(viii) To prescribe the terms and conditions of each Award, including (without limitation) the Exercise Price and Purchase Price, and the vesting or duration of the Award (including accelerating the vesting of Awards, either at the time of the Award or thereafter, without the consent of the Participant), to determine whether an Option is to be classified as an ISO or as a Nonstatutory Option, and to specify the provisions of the agreement relating to such Award;

(ix) To amend any outstanding Award agreement, subject to applicable legal restrictions and to the consent of the Participant if the Participant's rights or obligations would be materially impaired;

(x) To prescribe the consideration for the grant of each Award or other right under the Plan and to determine the sufficiency of such consideration;

(xi) To determine the disposition of each Award or other right under the Plan in the event of a Participant's divorce or dissolution of marriage;

(xii) To determine whether Awards under the Plan will be granted in replacement of other grants under an incentive or other compensation plan of an acquired business;

(xiii) To correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award agreement;

(xiv) To establish or verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award; and

(xv) To take any other actions deemed necessary or advisable for the administration of the Plan.

Subject to the requirements of applicable law, the Committee may designate persons other than members of the Committee to carry out its responsibilities and may prescribe such conditions and limitations as it may deem appropriate, except that the Committee may not delegate its authority with regard to the selection for participation of or the granting of Options or other rights under the Plan to persons subject to Section 16 of the Exchange Act. All decisions, interpretations and other actions of the Committee shall be final and binding on all Offerees, all Optionees, and all persons deriving their rights from an Offeree or Optionee. No member of the Committee shall be liable for any action that he has taken or has failed to take in good faith with respect to the Plan, any Option, or any right to acquire Shares under the Plan.

SECTION 4. ELIGIBILITY.

(a) General Rule. Only common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. Only Employees, Consultants and Outside Directors shall be eligible for the grant of Restricted Shares, Stock Units, Nonstatutory Options or SARs.

(b) Automatic Grants to Outside Directors.

(i) Each Outside Director who first joins the Board of Directors on or after the Effective Date, and who was not previously an Employee, shall receive a Nonstatutory Option, subject to approval of the Plan by the Company's stockholders, to purchase ___ Shares (subject to adjustment under Section 11) on the date of his or her election to the Board of Directors. Twenty-five percent (25%) of the Shares subject to each Option granted under this Section 4(b)(i) shall vest and become exercisable on the first anniversary of the date of grant. The balance of the Shares subject to such Option (i.e. the remaining seventy-five (75%)) shall vest and become exercisable monthly over a three-year period beginning on the day which is one month after the first anniversary of the date of grant, at a monthly rate of 2.0833% of the total number of Shares subject to such Option. Notwithstanding the foregoing, each such Option shall become vested if a Change in Control occurs with respect to the Company during the Optionee's Service.

(ii) On the first business day following the conclusion of each regular annual meeting of the Company's stockholders, commencing with the annual meeting occurring after the Effective Date, each Outside Director who was not elected to the Board for the first time at such meeting and who will continue serving as a member of the Board of Directors thereafter shall receive an Option to purchase ___Shares (subject to adjustment under Section 11), provided that such Outside Director has served on the Board of Directors for at least six months. Each Option granted under this Section 4(b)(ii) shall vest and become exercisable on the first anniversary of the date of grant; provided, however, that each such Option shall become exercisable in full immediately prior to the next regular annual meeting of the Company's stockholders following such date of grant in the event such meeting occurs prior to such first anniversary date. Notwithstanding the

foregoing, each Option granted under this Section 4(b)(ii) shall become vested if a Change in Control occurs with respect to the Company during the Optionee's Service.

(iii) The Exercise Price of all Nonstatutory Options granted to an Outside Director under this Section 4(b) shall be equal to 100% of the Fair Market Value of a Share on the date of grant, payable in one of the forms described in Section 8(a), (b) or (d).

(iv) All Nonstatutory Options granted to an Outside Director under this Section 4(b) shall terminate on the earlier of (A) the day before the tenth anniversary of the date of grant of such Options or (B) the date twelve months after the termination of such Outside Director's Service for any reason; provided, however, that any such Options that are not vested upon the termination of the Outside Director's Service as a member of the Board of Directors for any reason shall terminate immediately and may not be exercised.

(c) Ten-Percent Stockholders. An Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, a Parent or Subsidiary shall not be eligible for the grant of an ISO unless such grant satisfies the requirements of Section 422(c)(5) of the Code.

(d) Attribution Rules. For purposes of Section 4(c) above, in determining stock ownership, an Employee shall be deemed to own the stock owned, directly or indirectly, by or for such Employee's brothers, sisters, spouse, ancestors and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be deemed to be owned proportionately by or for its stockholders, partners or beneficiaries.

(e) Outstanding Stock. For purposes of Section 4(c) above, "outstanding stock" shall include all stock actually issued and outstanding immediately after the grant. "Outstanding stock" shall not include shares authorized for issuance under outstanding options held by the Employee or by any other person.

SECTION 5. STOCK SUBJECT TO PLAN.

(a) Basic Limitation. Shares offered under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares authorized for issuance as Awards under the Plan shall not exceed _____ Shares, plus an annual increase on the first day of each fiscal year during the term of the Plan, beginning ___, ___, in an amount equal to the lesser of (i) _____ Shares (ii) ___% of the outstanding Shares on the last day of the immediately preceding year or (iii) an amount determined by the Board. The limitations of this Section 5(a) shall be subject to adjustment pursuant to Section 11. The number of Shares that are subject to Options or other Awards outstanding at any time under the Plan shall not exceed the number of Shares which then remain available for issuance under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient Shares to satisfy the requirements of the Plan.

(b) Award Limitation. Subject to the provisions of Section 11, no Participant may receive Options, SARs, Restricted Shares or Stock Units under the Plan in any calendar year that relate to more than _____ Shares.

(c) Additional Shares. If Restricted Shares or Shares issued upon the exercise of Options are forfeited, then such Shares shall again become available for Awards under the Plan. If Stock Units, Options or SARs are forfeited or terminate for any other reason before being exercised, then the corresponding Shares shall again become available for Awards under the Plan. If Stock Units are settled, then only the number of Shares (if any) actually issued in settlement of such Stock Units shall reduce the number available under Section 5(a) and the balance shall again become available for Awards under the Plan. If SARs are exercised, then only the number of Shares (if any) actually issued in settlement of such SARs shall reduce the number available in Section 5(a) and the balance shall again become available for Awards under the Plan.

SECTION 6. RESTRICTED SHARES.

(a) Restricted Stock Agreement. Each grant of Restricted Shares under the Plan shall be evidenced by a Restricted Stock Agreement between the recipient and the Company. Such Restricted Shares shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Restricted Stock Agreements entered into under the Plan need not be identical.

(b) Payment for Awards. Subject to the following sentence, Restricted Shares may be sold or awarded under the Plan for such consideration as the Committee may determine, including (without limitation) cash, cash equivalents, full-recourse promissory notes, past services and future services.

(c) Vesting. Each Award of Restricted Shares may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. A Restricted Stock Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of granting Restricted Shares of thereafter, that all or part of such Restricted Shares shall become vested in the event that a Change in Control occurs with respect to the Company.

(d) Voting and Dividend Rights. The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Restricted Stock Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid.

(e) Restrictions on Transfer of Shares. Restricted Shares shall be subject to such rights of repurchase, rights of first refusal or other restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Restricted Stock Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

SECTION 7. TERMS AND CONDITIONS OF OPTIONS.

(a) Stock Option Agreement. Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Option Agreement. The Stock Option Agreement shall specify whether the Option is an ISO or an NSO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. Options may be granted in consideration of a reduction in the Optionee's other compensation.

(b) Number of Shares. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 11.

(c) Exercise Price. Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price of an ISO shall not be less than 100% of the Fair Market Value of a Share on the date of grant, except as otherwise provided in 4(c), and the Exercise Price of an NSO shall not be less 85% of the Fair Market Value of a Share on the date of grant. Subject to the foregoing in this Section 7(c), the Exercise Price under any Option shall be determined by the Committee at its sole discretion. The Exercise Price shall be payable in one of the forms described in Section 8.

(d) Withholding Taxes. As a condition to the exercise of an Option, the Optionee shall make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with such exercise. The Optionee shall also make such arrangements as the Committee may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with the disposition of Shares acquired by exercising an Option.

(e) Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed 10 years from the date of grant (five years for Employees described in Section 4(c)). A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability, or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's Service. Options may be awarded in combination with SARs, and such an Award may provide that the Options will not be exercisable unless the related SARs are forfeited. Subject to the foregoing in this Section 7(e), the Committee at its sole discretion shall determine when all or any installment of an Option is to become exercisable and when an Option is to expire.

(f) Exercise of Options. Each Stock Option Agreement shall set forth the extent to which the Optionee shall have the right to exercise the Option following termination of the Optionee's Service with the Company and its Subsidiaries, and the right to exercise the Option of any executors or administrators of the Optionee's estate or any person who has acquired such Option(s) directly from the Optionee by bequest or inheritance. Such provisions shall be

determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Service.

(g) Effect of Change in Control. The Committee may determine, at the time of granting an Option or thereafter, that such Option shall become exercisable as to all or part of the Shares subject to such Option in the event that a Change in Control occurs with respect to the Company.

(h) No Rights as a Stockholder. An Optionee, or a transferee of an Optionee, shall have no rights as a stockholder with respect to any Shares covered by his Option until the date of the issuance of a stock certificate for such Shares. No adjustments shall be made, except as provided in Section 11.

(i) Modification, Extension and Renewal of Options. Within the limitations of the Plan, the Committee may modify, extend or renew outstanding options or may accept the cancellation of outstanding options (to the extent not previously exercised), whether or not granted hereunder, in return for the grant of new Options for the same or a different number of Shares and at the same or a different exercise price, or in return for the grant of the same or a different number of Shares. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, materially impair his or her rights or obligations under such Option.

(j) Restrictions on Transfer of Shares. Any Shares issued upon exercise of an Option shall be subject to such special forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Stock Option Agreement and shall apply in addition to any general restrictions that may apply to all holders of Shares.

(k) Buyout Provisions. The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents an Option previously granted or (b) authorize an Optionee to elect to cash out an Option previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

SECTION 8. PAYMENT FOR SHARES.

(a) General Rule. The entire Exercise Price or Purchase Price of Shares issued under the Plan shall be payable in lawful money of the United States of America at the time when such Shares are purchased, except as provided in Section 8(b) through Section 8(g) below.

(b) Surrender of Stock. To the extent that a Stock Option Agreement so provides, payment may be made all or in part by surrendering, or attesting to the ownership of, Shares which have already been owned by the Optionee or his representative. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan. The Optionee shall not surrender, or attest to the ownership of, Shares in payment of the Exercise Price if such action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to the Option for financial reporting purposes.

(c) Services Rendered. At the discretion of the Committee, Shares may be awarded under the Plan in consideration of services rendered to the Company or a Subsidiary prior to the award. If Shares are awarded without the payment of a Purchase Price in cash, the Committee shall make a determination (at the time of the award) of the value of the services rendered by the Offeree and the sufficiency of the consideration to meet the requirements of Section 6(b).

(d) Cashless Exercise. To the extent that a Stock Option Agreement so provides, payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate Exercise Price.

(e) Exercise/Pledge. To the extent that a Stock Option Agreement so provides, payment may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker or lender to pledge Shares, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of the aggregate Exercise Price.

(f) Promissory Note. To the extent that a Stock Option Agreement or Restricted Stock Agreement so provides, payment may be made all or in part by delivering (on a form prescribed by the Company) a full-recourse promissory note.

(g) Other Forms of Payment. To the extent that a Stock Option Agreement or Restricted Stock Agreement so provides, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

(h) Limitations under Applicable Law. Notwithstanding anything herein or in a Stock Option Agreement or Restricted Stock Agreement to the contrary, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

SECTION 9. STOCK APPRECIATION RIGHTS.

(a) SAR Agreement. Each grant of a SAR under the Plan shall be evidenced by a SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Optionee's other compensation.

(b) Number of Shares. Each SAR Agreement shall specify the number of Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Section 11.

(c) Exercise Price. Each SAR Agreement shall specify the Exercise Price. A SAR Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the SAR is outstanding.

(d) Exercisability and Term. Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR. A SAR Agreement may provide for accelerated exercisability in the event of

the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. SARs may be awarded in combination with Options, and such an Award may provide that the SARs will not be exercisable unless the related Options are forfeited. A SAR may be included in an ISO only at the time of grant but may be included in an NSO at the time of grant or thereafter. A SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control.

(e) Effect of Change in Control. The Committee may determine, at the time of granting a SAR or thereafter, that such SAR shall become fully exercisable as to all Common Shares subject to such SAR in the event that a Change in Control occurs with respect to the Company.

(f) Exercise of SARs. Upon exercise of a SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (a) Shares, (b) cash or (c) a combination of Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Shares subject to the SARs exceeds the Exercise Price.

(g) Modification or Assumption of SARs. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SARs or may accept the cancellation of outstanding SARs (whether granted by the Company or by another issuer) in return for the grant of new SARs for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of a SAR shall, without the consent of the holder, materially impair his or her rights or obligations under such SAR.

(h) Buyout Provisions. The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents a SAR previously granted, or (b) authorize an Optionee to elect to cash out a SAR previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

SECTION 10. STOCK UNITS.

(a) Stock Unit Agreement. Each grant of Stock Units under the Plan shall be evidenced by a Stock Unit Agreement between the recipient and the Company. Such Stock Units shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Stock Unit Agreements entered into under the Plan need not be identical. Stock Units may be granted in consideration of a reduction in the recipient's other compensation.

(b) Payment for Awards. To the extent that an Award is granted in the form of Stock Units, no cash consideration shall be required of the Award recipients.

(c) Vesting Conditions. Each Award of Stock Units may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Unit Agreement. A Stock Unit Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The

Committee may determine, at the time of granting Stock Units or thereafter, that all or part of such Stock Units shall become vested in the event that a Change in Control occurs with respect to the Company.

(d) Voting and Dividend Rights. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions (including without limitation, any forfeiture conditions) as the Stock Units to which they attach.

(e) Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of (a) cash, (b) Shares or (c) any combination of both, as determined by the Committee. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 11.

(f) Death of Recipient. Any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient's death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

(g) Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

SECTION 11. ADJUSTMENT OF SHARES.

(a) Adjustments. In the event of a subdivision of the outstanding Stock, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Stock (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make equitable adjustments in one or more of:

(i) The number of Options, SARs, Restricted Shares and Stock Units available for future Awards under Section 5;

(ii) The limitations set forth in Sections 5(a) and (b);

(iii) The number of NSOs to be granted to Outside Directors under Section 4(b);

(iv) The number of Shares covered by each outstanding Option and SAR;

(v) The Exercise Price under each outstanding Option and SAR; or

(vi) The number of Stock Units included in any prior Award which has not yet been settled.

Except as provided in this Section 11, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

(b) Dissolution or Liquidation. To the extent not previously exercised or settled, Options, SARs and Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

(c) Reorganizations. In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Such agreement shall provide for:

(i) The continuation of the outstanding Awards by the Company, if the Company is a surviving corporation;

(ii) The assumption of the outstanding Awards by the surviving corporation or its parent or subsidiary;

(iii) The substitution by the surviving corporation or its parent or subsidiary of its own awards for the outstanding Awards;

(iv) Full exercisability or vesting and accelerated expiration of the outstanding Awards; or

(v) Settlement of the full value of the outstanding Awards in cash or cash equivalents followed by cancellation of such Awards.

(d) Reservation of Rights. Except as provided in this Section 11, an Optionee or Offeree shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend or any other increase or decrease in the number of shares of stock of any class. Any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof

shall be made with respect to, the number or Exercise Price of Shares subject to an Option. The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

SECTION 12. DEFERRAL OF AWARDS.

(a) Committee Powers. The Committee (in its sole discretion) may permit or require a Participant to:

(i) Have cash that otherwise would be paid to such Participant as a result of the exercise of a SAR or the settlement of Stock Units credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books;

(ii) Have Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR converted into an equal number of Stock Units; or

(iii) Have Shares that otherwise would be delivered to such Participant as a result of the exercise of an Option or SAR or the settlement of Stock Units converted into amounts credited to a deferred compensation account established for such Participant by the Committee as an entry on the Company's books. Such amounts shall be determined by reference to the Fair Market Value of such Shares as of the date when they otherwise would have been delivered to such Participant.

(b) General Rules. A deferred compensation account established under this Section 12 may be credited with interest or other forms of investment return, as determined by the Committee. A Participant for whom such an account is established shall have no rights other than those of a general creditor of the Company. Such an account shall represent an unfunded and unsecured obligation of the Company and shall be subject to the terms and conditions of the applicable agreement between such Participant and the Company. If the deferral or conversion of Awards is permitted or required, the Committee (in its sole discretion) may establish rules, procedures and forms pertaining to such Awards, including (without limitation) the settlement of deferred compensation accounts established under this Section 12.

SECTION 13. AWARDS UNDER OTHER PLANS.

The Company may grant awards under other plans or programs. Such awards may be settled in the form of Shares issued under this Plan. Such Shares shall be treated for all purposes under the Plan like Shares issued in settlement of Stock Units and shall, when issued, reduce the number of Shares available under Section 5.

SECTION 14. PAYMENT OF DIRECTOR'S FEES IN SECURITIES.

(a) Effective Date. No provision of this Section 14 shall be effective unless and until the Board has determined to implement such provision.

(b) Elections to Receive NSOs, Restricted Shares or Stock Units. An Outside Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash, NSOs, Restricted Shares or Stock Units, or a combination thereof, as determined by the Board. Such NSOs, Restricted Shares and Stock Units shall be issued under the Plan. An election under this Section 14 shall be filed with the Company on the prescribed form.

(c) Number and Terms of NSOs, Restricted Shares or Stock Units. The number of NSOs, Restricted Shares or Stock Units to be granted to Outside Directors in lieu of annual retainers and meeting fees that would otherwise be paid in cash shall be calculated in a manner determined by the Board. The terms of such NSOs, Restricted Shares or Stock Units shall also be determined by the Board.

SECTION 15. LEGAL AND REGULATORY REQUIREMENTS.

Shares shall not be issued under the Plan unless the issuance and delivery of such Shares complies with (or is exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations and the regulations of any stock exchange on which the Company's securities may then be listed, and the Company has obtained the approval or favorable ruling from any governmental agency which the Company determines is necessary or advisable. The Company shall not be liable to a Participant or other persons as to: (a) the non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares under the Plan; and (b) any tax consequences expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Award granted under the Plan.

SECTION 16. WITHHOLDING TAXES.

(a) General. To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) Share Withholding. The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. In no event may a Participant have Shares withheld that would otherwise be issued to him or her in excess of the number necessary to satisfy the legally required minimum tax withholding.

SECTION 17. OTHER PROVISIONS APPLICABLE TO AWARDS.

(a) Transferability. Unless the agreement evidencing an Award (or an amendment thereto authorized by the Committee) expressly provides otherwise, no Award granted under this

Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner (prior to the vesting and lapse of any and all restrictions applicable to Shares issued under such Award), other than by will or the laws of descent and distribution; provided, however, that an ISO may be transferred or assigned only to the extent consistent with Section 422 of the Code. Any purported assignment, transfer or encumbrance in violation of this Section 17(a) shall be void and unenforceable against the Company.

(b) Qualifying Performance Criteria. The number of Shares or other benefits granted, issued, retainable and/or vested under an Award may be made subject to the attainment of performance goals for a specified period of time relating to one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group or index, in each case as specified by the Committee in the Award: (a) cash flow, (b) earnings per share, (c) earnings before interest, taxes and amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, or (p) market segment shares ("Qualifying Performance Criteria"). The Committee may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) any extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in managements' discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year. If applicable, the Committee shall determine the Qualifying Performance Criteria not later than the 90th day of the performance period, and shall determine and certify, for each Participant, the extent to which the Qualifying Performance Criteria have been met. The Committee may not in any event increase the amount of compensation payable under the Plan upon the attainment of a Qualifying Performance Goal to a Participant who is a "covered employee" within the meaning of Section 162(m) of the Code.

SECTION 18. NO EMPLOYMENT RIGHTS.

No provision of the Plan, nor any right or Option granted under the Plan, shall be construed to give any person any right to become, to be treated as, or to remain an Employee. The Company and its Subsidiaries reserve the right to terminate any person's Service at any time and for any reason, with or without notice.

SECTION 19. DURATION AND AMENDMENTS.

(a) Term of the Plan. The Plan, as set forth herein, shall terminate automatically on _____, 2016 and may be terminated on any earlier date pursuant to Subsection (b) below.

(b) Right to Amend or Terminate the Plan. The Board of Directors may amend or terminate the Plan at any time and from time to time. Rights and obligations under any Award granted before amendment of the Plan shall not be materially impaired by such amendment, except with consent of the Participant. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules.

(c) Effect of Termination. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan shall not affect Awards previously granted under the Plan.

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SECTION 20. EXECUTION.

To record the adoption of the Plan by the Board of Directors, the Company has caused its authorized officer to execute the same.

OCULUS INNOVATIVE SCIENCES, INC.

By _____

Name _____

Title _____

OCULUS INNOVATIVE SCIENCES, INC.

2006 STOCK INCENTIVE PLAN

NOTICE OF STOCK OPTION GRANT

You have been granted the following Option to purchase Common Stock of OCULUS INNOVATIVE SCIENCES, INC. (the "Company") under the Company's 2006 Stock Incentive Plan (the "Plan"):

Name of Optionee:	[Name of Optionee]
Total Number of Option Shares Granted:	[Total Number of Shares]
Type of Option:	☐ Incentive Stock Option ☐ Nonstatutory Stock Option
Exercise Price Per Share:	$_____
Grant Date:	[Date of Grant]
Vesting Commencement Date:	[Vesting Commencement Date]
Vesting Schedule:	This Option becomes exercisable with respect to the first 1/4th of the shares subject to this Option when you complete 12 months of continuous Service as an Employee or a Consultant from the Vesting Commencement Date. Thereafter, this Option becomes exercisable with respect to an additional 1/48th of the shares subject to this Option when you complete each additional month of such Service
Expiration Date:	[Expiration Date] This Option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the term and conditions of the Plan and the Stock Option Agreement, both of which are attached to and made a part of this document.

By signing this document you further agree that the Company may deliver by e-mail all documents relating to the Plan or this award (including without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by e-mail.

OPTIONEE:

Optionee's Signature

Optionee's Printed Name

OCULUS INNOVATIVE SCIENCES, INC.

By: _____

Title: _____

OCULUS INNOVATIVE SCIENCES, INC.

2006 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT

Tax Treatment

This Option is intended to be an incentive stock option under Section 422 of the Internal Revenue Code or a nonstatutory option, as provided in the Notice of Stock Option Grant. Even if this Option is designated as an incentive stock option, it shall be deemed to be a nonstatutory option to the extent required by the $100,000 annual limitation under Section 422(d) of the Internal Revenue Code.

Vesting

This Option becomes exercisable in installments, as shown in the Notice of Stock Option Grant. This Option will in no event become exercisable for additional shares after your Service as an Employee or a Consultant has terminated for any reason.

Term

This Option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Grant Date, as shown on the Notice of Stock Option Grant (fifth anniversary for a more than 10% stockholder as provided under the Plan if this is an incentive stock option). This Option may expire earlier if your Service terminates, as described below.

Regular Termination

If your Service terminates for any reason except death or "Total and Permanent Disability" (as defined in the Plan), then this Option will expire at the close of business at Company headquarters on the date three (3) months after the date your Service terminates (or, if earlier, the Expiration Date). The Company has discretion to determine when your Service terminates for all purposes of the Plan and its determinations are conclusive and binding on all persons.

Death

If your Service terminates because of death, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date your Service terminates (or, if earlier, the Expiration Date). During that period of up to 12 months, your estate or heirs may exercise the Option.

Disability

If your Service terminates because of your Total and Permanent Disability, then this Option will expire at the close of business at Company headquarters on the date 12 months after the date your Service terminates (or, if earlier, the Expiration Date).

Leaves of Absence

For purposes of this Option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless

you immediately return to active work.

If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.

Restrictions on Exercise

The Company will not permit you to exercise this Option if the issuance of shares at that time would violate any law or regulation. The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of the Company stock pursuant to this Option shall relieve the Company of any liability with respect to the non-issuance or sale of the Company stock as to which such approval shall not have been obtained. However, the Company shall use its best efforts to obtain such approval.

Notice of Exercise

When you wish to exercise this Option you must notify the Company by completing the attached "Notice of Exercise of Stock Option" form and filing it with the Human Resources Department of the Company. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered. The notice will be effective when it is received by the Company. If someone else wants to exercise this Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Form of Payment

When you submit your notice of exercise, you must include payment of the Option exercise price for the shares you are purchasing. Payment may be made in the following form(s):

- Your personal check, a cashier's check or a money order.

- Certificates for shares of Company stock that you own, along with any forms needed to effect a transfer of those shares to the Company. The value of the shares, determined as of the effective date of the Option exercise, will be applied to the Option exercise price. Instead of surrendering shares of Company stock, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the Option shares issued to you. However, you may not surrender, or attest to the ownership of shares of Company stock in payment of the exercise price if your action would cause the Company to recognize a compensation expense (or additional compensation expense) with respect to this Option for financial reporting purposes.

- By delivery on a form approved by the Committee of an irrevocable direction to a securities broker approved by the Company to sell all or

part of your Option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the Option exercise price and any withholding taxes. The balance of the sale proceeds, if any, will be delivered to you. The directions must be given by signing a special "Notice of Exercise" form provided by the Company.

- By delivery on a form approved by the Committee of an irrevocable direction to a securities broker or lender approved by the Company to pledge Option shares as security for a loan and to deliver to the Company from the loan proceeds an amount sufficient to pay the Option exercise price and any withholding taxes. The directions must be given by signing a special "Notice of Exercise" form provided by the Company.

- Any other form permitted by the Committee in its sole discretion.

Notwithstanding the foregoing, payment may not be made in any form that is unlawful, as determined by the Committee in its sole discretion.

Withholding Taxes and Stock Withholding

You will not be allowed to exercise this Option unless you make arrangements acceptable to the Company to pay any withholding taxes that may be due as a result of the Option exercise. These arrangements may include withholding shares of Company stock that otherwise would be issued to you when you exercise this Option. The value of these shares, determined as of the effective date of the Option exercise, will be applied to the withholding taxes.

Restrictions on Resale

By signing this Agreement, you agree not to sell any Option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as you are an employee, consultant or director of the Company or a subsidiary of the Company.

Transfer of Option

In general, only you can exercise this Option prior to your death. You cannot transfer or assign this Option, other than as designated by you by will or by the laws of descent and distribution, except as provided below. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid. You may in any event dispose of this Option in your will. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your Option in any other way.

However, if this Option is designated as a nonstatutory stock option in the Notice of Stock Option Grant, then the Committee may, in its sole discretion, allow you to transfer this Option as a gift to one or more family members. For purposes of this Agreement, "family member" means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, or

sister-in-law (including adoptive relationships), any individual sharing your household (other than a tenant or employee), a trust in which one or more of these individuals have more than 50% of the beneficial interest, a foundation in which you or one or more of these persons control the management of assets, and any entity in which you or one or more of these persons own more than 50% of the voting interest.

In addition, if this Option is designated as a nonstatutory stock option in the Notice of Stock Option Grant, then the Committee may, in its sole discretion, allow you to transfer this option to your spouse or former spouse pursuant to a domestic relations order in settlement of marital property rights.

The Committee will allow you to transfer this Option only if both you and the transferee(s) execute the forms prescribed by the Committee, which include the consent of the transferee(s) to be bound by this Agreement.

Retention Rights

Neither your Option nor this Agreement gives you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.

Stockholder Rights

You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this Option by giving the required notice to the Company and paying the exercise price. No adjustments are made for dividends or other rights if the applicable record date occurs before you exercise this Option, except as described in the Plan.

Adjustments

In the event of a stock split, a stock dividend or a similar change in Company stock, the number of shares covered by this Option and the exercise price per share may be adjusted pursuant to the Plan.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to their choice-of-law provisions).

The Plan and Other Agreements

The text of the Plan is incorporated in this Agreement by reference. All capitalized terms in the Stock Option Agreement shall have the meanings assigned to them in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this Option are superseded. This Agreement may be amended only by another written agreement, signed by both parties.

BY SIGNING THE COVER SHEET OF THIS AGREEMENT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

OCULUS INNOVATIVE SCIENCES, INC.
2006 STOCK INCENTIVE PLAN

NOTICE OF EXERCISE OF STOCK OPTION

You must sign this Notice on the last page before submitting it to the Company

OPTIONEE INFORMATION:

Name: _____ Social Security Number: _____

Address: _____ Employee Number: _____

OPTION INFORMATION:

Date of Grant: _____, 200___
Exercise Price per Share: $_____
Total number of shares of Common Stock of Oculus Innovative Sciences, Inc. (the "Company") covered by option: _____

Type of Stock Option:
☐ Nonstatutory (NSO)
☐ Incentive (ISO)

EXERCISE INFORMATION:

Number of shares of Common Stock of the Company for which option is being exercised now: _____. (These shares are referred to below as the "Purchased Shares.")

Total exercise price for the Purchased Shares: $_____

Form of payment enclosed ***[check all that apply]*:**

☐ Check for $_____, payable to "Oculus Innovative Sciences, Inc."

☐ Certificate(s) for _____ shares of Common Stock of the Company that I have owned for at least six months or have purchased in the open market. (These shares will be valued as of the date when the Company receives this notice.)

☐ Attestation Form covering _____ shares of Common Stock of the Company. (These shares will be valued as of the date when the Company receives this notice.)

Name(s) in which the Purchased Shares should be registered

***[please check one box]*:**

☐ In my name only

☐ In the names of my spouse and myself as community property — My spouse's name (if applicable): _____

☐ In the names of my spouse and myself as joint tenants with the right of survivorship

☐ In the name of an eligible revocable trust — Full legal name of revocable trust: _____

The certificate for the Purchased Shares should be sent to the following address: _____

ACKNOWLEDGMENTS:

1. I understand that all sales of Purchased Shares are subject to compliance with the Company's policy on securities trades.
2. I hereby acknowledge that I received and read a copy of the prospectus describing the Company's 2006 Stock Incentive Plan and the tax consequences of an exercise.
3. In the case of a nonstatutory option, I understand that I must recognize ordinary income equal to the spread between the fair market value of the Purchased Shares on the date of exercise and the exercise price. I further understand that I am required to pay withholding taxes at the time of exercising a nonstatutory option.
4. In the case of an incentive stock option, I agree to notify the Company if I dispose of the Purchased Shares before I have met both of the tax holding periods applicable to incentive stock options (that is, if I make a disqualifying disposition).
5. I acknowledge that the Company has encouraged me to consult my own adviser to determine the form of ownership that is appropriate for me. In the event that I choose to transfer my Purchased Shares to a trust that does not satisfy the requirements of the Internal Revenue Service (i.e., a trust that is not an eligible revocable trust), I also acknowledge that the transfer will be treated as a "disposition" for incentive stock option tax purposes. As a result, the favorable incentive stock option tax treatment will be unavailable and other unfavorable tax consequences may occur.

SIGNATURE AND DATE:

_____ _____, 200_____

Exhibit 10.23

AMENDMENT NO. 3
TO LEASE

This Amendment No. 3 To Lease is made and entered into as of August 23, 2006, 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 and Amendment No. 2 to Lease dated as of July 29, 2005 (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. Tenant currently occupies approximately 8,534 square feet of rentable area at 1135 McDowell Boulevard pursuant to a Sublease between Tenant and Autodesk, Inc. The term of the Sublease expires on September 30, 2006.

C. The Termination Date of the Lease Term is September 30, 2006.

D. The parties wish to amend the Lease to expand the Premises and 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, 2007.

2. Expansion Space. Commencing on October 1, 2006 ("Expansion Date"), the Premises shall be expanded to add an additional approximately 8,534 square feet of Rentable Area at 1135 North McDowell Boulevard in Petaluma, California, as designated in Exhibit A to this Amendment (the `Expansion Space"). As of the Expansion Date, the entire Premises shall consist of 22,374 square feet of Rentable Area. Tenant is fully familiar with the condition of the Expansion Space and is accepting it AS IS and WITH ALL FAULTS.

3. Tenant's Share. Commencing October 1, 2006, Tenant's Share of 1129 North McDowell Boulevard shall be 23.62% and Tenant's Share of 1135 North McDowell Boulevard shall be 14.57%.

4. Base Rent. Commencing October 1, 2006, Base Rent for the entire Premises shall be $23,492.70 per month.

5. Tenant's Extension Options. As of the date of this Agreement, Tenant's Extension Options shall terminate and be of no further force and effect.

6. 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.

7. 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 first written above.

Landlord:

RNM Lakeville, LLC,
a Delaware limited liability company

By: RNM Petaluma, Inc.,
a California corporation,
its Manager

Name: /s/ Paul B. Elmore
Paul B. Elmore, President

Date: 23 August 2006

Tenant:

Oculus Innovative Sciences, Inc.,
a California corporation

By: /s/ Jim Schutz

Its: VP & General Counsel

Date: 08/22/06

Exhibit 10.24

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (the "Agreement") is entered into as of this [16] day June, 2005, by and between Oculus Innovative Sciences, Inc., a California corporation ("Oculus"), on the one hand, and Quimica Pasteur, S de R.L. ("QP"), Francisco Javier Orozco Gutierrez ("JO") and Jorge Paulino Hermosillo Martin ("JH") (JO and JH are each referred to sometimes herein as a "Purchaser" and collectively as the "Purchasers").

RECITALS

A. Purchaser is a general partner of Quimica Pasteur, S de R.L. ("QP"). QP is owned at this date as to fifty percent (50%) by JO and as to fifty percent (50%) by JH (each interest is referred to as a "Partnership Interest").

B. QP distributes products of Oculus in Mexico pursuant to that certain agreement between QP and Oculus Technologies de Mexico, the wholly-owned subsidiary of Oculus ("OTM").

C. Concurrently herewith, JO is entering into a certain Contrato de Opcion de Compra de Parte Social (Partnership Interest Purchase Option Agreement) with Oculus, pursuant to which JO grants to Oculus the option to purchase ninety-nine and seventy-five percent (99.75%) partnership interest in QP (after the issuance of the Designee Interest), subject to the conditions contained therein.

D. Concurrently herewith, the following additional agreements are being entered into:

(i) Contrato Maestro between Oculus, OTM, QP and JH and JO (the "Framework Agreement"); and

(ii) Contrato de Consignacion Mercantil between QP and OTM ("Consignment Agreement").

E. On the date following the date hereof, JH and JO are conducting a Asamblea de Socios de QP (or partner meeting of QP) (the "QP Partner Meeting"), pursuant to which JH and JO shall resolve to authorize and irrevocably direct the assignment of JH's Partnership Interest to JO, and to admit a new partner designated by Oculus (the "Oculus Designee", who will hold a partnership interest in QP equal to .25% of the total partnership interests of QP (the "Designee Interest").

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the parties agree as follows.

1. Purchase and Sale of Shares. On the terms and subject to the conditions of this Agreement, Purchasers each hereby agrees to purchase from Oculus, and, expressly conditioned upon the occurrence of the things specified in Section 3.1 hereof), Oculus hereby agrees to sell to each Purchaser, 300,000 shares of the Common Stock of Oculus (each a "Share and collectively, the "Shares") in consideration of the following:

1.1 receipt by JO from JH of JH's Partnership Interest as authorized in the Partner's Meeting and issuance of the Designee Interest to a person designated by Oculus, each by way of an irrevocable assignment in form and substance satisfactory to Oculus (together, the "Irrevocable Assignment");

1.2 receipt by Oculus from JO of the Partnership Interest Purchase Option Agreement.

2. Closing. The closing of the assignment and transfer of JH's QP Partnership Interests to JO and the transfer and assignment of the Partnership Interest Purchase Option Agreement to Oculus will take place at the offices of QP, in Guadalajara, Jalisco, Mexico on the date of the QP Partner Meeting and immediately after it is adjourned, which meeting is scheduled to take place on June 17, 2005, unless another date, time or place is agreed to in writing by Oculus and QP (the "Closing").

2.1 Deliveries of Purchasers.

(a) Upon execution and delivery of the Agreement, each Purchaser shall deliver or cause to be delivered to Oculus or the person designated below:

(i) the QP Partner Meeting authorization, effecting (among other things) an irrevocable assignment of the JH Partnership Interest to JO and the issuance of the Designee Interest to a designee of Oculus, and otherwise in form and substance satisfactory to Oculus (the "QP Authorization");

(ii) the Partnership Interest Purchase Option Agreement, executed by JO;

(iii) this Agreement, executed by JO and JH.

(iv) the Framework Agreement, executed by all involved parties; and

(v) the Consignment Agreement, executed by QP and OTM.

(b) At the Closing, each Purchaser shall deliver or cause to be delivered to Oculus or the person designated below the QP Meeting Authorization, duly signed, sealed and delivered.

2.2 Deliveries of Oculus. Upon execution and delivery of the Agreement, Oculus shall deliver or cause to be delivered to the appropriate person or persons:

(a) this Agreement, executed by a duly authorized representative of Oculus.

(b) the Framework Agreement, executed by Oculus; and

(c) the Consignment Agreement, executed by Oculus.

3. Issuance of Shares.

3.1 Conditions Precedent. Oculus' obligation to issue the Shares is expressly conditioned on the occurrence of the following:

(a) Oculus shall have received revenue from the sale by QP of Microcyn of at least $500,000 on or before the date which is six months after the date of this Agreement;

(b) Oculus shall have received revenue from the sale by QP of the Products (as that term is defined in the Framework Agreement) other than Microcyn of at least $834,000 on or before the date which is six months after the date of this Agreement;

(c) QP shall have restructured the long-term debt evidenced on the Financials which is outstanding as of the date hereof on or before December 31, 2005, to the satisfactions of Oculus;

(d) All payroll, tax, accounting, and legal issues relating to QP shall have been resolved to the satisfaction of Oculus, in its sole discretion, and evidence of the resolution of such issues in form and substance acceptable to QP, shall have been provided to Oculus on or before December 31, 2006;

(e) The monthly costs, liabilities and expenses of QP for each of the months during the period commencing on July 1, 2005 and ending on December 31, 2005 shall not exceed ninety percent (90%) of gross revenues collected during such period;

(f) JO shall have entered into an employment agreement with QP for a term of five years (or such other period as QP shall determine) and otherwise on terms reasonably satisfactory to QP, and JO shall not

be in breach thereunder;

(g) The representations and warranties made by QP and each of the Purchasers in this Agreement and in the Agreements herein described shall be true and correct as of the Issuance Date as though made on and as of the Issuance Date, except as affected by the transactions contemplated by this Agreement, and each of the Purchases shall have delivered to Oculus a certificate, dated the Issuance Date, and executed by such Purchaser, to such effect; and

(h) The issuance of the Shares would not violate any applicable securities law.

(i) The credit facility with Nafinsa (as such terms and entity is known by the Parties) remains available for use for the sales to public hospitals for Microcyn and non Microcyn sales.

3.2 Issuance. On December 31, 2005, or such later date as the parties shall agree in writing (the "Issuance Date"), (a) if Purchasers shall have made all deliveries required to be made in Section 2.1 hereof, (b) if the events specified in Section 3.1 above shall have occurred, as determined in good faith solely by Oculus, (c) and if this Agreement shall not have been earlier terminated, upon delivery of the certificate by each of the Purchasers described in Section 3.1(g) hereof, Oculus shall deliver as soon as practicable to each of the Purchasers certificates evidencing the Shares purchased by the Purchaser at such Purchaser's address specified on the signature page hereof.

4. Representations of Oculus. Oculus hereby acknowledges and agrees, and represents and warrants to each of the Purchaser as of the date hereof, as follows:

(a) Oculus is duly organized, validly existing and in good standing under the laws of the State of California, with full power and authority to conduct its business as it is now being conducted, and is lawfully qualified to do business in those jurisdictions in which failure to qualify would have a material adverse effect on Oculus.

(b) This Agreement has been duly authorized, executed and delivered by Oculus and constitutes Oculus' valid and legally binding obligation, enforceable against Oculus in accordance with its terms, subject as to enforcement to general principles of equity.

(c) The execution and delivery of this Agreement and the issuance of the Shares has been approved by the Board of Directors of Oculus, and the execution and delivery of this Agreement and issuance of the Shares do not and will not (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, Oculus' Amended and Restated Articles of Incorporation or By-Laws or (ii) infringe any existing applicable law,

rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over Oculus.

(d) Neither Oculus nor any of its affiliates nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "Securities Act")) with respect to the Shares and each of them has complied or will comply with the offering restrictions requirements of Regulation S.

5. Representations of Purchasers. JO and JH hereby acknowledges and agrees, and represents and warrants to Oculus, jointly and severally, as of the date hereof, and as of the Issuance Date, as follows:

5.1 General Representations of Purchaser.

(a) QP is duly organized, validly existing and in good standing under the laws of Mexico, with full power and authority to conduct its business as it is now being conducted, and is lawfully qualified to do business in those jurisdictions in which business is conducted by it.

(b) This Agreement has been duly authorized, executed and delivered by each of QP, JH and JO and constitutes QP's, JH's and JO's valid and legally binding obligation, enforceable against QP, JH and JO, respectively, in accordance with its terms.

(c) The execution and delivery of this Agreement do not and will not (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the partnership agreement of QP or any other agreement governing QP or (ii) infringe any agreement or instrument which is material and by which QP or its respective assets is bound or any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over QP.

(d) Attached hereto as Attachment 5.1(d) are the unaudited consolidated financial statements of QP as of and for the twelve-month period ending December 31, 2004, and for the three-month period ended March 30, 2005 (the "Financial Statements"). The Financial Statements were prepared in accordance with generally accepted accounting principles in Mexico consistently applied and present fairly the financial position of QP as at the dates specified therein, and the results of operations and changes in financial position of QP for the periods specified therein, subject to normal year-end audit adjustments.

(e) Attached hereto as Attachment 5.1(e) is a copy of QP's management accounts for the year to date period ending April 30, 2005 (the "Management Accounts"). The Financial Statements and the Management

Accounts make full provision for or, in the case of actual liabilities, disclose or take into account, all liabilities of QP and each of its subsidiaries (including taxation (including deferred taxation)), whether actual, contingent or disputed. To the best of the knowledge and belief of QP, the Financial Statements and the Management Accounts are accurate in all respects. The Management Accounts have been prepared on a basis consistent with the Financial Statements and reasonably reflect the financial position of QP for the period concerned.

(f) Since April 30, 2005, except as disclosed in the Financial Statements and the Management Accounts, (i) there has been no material adverse change in the financial condition, the earnings or business affairs of QP, whether or not arising in the ordinary course of business, and (ii) there have been no transactions entered into by QP, other than those in the ordinary course of business, which are material with respect to QP.

(g) QP is not subject to any legal proceedings involving claims or amounts which are material and, to the best of its knowledge, no such legal proceedings are pending or threatened against it, other than the Interventor litigation.

(h) Immediately prior to the QP Partner Meeting, one hundred percent (100%) of the Partnership Interests are held by JO (as to fifty percent (50%) and as to fifty percent (50%) by JH. Immediately after the QP Partner Meeting, one hundred percent (100%) of the Partnership Interests shall be held by JO (as to forty-nine and eighty-eight percent (49.88%)), by JH (as to forty-nine and eighty-eight percent (49.88%)), and by the Oculus Designee (as to twenty-five hundredths percent (.25%). Each of JO and JH represents he holds (or with respect to JH, did hold until transfer to JO) his Partnership Interest free and clear of any restrictions on transfer, taxes, encumbrances, security interests, options, warrants, purchase rights, contracts, commitments, equities, claims, and demands. Neither Purchaser is a party to any option, warrant, purchase right, or other contract or commitment that could require QP to sell, transfer, or otherwise dispose of the Partnership Interest (other than this Agreement). Neither Purchaser is a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any Partnership Interest. There are no outstanding options, warrants or other securities exercisable or exchangeable for or convertible into any interest in QP, and there is no agreement or arrangement to sell, transfer or assign any interest in QP.

(i) Neither Purchaser is in violation or default of any provision of the QP partnership agreement or other charter document, or of any judgment, order, writ, decree or material contract or agreement to which it is a party or by which it or any of its property or assets are bound, or, to the best of its knowledge, of any material federal, state, local or foreign statute, rule or regulation applicable to its business.

5.2 Representations of Purchaser Concerning Securities. Each Purchaser hereby acknowledges and agrees, and represents and warrants to Oculus, as of the date hereof, and on the Issuance Date, as follows:

(a) The Shares have not been registered under the United States Securities Act, or any other applicable securities laws, and may not be offered, sold, transferred or otherwise disposed of other than pursuant to a registration statement which has been declared effective under the Securities Act or an exemption from the registration requirements of the Securities Act.

(b) Each Purchaser is either (i) an "Accredited Investor" within the meaning of Rule 501 under Regulation D promulgated under the United States Securities Act of 1933, as amended (the "Securities Act"), and makes the additional representations in Exhibit A, attached hereto; or (ii) not a "U.S. Person", and makes the additional representations in Exhibit B attached hereto.

(c) The offer and sale of the Shares to such Purchaser has taken place outside of the United States of America, its territories and possessions (the "US"), and Purchaser has executed this Agreement outside of the US.

(d) Such Purchaser is an investor in securities of companies in the development stage and acknowledges that it has such knowledge and experience in financial and business matters that Purchaser is capable of evaluating the merits and risks of purchasing the Shares. Such Purchaser is aware that Purchaser (or any account for which Purchaser is purchasing) may be required to bear the economic risk of an investment in the Shares for an indefinite period of time, and Purchaser (or such institutional account) is able to bear such risk for an indefinite period. Such Purchaser has relied solely on this Agreement, the Confidential Private Placement Memorandum of Oculus, and independent investigations made by such Purchaser in making a decision to purchase any Shares. Purchaser reviewed the section of the Confidential Private Place Memorandum of Oculus headed "Risk Factors", and has received all the information that it considers necessary or appropriate for deciding whether to purchase the Shares. Purchaser further represents that it has had an opportunity to ask questions and receive answers from Oculus regarding the terms and conditions of the offering of the Shares and the business, properties, prospects and financial condition of Oculus. If not a natural person, Purchaser represents that it has not been organized for the specific purpose of acquiring the Shares.

(e) Such Purchaser is purchasing the Shares for Purchaser's own account, or for one or more institutional accounts for which such Purchaser is acting as a fiduciary or agent, in each case, for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof, and such Purchaser has no present intention of selling, granting any participation in, or otherwise distributing, the Shares.

(f) Purchaser has had an opportunity to discuss with the management of Oculus, the business, management and financial affairs of Oculus.

(g) Purchaser's advisors and/or Purchaser have had an opportunity to inspect all records and books pertaining to an investment in Oculus and have had reasonable opportunities to ask questions of and receive answers from the officers of Oculus or other persons authorized by Oculus to act on its behalf concerning the offering of shares, and all questions have been answered to Purchaser's full satisfaction and the satisfaction of Purchaser's advisors.

(h) Oculus will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements of such Purchaser, including any and all representations and warranties made under Exhibits A and B, and if any such acknowledgment, representation or warranty made by such Purchaser is no longer accurate, such Purchaser shall promptly notify Oculus thereof in writing. Purchaser has sole investment discretion with respect to any institutional account for which Purchaser is acquiring any Shares as a fiduciary or agent, and Purchaser has full power to make the foregoing acknowledgments, representations, warranties and agreements on behalf of each such account.

(i) Purchaser understands that the Shares are "restricted securities" under the United States federal securities laws inasmuch as they are being acquired from the Company in a transaction (i) not involving a public offering and (ii) subject to the conditions of Regulation D or Regulation S, as applicable, and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances. In this connection, such Purchaser represents that it is familiar with Rule 144 under the Securities Act, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

(j) Purchaser understands that no public market now exists for any of the securities issued by Oculus (including the Shares), that Oculus has made no assurances that a public market will ever exist for the Shares and that, even if such a public market exists at some future time, Oculus may not then be satisfying the current public information requirements of Rule 144 under the Securities Act.

5.3 Legends.

(a) If a Purchaser makes the representations in Exhibit A, it is understood and agreed that the certificates evidencing the Shares will bear the following legend:

"The shares of Common Stock represented by this stock certificate (the "Shares") have been acquired for investment and have not been registered under the Securities Act. The Shares may not be sold or transferred in the absence of such registration or an exemption therefrom under said Act."

(b) If a Purchaser makes the representations in Exhibit B, it is understood and agreed that the certificates evidencing the Shares will bear the following legend:

"The shares of Common Stock represented by this stock certificate (the "Shares") have not been registered under the Securities Act, or any other securities laws, and have been issued in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S under the Securities Act. The Shares may not be offered, sold, transferred or otherwise disposed of in the United States or to, or for the benefit of account of, any "U.S. Person" (as defined in said Regulation S), other than pursuant to a registration statement which has been declared effective under the Securities Act or an available exemption from the registration requirements of the Securities Act. Hedging transactions involving the Shares may not be conducted other than in compliance with the Securities Act."

5.4 Effect of Representation. Each of the foregoing representations, warranties and undertakings, and each of the representations, warranties and undertakings contained in Exhibits A or B, as applicable, shall be deemed to be made on the date of this Agreement and shall be deemed to be repeated and made by the party making them on each day up to and including the Issuance Date. Each of the representations contained in this Section 5 and in Exhibits A or B shall survive the Closing or the termination of, or the issuance of Shares under, this Agreement.

5.5 Indemnification. QP and each of the Purchasers agrees to indemnify and hold harmless Oculus (and each of its partners, officers, directors, employees and agents and each of its affiliates) (each, an "Indemnified Party") against any and all loss, liability, claim, damage and expense whatsoever (including, without limitation, any reasonable legal or other expenses incurred by such Indemnified Party in investigating or defending any such claim, damage or expense), relating to or arising out of (i) any of the representations and warranties made by QP or a Purchaser herein or in any other agreement referenced herein being untrue or incorrect, (ii) the breach by QP or any of the Purchasers of any of its covenants contained herein or in any of the agreements referenced herein, (iii) the Interventor litigation; (iv) any liability not expressly assumed by Oculus; and (v) any theory of successor liability or similar principle of law or equity.

6. Covenants.

6.1 Access to Information. QP and each Purchaser shall afford to Oculus, OTM and each of their respective accountants, counsel, financial advisors and other representatives (the "Representatives") full access during normal business hours throughout the period prior to the Issuance Date to all of its properties, books, contracts, insurance policies, studies and reports, environmental studies and reports, commitments and records (including without limitation tax returns) and, during such period, shall furnish promptly upon written request (i) a copy of each report, schedule and other document filed or received by it with any governmental authority.

6.2 No Transfer. Neither Purchaser shall sell, assign, transfer or encumber in any way his Partnership Interest, or enter into any agreement or arrangement granting an option or right to acquire his Partnership Interest, except as expressly provided herein.

6.3 No Issuance. QP shall not sell, issue or authorize the issuance of (i) any partnership interest or other security, (ii) any option or right to acquire any partnership interest or other security, or (iii) any instrument convertible into or exchangeable for any partnership interest or other security, except as expressly provided herein.

7. Term and Termination.

7.1 Termination Events. The Agreement may be terminated at any time prior to the Issuance Date:

(a) by mutual written agreement of each of the parties hereto;

(b) by Oculus, if the QP Meeting shall not have taken place, and the QP Authorizations shall not have been adopted, on or prior to June [17], 2005;

(c) by Oculus, upon written notification to QP if the issuance of the Shares without registration can not be consummated without violation of applicable securities law, or if any court of competent jurisdiction or other competent governmental or regulatory authority shall have issued an order making illegal or otherwise restricting, preventing or prohibiting the issuance of the Shares;

(d) by Oculus, upon written notice of Oculus to QP, if any of the events listed in Section 2.1 shall not have occurred on or before the date specified for the occurrence of such event set forth in Section 2.1;

(e) by Oculus, upon written notice to QP, JH and JO, if JO shall be in material breach of his obligations under his employment agreement

with QP, and such breach shall not have been cured within thirty (30) days after Oculus gives written notice thereof to QP;

(f) by Oculus, upon written notice QP, JH and JO, upon breach by QP, JO and/or JH of any of their obligations under the Framework Agreement or the Consignment Agreement;

(g) by Oculus, upon written notice of Oculus to QP, JH and JO, if a filing for bankruptcy protection shall have been made with respect to QP (whether voluntarily or involuntarily), or QP shall have made an assignment for the benefit of its creditors; or

(h) by Oculus, if the Issuance Date shall not have occurred on or prior to December 31, 2005.

7.2 Effect of Termination. If this Agreement is validly terminated by either Oculus or any of QP, JH or JO pursuant to Section 7.1, this Agreement will forthwith become null and void and there will be no liability or obligation on the part of Oculus, QP or the Purchasers (or any representative of any of them, or any subsidiary of Oculus) under this Agreement.

8. Miscellaneous Provisions.

8.1 No Amendment. This Agreement may not be amended except by a written instrument signed by each of the parties hereto.

8.2 No Waiver. Any failure of a Purchaser to comply with any obligation, covenant or agreement contained herein may be waived only by a written notice from the party entitled to the benefits thereof. No failure by any party hereto to exercise, and no delay in exercising, any right hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of either right hereunder preclude any other or future exercise of that right by that party.

8.3 Notices. Any notice or communication required or permitted by this Agreement shall be deemed sufficiently given if in writing and, if delivered personally, when it is delivered or, if delivered in another manner, the earlier of when it is actually received by the party to whom it is directed, or when the period set forth below expires (whether or not it is actually received), to the address set forth on the signature page hereof:

(a) if transmitted by telecopier, telex or facsimile transmission ("Fax"), 24 hours after (i) transmission to the party's telecopier number set forth below, with the party's name and address set forth below clearly shown on the page first transmitted, and (ii) receipt by the transmitting party of written confirmation of successful transmission, which confirmation may be produced by the transmitting party's equipment;

(b) if deposited with the U.S. Postal Service, postage prepaid, and addressed to the party to receive it as set forth below, (i) 48 hours after such deposit as registered or certified mail if addressed to a location in the US, or (ii) ten days after such deposit as registered or certified airmail if addressed to a location outside of the US; or

(c) if accepted by Federal Express or a similar reputable delivery services in general usage for delivery to the dress of the party to receive it as set forth below, 24 hours after the delivery time promised by the delivery services.

A party may change its address or telecopier number of the address or telecopier number to which copies shall be sent by giving notice of the change to each other party. The new address shall become effective for purposes of this Agreement five days after notice of the new address is given.

8.4 No Assignment. This Agreement may not be assigned by Purchaser without Oculus' prior written consent, and may not be amended or any provision hereof waived or modified except by an instrument in writing signed by each of the parties hereto.

8.5 No Third Party Beneficiaries. Except for the Indemnified Parties, and only to the extent set forth in Section 5.5 hereof, neither this Agreement or any provision hereof, nor any agreement to be entered into pursuant hereto or concurrently herewith, is intended to create any right, claim or remedy in favor of any person or entity, other than the parties hereto and their respective successors and permitted assigns.

8.6 Arbitration. Any controversy or claim arising out of or relating to this Agreement shall be determined by arbitration in accordance with the Rules of the American Arbitration Association. The number of arbitrators shall be one. The place of arbitration shall be Sacramento, California, unless otherwise agreed to by the parties to this Agreement.

8.7 Governing Law and Venue. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California, United States of America, without giving effect to any conflicts of laws principles thereof which would result in the application of the laws of another jurisdiction. For purposes of enforcement of any arbitration award, the parties submit to nonexclusive venue in the state and federal courts located in Sacrament, California. For purposes of enforcement of any claim for injunctive or equitable relief expressly allowed herein, the parties submit to exclusive venue in the state and federal courts located in Sacramento, California.

8.8 Entire Agreement. This Agreement sets forth the entire agreement and understanding between the parties relating to the subject matter hereof and supersedes and replaces in its entirety all other agreements, oral and

written heretofore made between the parties with respect to the subject matter hereof and thereof (including, without limitation, the Letters of Intent executed by JO and JH dated May 5, 2005). In the case of a conflict between the terms of this Agreement and the terms of any other agreement specifically referenced herein, the terms of this Agreement shall control.

8.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be an original and all of which, when taken together, shall constitute one agreement.

8.10 Language. This Agreement is written in the English language. No other language version of this Agreement shall be controlling or binding on the parties.

IN WITNESS WHEREOF, each Purchaser has executed this Agreement as of the [17] day of June, 2005.

QUIMICA PASTEUR, S de R.L.

By: /s/ Francisco Javier Orozco Gutiérrez
Name: Francisco Javier Orozco Gutiérrez
Title: General Director

Address: _____

By: /s/ Francisco Javier Orozco Gutiérrez
Name: Francisco Javier Orozco Gutiérrez

Address: _____

By: /s/ Jorge Paulino Hermosillo Martin
Jorge Paulino Hermosillo Martin

Address: _____

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/ Jim Schutz
Name: James Schutz
Title: General Counsel

Address: 1129 N. McDowell Blvd
Petaluma, CA 95864

Exhibit A

Accredited Investor Questionnaire

To: Oculus Innovative Sciences, Inc.

The information set forth in this Investor Questionnaire is being furnished to Oculus by the undersigned Puchaser in order for Oculus to determine whether Purchaser's purchase of Shares may be accepted in light of the requirements of Section 4(2) of the Securities Act, including confirmation that Purchaser is an "accredited investor" as defined in Rule 501 promulgated under the Securities Act, and the requirements of certain state securities laws. Purchaser understands that (a) the Shares will not be registered under the Securities Act in reliance upon the exemption from registration afforded by Section 4(2) of the Securities Act, (b) Purchaser may be required to hold the Shares indefinitely; and (c) Purchaser is required to bear the entire risk of an investment in the Shares.

Purchaser represents and warrants to Oculus that: (i) the information contained herein is complete and accurate and may be relied upon by Oculus, its officers and directors and their agents and affiliates; and (ii) Purchaser will notify Oculus immediately of any change in any of the information contained herein prior to the acceptance of Purchaser's subscription.

In accordance with the foregoing, Purchaser hereby makes and provides the following representations and information:

1. Accredited Investor Status. Purchaser is an "Accredited Investor" by reason of the following (please check whichever of the following statements that apply):

— (a) The Purchaser is a natural person whose individual net worth, or joint net worth with that person's spouse, at the time of purchase, exceeds $1,000,000.

— (b) The Purchaser is a natural person who had an individual income in excess of $200,000 in each of the last two calendar years, or joint income with such Purchaser's spouse, in excess of $300,000 in each of those years, and has a reasonable expectation of reaching the same level in this calendar year.

— (c) The Purchaser is a bank as defined in Section 3(a)(2) of the Securities Act.

— (d) The Purchaser is a director, executive officer, or general partner of Oculus – the issuer of the Shares.

— (e) The Purchaser is a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual or fiduciary capacity.

— (f) The Purchaser is a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended.

— (g) The Purchaser is an insurance company as defined in Section 2(13) of the Securities Act.

— (h) The Purchaser is an investment company registered under the Investment Company Act of 1940, as amended, or a business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940, as amended.

— (i) The Purchaser is a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958.

— (j) The Purchaser is a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, which plan has total assets in excess of $5,000,000.

— (k) The Purchaser is an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and (i) the investment decision is made by a plan fiduciary, as defined in Section 3(21) of ERISA, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or (ii) the employee benefit plan has total assets in excess of $5,000,000, or (iii) if a self-directed plan, investment decisions are made solely by persons that are accredited investors.

— (l) The Purchaser is a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended.

— (m) The Purchaser is an organization described in Section 501(c)(3) of the Internal Revenue Code, a United States or foreign corporation, a partnership, or a Massachusetts or similar business trust, not formed for the specific purpose of acquiring the Shares, with total assets in excess of $5,000,000.

— (n) The Purchaser is a trust, with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the Shares, whose purchase is directed by a sophisticated person with such

knowledge and experience in financial and business matters that such person is capable of evaluating the merits and risks of the prospective investment.

— (o) The Purchaser is an entity in which all of the equity owners are accredited investors.

2. General Information. Please provide the following general information:

(1) If Purchaser is a natural person, please complete the following:

Purchaser is a permanent resident in the State of California.

Yes ☐ No ☐

Purchaser maintains additional residences outside of California.

Yes ☐ No ☐

If yes, please indicate address(es):

_____

_____

(2) If Purchaser is an entity, please complete the following:

Indicate Type of Ownership:

General Partnership ☐ Corporation ☐

Limited Partnership ☐ Trust ☐

Date of Formation (if applicable):___/___/___

Number of Partners, Shareholders or Beneficiaries: ☐

Was this entity formed for the specific purpose, even among other purposes, of investing in Oculus:

Yes ☐ No ☐ Not applicable ☐

IN WITNESS WHEREOF, the undersigned has executed this Investor Questionnaire on this 16 day of June, 2005.

By: Francisco Javier Orozco Gutiérrez

Signature: _____

EXHIBIT B
Foreign Investor Representations

To: Oculus Innovative Sciences, Inc.

The information set forth in this Foreign Investor Questionnaire is being furnished to Oculus by the undersigned Purchaser in order for Oculus to determine whether such Purchaser's purchase of the Shares may be accepted in light of the requirements in Regulation S promulgated under the Securities Act, including confirmation that Purchaser is not a U.S. Person. Purchaser understands that (a) the Shares will not be registered under the Securities Act in reliance upon the exemption from registration under the Securities Act, (b) Purchaser may be required to hold the Shares indefinitely; and (c) Purchaser is required to bear the entire risk of an investment in the Shares.

Purchaser represents and warrants to Oculus that: (i) the information contained herein is complete and accurate and may be relied upon by Oculus, its officers and directors and their agents and affiliates; and (ii) Purchaser will notify Oculus immediately of any change in any of the information contained herein prior to the acceptance of Purchaser's subscription.

In accordance with the foregoing, Purchaser hereby makes and provides the following representations and information:

1 Neither Purchaser nor any person for the account of whom Purchaser is acting, including the estate of any such person, a trust of which any such person is a "U.S. Person". For purposes of this Questionnaire and the Agreement, "U.S. Person" means:

(i) Any natural person resident in the United States of America ("U.S.");

(ii) Any partnership or corporation organized or incorporated under the laws of the U.S.;

(iii) Any estate of which any executor or administrator is a U.S. Person;

(iv) Any trust of which any trustee is a U.S. Person;

(v) Any agency or branch of a foreign entity located in the U.S.;

(vi) Any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the U.S.; and

(vii) Any partnership or corporation if:

(A) Organized or incorporated under the laws of any foreign jurisdiction; and

(B) Formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as

defined in Rule 501(a) of Regulation D, promulgated under the Securities Act) who are not natural persons, estates or trusts.

2. The offer and sale of the Shares to the Purchaser has taken place outside of the U.S., its territories and possession, and Purchaser has executed the Agreement and this Questionnaire outside of the U.S.

3. The Purchaser further agrees not to make any disposition of all or any portion of the Shares to a U.S. person unless and until:

(a) Such disposition is in accordance with Regulation S promulgated under the Securities Act, or

(b) There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement, or

(c) Purchaser shall have notified Oculus of the proposed disposition and shall have furnished Oculus with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by Oculus, with an opinion of counsel, reasonably satisfactory to Oculus, that such disposition will not require registration under the Securities Act.

4. The Purchaser (and any institutional account for which Purchaser is purchasing any Shares) will not (i) offer, sell or otherwise transfer any Shares prior to the expiration of a one (1) year period commencing on the Issuance Date other than pursuant to (A) a registration statement which has been declared effective under the Securities Act, (B) an exemption from the registration requirements of the Securities Act provided by Regulation S promulgated under the Securities Act, or (C) any other exemption from the registration requirements of the Securities Act as confirmed in an opinion of counsel (such counsel being satisfactory to Oculus), or (ii) engage in any hedging transaction with respect to any Shares other than in compliance with the Securities Act. In order to effectuate the foregoing restrictions on resales and other transfers of the Shares, if any resale or other transfer is proposed to be made (other than pursuant to an effective registration statement under the Securities Act) prior to one (1) year after the Issuance Date, (1)(a) such Purchaser shall deliver to Oculus or Oculus' transfer agent a Transferor Representation Statement substantially in the form of Annex A hereto in the case of a transfer proposed to be made in compliance with Regulation S and (b) the transferee shall deliver to Oculus or Oculus' transfer agent a Transferee Representation Statement substantially in the form of Annex B hereto in the case of a transfer proposed to be made in compliance with Regulation S, or (2) such Purchaser shall provide Oculus with an opinion of counsel satisfactory to Oculus regarding the availability of another exemption from the registration requirements of the Securities Act.

IN WITNESS WHEREOF, the undersigned has executed this Foreign Investor Questionnaire on this 16 day of June, 2005.

By: Jorge Paulino Hermosillo Martín

Signature_____

Annex A

TRANSFEROR REPRESENTATION STATEMENT

Transferor:

Transferee:

The Company: Oculus Innovative Sciences, Inc.

Shares: Common Stock

Amount: 300,000 (the "Shares")

Date: _____

In connection with the transfer of the above-referenced Shares, the undersigned Transferor hereby represents and warrants to Oculus Innovative Sciences, Inc. (the "Company") that:

1. The Transferor understands that the transfer of the Shares contemplated hereby is being made pursuant to the exemption from the registration requirements of the United States Securities Act of 1933, as amended (the "Securities Act"), afforded by Regulation S under the Securities Act.

2. The Transferor has not engaged in any "directed selling efforts" (as such term is defined in Regulation S) in connection with this transfer of the Shares.

3. If the Transferor is a "distributor" (as such term is defined in Regulation S), a "dealer" (as such term is defined in Section 2(a)(12) of the Securities Act), or a person receiving a selling concession, fee or other remuneration in respect of the Shares, or the transfer of the Shares contemplated hereby is being made to a known dealer or other person receiving a selling concession, fee or other remuneration in respect of the Shares, then the Transferor has sent to the Transferee a notice to the effect that (a) the Shares can be offered and sold only in accordance with Regulation S, pursuant to a registration statement which has been declared effective under the Securities Act or pursuant to an available exemption from the registration requirements of the Secretaries Act and (b) the Transferee shall not engage in hedging transactions with respect to the Shares other than in compliance with the Securities Act.

4. If the Transferor is a director or officer of the Company or a distributor (as such term is defined in Regulation S), the Transferor affirms that he or she is an affiliate of the Company or such distributor, as the case may be, solely by virtue of such position and that no selling concession, fee or other remuneration, other than the usual or customary broker's commission, has been paid in connection with the offer or sale of the Shares.

TRANSFEROR

By _____

Name:
Title:

Annex B

TRANSFEREE REPRESENTATION STATEMENT

Transferor:

Transferee:

The Company: Oculus Innovative Sciences, Inc.

Shares: Common Stock

Amount: _____ (the "Shares")

Date: _____

In connection with the transfer of the above-referenced Shares, the undersigned Transferee hereby represents and warrants to, and agrees with, Oculus Innovative Sciences, Inc. (the "Company") that:

1. The Transferee understands that the Shares have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act"), in reliance on the exemption and/or non-exclusive safe harbor(s) from the registration requirements of the Securities Act provided by Regulation S thereunder.

2. The Transferee understands that such exemption afforded by Regulation S is only available for offers and sales of securities outside of the United States and its territories and possessions (the "US") and affirms that the offer and sale of the Shares occurred outside of the US. The Transferee further agrees that it will not (a) resell the Shares other than pursuant to a registration statement which has been declared effective under the Securities Act or an available exemption from the registration requirements of the Securities Act or (b) engage in any hedging transactions with respect to the Shares other than in compliance with the Securities Act. The Transferee understands that Regulation S is not available with respect to any transaction or series of transactions that, although in technical compliance with Regulation S, is part of a plan or scheme to evade the registration requirements of the Securities Act.

3. The Transferee is not a "U.S. person" (as such term is defined in Regulation S), nor is the Transferee acquiring the Shares for the account or benefit of a "U.S. person" (as so defined), or the Transferee has notified the Company in writing of the circumstances of the transfer contemplated hereby that qualify such transfer for an exemption from the registration requirements of the Securities Act.

4. The Transferor, not the Company, is transferring the Shares and any information the Transferee may have received in connection with the transfer contemplated hereby was provided to the Transferee by the Transferor, for the benefit of the Transferor, and not by or for the benefit of the Company. The sale of the Shares was negotiated at arm's length between the Transferor and the Transferee, without any assistance from the Company.

5. The Transferee authorizes the Company and its agents to place on each certificate evidencing the Shares a legend in the form specified below:

"The shares of Common Stock represented by this stock certificate (the "Shares") have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any other securities laws, and have been issued in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S under the Securities Act. The Shares may not be offered, sold, transferred or otherwise disposed of in the United States or to, or for the benefit or account of, any "U.S. person" (as defined in said Regulation S), other than pursuant to a registration statement which has been declared effective under the Securities Act or an available exemption from the registration requirements of the Securities Act. Hedging transactions involving the Shares may not be conducted other than in compliance with the Securities Act."

TRANSFEREE

By _____

Name:

Liabilities

Management Accounts for the period ending April 30, 2005

Exhibit 10.25

FRAMEWORK AGREEMENT entered into by Mr. Javier Orozco Gutierrez in his own right (hereinafter referred to as "JO"); Quimica Pasteur, S. de R.L., represented in this act by this legal representative, Mr. Javier Orozco Gutierrez (hereinafter referred to as "QP"); Mr. Jorge Paulino Hermosillo Martin in his own right (hereinafter referred to as "JH"); on other side Oculus Innovative Sciences, Inc., represented in this act by James Schutz (hereinafter referred to as "OIS"); and finally on other side Oculus Technologies de Mexico, S.A. de C.V., represented in this act by Mr. Everardo Garibay (hereinafter referred to as "OTM"), in accordance with the following Background, Whereas and Clauses:

BACKGROUND

I. OIS has had for several years, a commercial relationship with QP consisting in the sell of different sanitary and pharmaceutical products manufactured or commercialized by its subsidiary, OTM. Among such products there is the product called "Microcyn 60" (all the products and the Microcyn 60 hereinafter referred to as the "Products").

II. By virtue of this commercial relationship, as of this date, QP admits to owe OTM the amount of $2'949,000.00 (two million nine hundred and forty nine thousand pesos 00/100 Mexican Currency), such debt is a result of the purchase of the Products to OIS and/or OTM.

III. QP is a Limited Liability Partnership and its corporate purposes of QP includes the commercialization of several sanitary and pharmaceutical products and its main operations are focused on the selling of such products to entities of the public sector by its participation in the public bids which are convened by such entities within the national territory. QP permanently participates in such bidding processes and has become a winner in many of such bids.

IV. QP currently faces a difficult financial situation as shown in the Balance and Financial Statements recognized and known by the Parties.

V. Notwithstanding the current financial situation of QP, QP still has the possibility to participate in public bids called by the government. The Parties admit that this is partly due to the experience, knowledge and ability of JO as a senior officer of QP. In consideration and by virtue of these JO's qualities, OIS admits that JO has to remain being a manager of QP in benefit of its ongoing business and in order to increase its participation in the market of the governmental sector.

VI. As of May 5th, 2005, JH and OIS signed an Intention Letter which is the background for the execution of this Agreement. The Parties recognize that after the execution of this Agreement, the terms and conditions of such document shall not be effective.

VII. As of May 5th, 2005, JO and OIS signed an Intention Letter which is the background for the execution of this Agreement. The Parties recognize that after the execution of this Agreement, the terms and conditions of such document shall not be effective.

WHEREAS

I. JO declares by his own right:

1. That he is a Mexican individual, with the profession of business man with address at Escudo Nacional 533, telephone number 38336403 and Federal Taxpayer Registry number HEMJ720528, who is identified by the attached document marked as **Annex 1.**

2. That he is the legal owner of one partnership interest of the capital stock of QP.

3. That he currently is the General Director of QP.

4. That he has legal capacity and does not have any impediment to be obligated under the terms and conditions provided by this Agreement.

5. That he has the abilities and qualities provided in the Background of this Agreement for the selling of Products, which are the main reason for OIS to execute this Agreement.

6. That he admits and states that all the facts mentioned in the Background of this Agreement are true and accurate.

II. JH declares by his own right:

1. That he is a Mexican individual, with the profession of business man with address at Sierra Leona 1726, Colonia Independencia, Guadalajara Jalisco, telephone number 36374947 and Federal Taxpayer Registry number OOGF 700207 U01, who is identified by passport number 02140189544 **(Annex 2).**

2. That as of this date and previously to the Partners Meeting (as defined below) he is the legal owner of one partnership interest of the capital stock of QP.

3. That he has legal capacity and does not have any impediment to be obligated under the terms and conditions provided by this Agreement.

4. That he admits and states that all the facts mentioned in the Background of this Agreement are true and accurate.

III. QP declares by means of its legal representative:

1. That it is a Limited Liability Partnership duly incorporated in accordance with the Mexican laws, as shown in the public deed number 21,104, dated May 4th, 1993, granted before the Notary Public number 52 of the City of Guadalajara, Jalisco, Mexico, Mr. Fernando Manuel Ramos Arias and duly recorded before the Public Commerce Registry of the City of Guadalajara, Jalisco, México, under the mercantile sheet number 67-68, Chapter 489, First Book or the Registry of Commerce, as shown in the document attached as **Annex 3.**

2. That its legal representative has the legal power to execute this Agreement, which has not been limited, amended or revoked in any way, as shown in the document attached as **Annex 4.**

3. That its corporate purposes include the commercialization of Products.

4. That it has its address at Industria Maderera 154, CP 45130, Industrial Zapopan Norte, Zapopan, Jalisco, Mexico.

5. That it has the necessary knowledge, infrastructure, experience, permits and resources to execute this Agreement and for the fulfillment of all the obligations provided hereunder.

6. That by virtue of its commercial relationship with OIS and OTM, as stated in the Background of this Agreement, it owes OTM the amount of $2'949,000.00 (two million nine hundred and forty nine thousand pesos 00/100 Mexican Currency), which is fully recognized by it.

7. That the execution of this Agreement is necessary in order to obtain from OIS the benefits mentioned below and to be able to improve its financial situation.

8. That as of this date there are no contingencies, suits or legal proceedings against it.

IV. OIS declares by means of its legal representative:

1. That it is a company incorporated in accordance with the laws in force in United States of America under the jurisdiction of the State of California, and with its address at 1129 N. McDowell Blvd. Petaluma, CA 95864.

2. That its legal representative has the legal power to execute this Agreement, which has not been limited, amended or revoked in any way.

3. That the determinant reasons of its intention to execute this Agreement are: (i) the knowledge, infrastructure, experience, permits, authorizations and resources of QP to distribute and commercialize the Products in Mexico in public bids convened by the federal government and the local governments; (ii) the experience, knowledge and ability of JO to distribute and commercialize the Products in Mexico and particularly in public bids convened by the federal government and the local governments; and (iii) the truthfulness of the Background and the Declarations stated in this Agreement.

4. That it has acknowledged the debt between QP and OTM which has been described in the Background of this Agreement.

V. OTM declares by means of its legal representative:

1. That it is a Corporation with Variable Capital duly incorporated in accordance with the Mexican laws, as shown in the public deed number 3605, dated on April 30, 2003, acknowledged before the Public number 1 of the State of Michoacan, Mr. Armando G. Manzano Alba and duly recorded before the Public Commerce Registry of the City of Morelia, Michoacan, under number 00000041, file 00000313, as shown in the document attached as **Annex 5.**

2. That its legal representative has the legal power to execute this Agreement, which has not been limited, amended or revoked in any way, as shown in the document attached as **Annex 6.**

3. That the determinant reasons of its intention to execute this Agreement are: (i) the knowledge, infrastructure, experience, permits, authorizations and resources of QP to distribute and commercialize the Products in Mexico in public bids convened by the federal government and the local governments; (ii) the experience, knowledge and ability of JO to distribute and commercialize the Products in Mexico and particularly in public bids convened by the federal government and the local governments; and (iii) the truthfulness of the Background and the Declarations stated in this Agreement.

4. That by virtue of the abovementioned commercial relationship with QP, it is QP's creditor in the amount of $2'949,000.00 (two million nine hundred and forty nine thousand pesos 00/100 Mexican Currency), which as of this date has not been totally or partially paid.

VI. The Parties declare:

1. That they mutually recognize their personality to execute this Agreement.

2. That it is their intention to execute this Agreement and be obligated under all and each the terms provided in the Agreement.

3. That the Attachments to this Agreement are the following:

ANNEX 1. JO's Personal Identification.

ANNEX 2. JH's Personal Identification.

ANNEX 3. Articles of Incorporation of QP.

ANNEX 4. Public deed that includes the powers of attorney of the legal representative of QP.

ANNEX 5. Articles of Incorporation of OTM.

ANNEX 6. Public deed that includes the powers of attorney of the legal representative of OTM.

ANNEX 7. QP Partners Meeting Minutes.

NOW, THEREFORE the Parties agree as follows:

CLAUSES

FIRST. Purpose. The purpose of this Agreement is the description of the legal acts that the Parties agree and are obligated to execute from this date and no later than July 1st, 2005, in order to perform all the operations described therein as well as the reasons that caused the Parties to execute such legal acts (hereinafter referred to as "Legal Acts"). Such Legal Acts are:

1. Mercantile Consignment Agreement. The execution of a Mercantile Consignment Agreement which parties are OTM, as Consignor, and QP, as Consignee. The main purpose is that OTM makes the Products available to QP for their selling under the terms and conditions provided under such Agreement. The Parties recognize that this document is being drafted and reviewed by their advisors and it should be signed not later than July 1st, 2005.

2. QP Partnership Interest Purchase Option Agreement. The issuance of a Purchase Option for OIS by JO as partner of QP. As compensation for this Option, JO and JH shall receive certain shares of OIS which delivery shall be subject to the terms and conditions provided in the Stock Purchase Agreement described below. The Parties

recognize that this document is being drafted and reviewed by their advisors and it should be signed not later than July 1st, 2005.

3. OIS Stock Purchase Agreement. As compensation for the Purchase Option of the Partnership Interest described above as well as for the obligations undertaken hereunder, OIS shall transfer to JO and JH certain shares of its capital stock. As OIS is a company governed by the laws of the State of California, in the United States of America, this Agreement shall be executed and governed by the Laws of California. The Parties recognize that this document is being drafted and reviewed by their advisors and it should be signed not later than July 1st, 2005.

4. QP Partners Meeting. JO and JH agree to hold on June 17th, 2005, a QP Partners Meeting (which is attached to this Agreement as **Annex 7**), in which the following issues shall be resolved and approved:

I. Increase of the capital stock through the admission of a new partner.

II. Authorization requested by the partner Jorge Paulino Hermosillo for the assignment of his partnership interest to the partner Francisco Javier Orozco Gutierrez.

III. Appointment of the General Manager, Executive Technical Manager and of the Secretary of the Partnership, as well as the revocation and granting of powers.

IV. Appointment of the Statutory Examiner of the partnership.

V. Amendment of the bylaws.

VI. Appointment of Special Delegates to formalize the resolutions adopted during the Meeting.

SECOND. Execution of Legal Acts (hereinafter referred to as the "Closing"). The Parties agree that all the Legal Acts shall be signed and executed not later than July 1st, 2005. The foregoing except for the Partners Meeting minutes which is held on June 17th, 2005.

The Parties agree and understand that QP, JO and JH shall be liable for all the pending obligations or those liabilities acquired before June 16th, 2005, as the case may be, and hereby release OIS and/or OTM from any fiscal and legal contingency that may arise after June 16th, 2005, and they shall be obligated to carry out all the necessary actions and acts in order that OIS and/or OTM are not economically affected in their mercantile credit or in any other manner whatsoever, being obligated to keep OIS and OTM safe and harmless from any claim.

THIRD. Obligations after the Closing. The Parties agree to fulfill the following obligations after the Closing and during the term of this Agreement:

(i) To negotiate and execute all the Legal Acts as described in the First clause of this Agreement not later than July 1st, 2005.

(ii) JO, JH and QP are obligated to perform all the activities necessary to regularize the legal, accounting, fiscal, financial and operative situation of QP following the indications and instructions given by OIS and/or OTM or their external advisors (hereinafter referred to as the "Advisors"). For such purpose, JO agrees and shall be obligated to deliver all the documents, files and information of QP that are requested to him by whatever mean.

(iii) JO, JH and QP shall subscribe all the documents that are necessary, requested, drawn up, negotiated or recommended by OIS/OTM or their Advisors in accordance with the provision of item (ii) above. These documents include, but are not limited to: the signature of the QP Partners Meeting Minutes; the preparation of records and entries in the QP corporate books; the contracts, agreements and other documents that must be subscribed by QP to regularize its legal situation with respect to third parties; tax and contribution payments and their accessories, as the case may be; among others.

(iv) JO, JH and QP shall be obligated not to constitute any encumbrance, guarantee or limitation of use or ownership over any of the assets of QP, including but not limited to properties and rights acquired as of this date or in the future.

(v) JO agrees and is obligated not to constitute any encumbrance, guarantee or limitation of use or ownership over any partnership interest held by him in QP.

(vi) JO, JH and QP are obligated to serve immediate written notice to OIS and OTM in connection with any suit, claim, controversy, fine, garnishment or any legal action brought or imposed by any third party or authority to QP or to JO and JH personally.

FOURTH. QP Management. JO hereby agrees to perform such office as appointed by the Partners Meeting of QP or by the General Manager. JO shall be obligated to perform the duties assigned in QP with all his experience, know-how, ability, professionalism and diligence that OIS and OTM have recognized in him, looking at any time for the fulfillment of the corporate purposes as provided by the bylaws and in accordance with the practices and advice provided by OIS and/or OTM. Furthermore, in the performance of his duties he shall observe, at any time, the instructions received from OIS and/or OTM.

For the performance of such duties, QP shall inform JO about the employment conditions and the economic compensations that he will be paid, which shall be consistent with similar positions in other companies of the pharmaceutical industry.

Notwithstanding the abovementioned, JO admits and accepts that he may be removed from such position or be assigned to another position inside QP at the sole discretion of the General Manager or OIS (or the person appointed by it), in its quality of partner of QP.

JO admits that the provision of this clause does not create any labor or mercantile relationship with OIS and/or OTM as the only employer that he will have is QP.

FIFTH. Guarantees. JO and JH shall be liable for each and all the obligations personally assumed under this Agreement as well as for those obligations assumed by QP. This in accordance with the provisions of articles 2794 of the Civil Code for the Federal District, in the understanding that their obligation shall be joint between them and with QP and not subsidiary, which means that OIS and/or OTM may demand directly to each one of them the liability incurred by JO, JH and/or QP withdrawing to

the benefit of preference and excussion under the terms of articles 2816 section I and 2823 of the Civil Code for the Federal District.

Additionally, JO constitutes a pledge registered over the partnership interest that he holds in QP which remains in his possession, in accordance with the provisions of article 2859 of the Civil Code for the Federal District. For such purpose, JO shall request that the pledge over his partnership interest in favor of OIS and/or OTM under the terms of this Agreement, is recorded in the QP partner registration book and shall also request its recording in the Public Commerce Registry, if applicable. JO shall comply with all the provisions regarding the pledge provided by the Civil Code for the Federal District insofar such provisions are not contrary to the provisions agreed by the Parties under this Agreement.

SIXTH. Primary Agreement and Secondary Agreements. The Parties admit and accept that this Framework Agreement is the primary agreement and that the agreements described in the First Clause of this Agreement shall be secondary. As a result of that, such secondary agreements shall follow the effects of this primary Agreement except for the Partnership Interest Purchase Option Agreement which shall have a compulsory duration for the term provided therein regardless the effects of this and the other Agreements.

SEVENTH. Rescission. Any breach of the obligations assumed under this Agreement and under the Agreements described in the First Clause of this document and in accordance with the provision of the Sixth clause above, shall be considered as a condition precedent for the effectiveness of such Agreements and in such case, the affected Party shall give notice of such breach to the other Party and shall give a 10 (ten) calendar day term to remedy such breach. If the obligation is not fulfilled within the provided term, the affected Party, under the terms of article 1949 of the Civil Code for the Federal District, shall be entitled to choose between demanding the compulsory fulfillment of the not fulfilled obligation or the rescission of this Agreement with the payment of the contractual penalty provided below, in both cases, with no need of judicial intervention, by means of a simple written notice addressed to the breaching Party. The affected Party may also rescind this Agreement even after choosing the compulsory fulfillment, if such fulfillment is impossible. The fulfillment of the obligation

in accordance with this proceeding, shall cancel the right to rescind the Agreement for such cause.

EIGHTH. Duration, Anticipated Termination and Liquidated Damages. This Agreement shall have a duration of 3 (three) years from the date of its execution and it may be automatically renewed for equal periods, provided that neither of the Parties gives written notice 30 (thirty) calendar days in advance of its termination, regarding its intention to terminate such Agreement, in which case the pending obligations shall be fulfilled until de date of termination and if such obligations has to be fulfilled at any other time different from such term, the obligations shall be fulfilled at the time previously agreed.

Notwithstanding the abovementioned, OIS and/or OTM may terminate this Agreement at any time and without any responsibility by giving written notice to the other Parties with 30 (thirty) calendar days in advance, previously to the fulfillment of the pending obligations until the date of termination and if such obligations has to be fulfilled at any other time different from such term, the obligations shall be fulfilled at the time previously agreed.

In addition to the foregoing, in case that JO, JH and/or QP desire to terminate this Agreement before its term, they shall pay OIS and OTM, as liquidated damages, the amount equivalent to one year of gross profits of OTM for the sale of the Products to QP during the year before the termination. In case that the termination occurs before one year of effectiveness of this Agreement, such amount shall be the average of the effective months multiplied by 12 (twelve). These liquidated damages shall be also applicable if this Agreement is rescind by breach of any obligation in accordance with the provisions of clause Seventh of this Agreement.

NINTH. Notices. All the notices, notifications and other communications that in connection with this Agreement are required to be made among the Parties, shall be made in writing and delivered at the addresses stated by each Party in the Whereas of this Agreement.

The Parties agree and admit that any notice or communication shall be valid and may be made: (i) personally; (ii) by means of a specialized or particular courier service; (iii)

by certified mail; (iv) by facsimile, e-mail or any electronic means and/or (v) by means of notary public or mercantile notary public. In any case, such notice shall be deemed to have been delivered since its reception and a return receipt of the legal representative or the factors, dependent persons, agents or employees of the notified Party shall be required. Such return receipt may be recorded in physical or electronic means. In case of notices given through notary public or mercantile notary public, such return receipt shall not be necessary.

If the Parties did not give written notice for the change of their respective addresses, all the notices shall be deemed to be duly given at the addresses stated hereunder and shall be fully effective.

TENTH. Relationship between the Parties. The Parties accept that the contractual relationship arising out of this Agreement has a mercantile nature and does not constitute in any way a mercantile or civil partnership or a Joint Venture. In such virtue, the Parties admit that the relationship between them as a result of this Agreement does not create a labor relationship between them, nor between a Party and the employees, factors, dependents, agents, representatives, commissioners and subcontractors of the other Party. Furthermore, each Party, as employer of the personnel involved with the execution of this Agreement, shall be the only liable for the obligations arising from the legal provisions and other applicable labor and social security regulations regarding such personnel, and the Parties agree that they will not have any civil, mercantile, labor, fiscal or any other liability with respect to the employees, agents, representatives, commissioners or subcontractors of such Party. Additionally, the Parties hereby agree to keep safe and harmless from any labor, civil, mercantile, criminal, fiscal or administrative contingency, claim, proceeding, suite or trials, arising from the relationship they have with such personnel, employees, factors, dependents, agents, representatives, commissioners, subcontractors, suppliers or any other third party.

ELEVENTH. Assignment. Except for the cases provided in this Agreement, any of the Parties shall not be able to assign or transmit in any manner whatsoever, totally or partially, the rights and obligations undertaken by this Agreement in favor of any person, without the previous written consent of the other Parties.

TWELFTH. Intellectual Property. OIS and/or OTM are the only holders of their direct or indirect intellectual and industrial property rights, including those arising from the Products; the use by any of the Parties of this Agreement of any of the trademarks, designs, trade names, industrial signs, industrial secrets and in general, any intellectual or industrial property right, of which OIS and/or OTM is the holder, shall be previously authorized in writing by such Party. The breach of the provision of this clause shall constitute a violation of the intellectual property rights held by OIS and/or OTM and shall cause the payment of a compensation for damages and losses sustained by the affected Party as well as the cancellation of this Agreement and the entitlement to sue the contractual penalties that may be applicable.

THIRTEENTH. Authorizations and Licenses. Each Party shall be responsible for obtaining from the federal and/or local authorities, the applicable permits, authorizations and licenses which are necessary for the execution of this Agreement.

FOURTEENTH. Exclusiveness. During the term of this Agreement and during 3 (three) years after its termination for whatever cause, JO and/or QP shall be obligated not to contract by them or through third parties, whether for their own benefit or for any company directly or indirectly related to them or any of its relatives in any grade, the acquisition, sale or commercialization of the Products for their sell to any third party. Additionally, they shall be obligated not to compete with the operations of OIS and OTM in Mexico. OIS and or OTM may sell or commercialize the Products directly with third parties.

FIFTEENTH. Language. This document is executed in both English and Spanish. The Parties agree that in case of controversy between the English and Spanish, the English version shall control.

SIXTEENTH. Applicable Law and Jurisdiction. For the interpretation, competence, enforceability and effectiveness of this Agreement, as well as the documents arising out of it, the Parties shall be expressly subject to the laws and Courts of Mexico City, Federal District, waiving any other jurisdiction that may correspond to them by virtue of their current or future addresses, or by any other reason.

However, in connection with the Stock Purchase Agreement described in the First Clause of this Agreement, the applicable laws and jurisdiction shall be those therein provided.

Agreeing in the content and the scope of this Framework Agreement, the Parties sign it in fivefold on this 16th day of June, 2005, each party keeping a copy of such Agreement.

/s/ Jim Schutz

Oculus Innovative Sciences, Inc.,

represented by James Schutz

/s/ Francisco Javier Orozco Gutiérrez

Francisco Javier Orozco Gutiérrez
By its own right

/s/ Everardo Garibay

Oculus Technologies de México, S.A. de C.V.,
represented by Everardo Garibay

/s/ Francisco Javier Orozco Gutiérrez

Química Pasteur, S. de R.L. de C.V., Represented by
Francisco Javier Orozco Gutiérrez

/s/ Jorge Paulino Hermosillo Martín

Jorge Paulino Hermosillo Martín
By its own right

Exhibit 10.26

MERCANTILE CONSIGNMENT AGREEMENT entered into by Oculus Technologies de Mexico, S.A. de C.V., as Consignor, hereby represented by Everardo Garibay (hereinafter referred to as "OTM"); and on other side by Quimica Pasteur, S. de R. L., as Consignee, represented by Javier Orozco Gutierrez (hereinafter referred to as "QP"); and on the other side by Mr. Francisco Javier Orozco Gutierrez, acting on his own behalf as "Surety" (hereinafter indistinctively referred to as "Surety" or "JO"), in accordance with the following Background, Declarations and Clauses.

BACKGROUND

I. On June 16th, 2005, the Framework Agreement (hereinafter referred to as "Framework Agreement") was entered into by the Surety (referred to in the Framework Agreement as "JO"); QP; Mr. Jorge Paulino Hermosillo Martin (referred to in the Framework Agreement as "JH"); OTM; and Oculus Innovative Sciences, Inc. (referred to in the Framework Agreement as "OIS"). This Framework Agreement describes the Background and the Declarations that have cause the Parties to execute this Mercantile Consignment Agreement.

II. That the Framework Agreement provides in its First Clause a series of Legal Acts that the Parties have been obligated to execute not later than July 1st, 2005. One of such Legal Acts is the execution of this Mercantile Consignment Agreement.

WHEREAS

I. OTM declares by means of its legal representative:

1. That the Background and the Declarations provided in the Framework Agreement shall be deemed to be expressed and inserted hereunder whenever they are applicable.

2. That its corporate purposes include the manufacture and commercialization of the Products (as such term is defined in the Framework Agreement).

3. That it is its desire and intention to execute this Mercantile Consignment Agreement for the distribution and sale within the national territory.

II. QP declares by means of its legal representative:

1. That the Background and the Declarations provided in the Framework Agreement shall be deemed to be expressed and inserted hereunder whenever they are applicable.

2. That its corporate purposes include the distribution and commercialization of all kinds of sanitary and pharmaceutical products within the Mexican Republic and before the execution of this Agreement it has commercialized Products manufactured by OTM, specially the product called “Microcyn 60”.

3. That as of this date, QP owes OTM the amount of $2,949,000.00 (two million nine hundread and forty nine thousand pesos 00/100 Mexican Currency), such debt arising out of the purchase of the Products to OIS and/or OTM (hereinafter referred to as “Recognized Debt”).

III. JO declares by his own right:

1. That the Background and the Declarations provided in the Framework Agreement shall be deemed to be expressed and inserted hereunder whenever they are applicable.

2. That he has legal capacity and he has no legal impediment to be obligated under the terms and conditions provided in this Agreement.

3. That as Surety of QP, he has offered OTM to guarantee the payment of the Recognized Debt as well as the payment of any other amount that QP owes OTM currently or in the future by virtue of this Agreement.

4. That he admits and states that all the facts mentioned in the Background of this Agreement are true and accurate.

IV. The Parties declare:

1. That they mutually recognize their personality for the execution of this Agreement.

2. That it is their intention to execute this Agreement and be obligated in each and all the terms provided hereunder.

3. That they acknowledge that the Background and Declarations provided under the Framework Agreement are deemed to be inserted whenever they are applicable.

NOW, THEREFORE the Parties agree as follows:

CLAUSES

FIRST. Purpose of the Agreement. By virtue of this Agreement and in accordance with article 392 of the Commerce Code, OTM, as Consignor, transmits and will transmit from time to time, the availability and not the ownership of the Products to QP, in order that QP pays a price for such Products once they have been sold during the term of this Agreement, or in order that such Products are returned to OTM by QP in case they are not sold within such term.

SECOND. Operation of the Consignment. The consignment and the selling of the Products under this Agreement shall be carried out as described below:

1. QP shall participate and offer the Products in the public bids, restricted invitations or acquisitions that are called by the different institutions, hospitals, clinics or entities of the public sector, whether they belong to the Federal Government or to any local government within the national territory. Hereinafter such institutions, hospitals, clinics or governmental entities shall be severally called "Governmental Clients".

2. QP shall inform to OTM every two weeks about all and each of the bids, restricted invitations or acquisitions called by the Governmental Clients and shall be obligated to participate in such proceedings, unless OTM instructs otherwise. This bi-weekly report shall include, at least, the number of Products that the Governmental Client requires in

the corresponding call as well as the terms and conditions of such call. In case it is necessary, OTM shall confirm the availability of the Products for such purposes.

3. The Parties shall agree the price of the Products that will be offered to the Governmental Clients in order to have such price included in the economic offer filed in accordance with the rules of the corresponding bid.

4. In case that QP does not win an acquisition process issued by the Governmental Clients in which it participates, QP agrees and shall be obligated to file, on his own cost, all the administrative and judicial resources and proceedings to challenge the resolutions of the Governmental Clients. The aforementioned provided that QP has been authorized by OTM as OTM shall be entitled to assess the convenience of filling such resources or proceedings.

5. OTM shall make the Products available to QP at the storages or establishments of QP or at the storages or establishments of OTM, at the option of OTM, and as it is more convenient in order to deliver the Products to the purchaser as per the terms of the sell carried out by QP.

6. The transportation of the Products and delivery expenses to the storages or establishments of QP shall be paid by OTM. The transportation of the Products and delivery expenses to the Governmental Clients shall be paid by QP.

7. QP shall not dispose of the Products other than for those purposes hereunder provided, even when such Products have not been sold.

8. QP is obligated to perform all the acts necessary for the conservation of the Products and the rights related to them. Notwithstanding, it is understood and agreed by the Parties that all the necessary expenses to comply with the obligation herein provided shall be paid by QP, and the Parties agree to waive to the provision included in the second paragraph of the section IV of the article 393 of the Commerce Code.

9. In view of the fact that the Products are actually delivered by OTM to QP, the risks of the Product shall be transmitted to QP.

10. Promotion and advertising of the Products shall be at QP's expense. Promotion and Advertisement of the Products should be made with the prior approval of OTM.

THIRD. Payment to OTM of the sold Products. Once the Products have been sold or a contract has been awarded by a Governmental Client to QP, OTM shall invoice the price of the Products to QP deducting the compensation of QP as provided by Clause Fourth of this Agreement. QP shall pay such invoice within 5 (five) calendar days following the reception of such invoice. The invoice issued by OTM shall comply with all the applicable tax requirements.

The payment shall be made by check or bank transfer as per the instructions received by QP from OTM. If QP fails to pay the amount of the corresponding invoice within the term provided in the preceding paragraph, QP shall pay OTM late payment interests equivalent to the Average Fund Rising Cost Percentage or any other that replaces it, plus 2 (two) points, for all the time of delay and OTM shall be entitled to suspend the availability of Products without any previous judicial declaration or penalty, while the amount of the corresponding invoice remains unpaid.

The Parties agree that the payments received by QP for the selling of the Products shall be deposited in any of the bank accounts provided by OTM for such purpose.

In addition to the aforementioned, the provisions of the second and third paragraphs of Section IV of the article 393 of the Commerce Code shall be applicable.

FOURTH. Consignee's Compensation. In accordance with the terms of the first paragraph of the section III of the article 393 of the Commerce Code, the Parties agree that QP shall receive a compensation to be agreed by the Parties from time to time over the selling price of the Products and QP shall receive such percentage directly from the amount received as payment for the sold Products. This compensation shall only and exclusively be earned for the sold Products and over the paid price, consequently, no compensation will be due to QP for the only reason of executing this Agreement. Furthermore, the provision included in the second paragraph of section III of the article 393 of the Commerce Code shall not be applicable.

The Parties agree that a portion of the revenue derived from the sales of the Products will be credited to payoff liabilities acquired by QP with vendors before the execution of this Contract. This amount will be adjusted by OTM accordingly.

FIFTH. Effects of the Termination of the Agreement. Additionally to the effects for the termination provided by the Framework Agreement, in case of termination of this Agreement for whatever cause, the Products that have been made available to QP and that at the date of termination have not been sold, shall be returned to OTM within the following 5 (five) working days. The Products shall be delivered at the storage or establishment determined by OTM and the cost of such delivery shall be paid by QP. QP shall not be entitled to receive any compensation for such Products.

SIXTH. Exclusiveness and Non Compete. By virtue of this Agreement, QP shall be obligated to sell and commercialize the Products exclusively; QP shall not be able to sell or commercialize any other sanitary or pharmaceutical product or acquire the Products or any other product from a person other than OTM. Additionally, QP shall be obligated not to contract by its own or through third parties, whether for its own benefit or for any company directly or indirectly related to QP, JO or JH, or any of its relatives in any grade, the acquisition of the Products for their selling to any third party, including the Governmental Clients.

Unless OTM has given an express and written authorization, the Products shall be sold or commercialized only and exclusively to Governmental Clients.

On the other hand, OTM shall be able to commercialize the Products to any person in Mexico and QP shall be obligated to inform OTM, at any time, about any potential client interested in the purchase or distribution of the Products. QP shall also be obligated not to compete with OTM in any sale, commercialization or distribution carried out by OTM to Governmental Clients when OTM decides to carry out such sale on its own or through any third party.

SEVENTH. Guarantee. JO shall be liable for each and all the obligations assumed by QP under this Agreement, in accordance with the provisions of articles 2794 of the Civil Code for the Federal District, in the understanding that their obligation shall be joint with QP and not subsidiary, which means that OTM may demand directly to JO the

liability incurred by QP withdrawing to the benefit of preference and excussion under the terms of articles 2816 section I and 2823 of the Civil Code for the Federal District.

EIGHTH. Application of the Framework Agreement. The Parties acknowledge and accept that all the provisions of the Framework Agreement shall be applicable to this Agreement unless there is a specific provision in this Agreement. In case of controversy, the provisions of the Framework Agreement shall prevail. In a declarative way, but not limited, the following clauses of the Framework Agreement shall be applicable to this Agreement: Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth and Sixteenth, which are deemed to have been inserted hereunder.

IN WITNESS WHEREOF about the content and the scope of this Consignment Agreement, the Parties sign it on June 16th, 2005, each party keeping an original.

/s/ Everardo Garibay

Oculus Technologies de Mexico, S.A. de C.V. Represented by Everardo Garibay

/s/ Francisco Javier Orozco Gutiérrez

Quimica Pasteur, S. de R.L. de C.V. Represented by Francisco Javier Orozco Gutiérrez

/s/ Francisco Javier Orozco Gutiérrez

Francisco Javier Orozco Gutiérrez as Surety

Exhibit 10.27

PARTNERSHIP INTEREST PURCHASE OPTION AGREEMENT entered into by Oculus Innovative Sciences, Inc., hereby represented by James Schutz (hereinafter referred to as "OIS") and on the other side by Mr. Javier Orozco Gutierrez on his own right (hereinafter referred to as "JO"), under the following Background, Declarations and Clauses:

BACKGROUND

I. On June 16th, 2005, a Framework Agreement (hereinafter referred to as "Framework Agreement") was entered into by Quimica Pasteur, S. de R.L. (referred to under the Framework Agreement as "QP"); JO; Mr. Jorge Paulino Hermosillo Martin (referred to under the Framework Agreement as "JH"); Oculus Technologies de Mexico, S.A. de C.V. (referred to under the Framework Agreement as "OTM"); and OIS. This Framework Agreement describes the Background and the Declarations that have cause the Parties to execute this Partnership Interest Purchase Option Agreement.

II. That the Framework Agreement provides in its First Clause a series of Legal Acts that the Parties have been obligated to execute not later than July 1st, 2005. One of such Legal Acts is the execution of this Partnership Interest Purchase Option Agreement.

WHEREAS

I. OIS declares:

1. That the Background and the Declarations provided in the Framework Agreement shall be deemed to be expressed and inserted hereunder whenever they are applicable.

2. That it is its desire and intention to execute this Partnership Interest Purchase Option Agreement.

3. That it is its intention to receive from JO the rights provided by this Agreement.

II. JO declares:

1. That the Background and the Declarations provided in the Framework Agreement shall be deemed to be expressed and inserted hereunder whenever they are applicable.

2. That he has legal capacity and he has no legal impediment to be obligated under the terms and conditions provided in this Agreement.

3. That on June 17, 2005, it will be held a Partners Meeting of QP wherein, among other resolutions, it will be resolved that the partnership interest of JO will represent 99.75% of the capital stock of QP (hereinafter referred to as "Partnership Interest"), over which he wishes to grant an option right in order that it can be further acquired by QIS or the person appointed by it in accordance with the provisions of the Framework Agreement.

4. That he does not need any authorization to execute this Agreement other than the requirements provided by the bylaws for the assignment of a partnership interest which shall be observed at the time OIS decides to execute this option.

5. That the Partnership Interest is not encumbered and it is not subject to any contingency or controversy.

III. Both Parties declare:

1. That they mutually recognize their personality for the execution of this Agreement.

2. That it is their intention to execute this Agreement and to be obligated in each and all the terms provided hereunder.

3. That they acknowledge that the Background and Declarations provided under the Framework Agreement are deemed to be inserted whenever they are applicable.

NOW, THEREFORE the Parties agree as follows:

CLAUSES

FIRST. Purpose. By virtue of this Agreement and based on the provisions of article 1860 and subsequent articles of the Civil Code for the Federal District, by means of this Agreement JO declares that it is his intention to offer OIS, or the individual or entity appointed by it, the option to become a partner of QP through the acquisition of the Partnership Interest described in the Declarations of this Agreement (hereinafter referred to as the "Option").

SECOND. Compensation. As compensation for the Option, OIS shall transfer shares of its capital stock to JO. Due to the fact that OIS is an entity incorporated and governed by the laws of the State of California, in the United States of America, the Parties agree to execute the document called "Stock Purchase Agreement" as provided by the Framework Agreement which provides the terms and conditions of the compensation that JO will receive for the execution of this Agreement.

Notwithstanding the aforementioned, JO authorizes OIS to deduce and retain the OIS's shares that are equivalent to any amount that JO and/or QP owe OIS and/or OTM, in their quality of bondsman of QP and in accordance with the Framework Agreement.

THIRD. Obligations of JO in connection with the Option. JO agrees and is obligated to:

1. Within 5 (five) working days after the execution of this Agreement, JO shall request the recording of this Option in the QP partners' record book and shall verify that such recording is performed in OIS satisfaction.

2. Not to perform any corporate amendment that alters the nominal value of the Partnership Interest;

3. Carry on all the necessary corporate acts and come to a Notary Public selected by OIS to formalize its incorporation as partner of QP in case the Option was exercised;

4. Not to invite or allow that any third party, by whatever mean, becomes a partner of the Company without the previous written authorization of OIS;

5. Execute contracts, agreements, letters, meetings and any other document that is necessary to legally prove the incorporation of OIS as a partner of QP.

6. Not to perform or allow the performance of any act that directly or indirectly affects or may affect the exercise of the Option, including without limiting to the amendment of the bylaws of QP, or the constitution of any encumbrance or contingency over QP or over the Partnership Interest owned by JO in QP.

7. Not to perform or allow the performance of any act or action that may affect the value of the Partnership Interest or of QP.

FOURTH. Term. The Option provided hereunder shall be deemed to be obligatory for JO until the 23:59 hours of june 16, 2010.

FIFTH. Exercise of the Option. In case OIS decides to exercise the Option, OIS shall give notice to JO providing its intention of making this Option effective. OIS may appoint an individual or an entity to acquire the Partnership Interest. Once the notice has been received, JO shall give notice to the Company's Secretary in order that he performs all the necessary acts for such purpose. JO is obligated to subscribe all the necessary documents in order that OIS becomes a partner of QP and the holder of the Partnership Interest.

SIXTH. Liquidated Damages. If JO breached any of the obligations assumed under this Agreement, he shall pay OIS the equivalent amount to the value of the OIS shares provided as compensation under the Second Clause of this Agreement. The value of such shares shall be the market value at the time JO receives from OIS the breach notice.

SEVENTH. Applicability of the Framework Agreement. The Parties acknowledge and accept that all the provisions of the Framework Agreement shall be applicable to this Agreement unless there is a specific provision in this Agreement. In case of controversy, the provisions of the Framework Agreement shall prevail. In a declarative way, but not limited, the following clauses of the Framework Agreement shall be applicable to this Agreement: Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth,

Thirteenth, Fourteenth, Fifteenth and Sixteenth, which are deemed to have been inserted hereunder.

IN WITNESS WHEREOF about the content and the scope of this Framework Agreement, the Parties sign it on June 16th, 2005, each party keeping an original.

/s/ Jim Schutz	/s/ Francisco Javier Orozco Gutiérrez
Oculus Innovative Sciences, Inc. Represented by: James Schutz	Francisco Javier Orozco Gutiérrez

Exhibit 10.28

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

NUMBER 16,243 SIXTEEN THOUSAND TWO HUNDRED AND FORTY THREE

VOLUME FIFTY FIVE. BOOK SIX.

In Guadalajara, Jalisco, on the 28th of January, 2006.

The undersigned ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public's Office No. 42 (forty two) of Zapopan, Jalisco, acting under a Notarial Association Agreement [Convenio de Asociación Notarial] with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law [Ley del Notariado] in effect, AUTHENTICATES the Certification of Facts Statement [Acta de Certificación de Hechos] issued at 18:30 hours on February 24 2006, at the request of Mr. EVERARDO GARIBAY RAMIREZ, acting as the Unauthorized Agent of the company known as Oculus Innovate Sciences, Inc. as the Legal Representative of the Company Oculus Technologies of Mexico, a Variable Capital Corporation [Sociedad Anónima de Capital Variable *or* S.A. de C.V.], a subsidiary of the US Company Oculus Innovative Sciences, Inc. The undersigned Notary hereby appeared, legally, together with the requesting party, at the Business Center, Salón Brasil, of the Hilton Hotel located at Avenida de las Rosas No. 2933 Colonia Rinconada del Bosque, in Guadalajara, Jalisco; in order to verify, as factual, the issuance, to JORGE PAULINO HERMOSILLO MARTÍN, of three letters informing him of the termination of various agreements, and which issuance ended at 19:30 hours on the date mentioned above, with all the formalities indicated under Law, requesting the Authentication of the same, and the transcription of the actions taken place.

The same is solely signed and authorized by the undersigned Notary Public in virtue of the fact that the document has already been signed by the requesting party, at 10:30 on February 28 2006. I hereby certify.

Signature of MR. ALFONSO CHACÓN ROBLES. The authorizing seal.

MATERIAL ACTIONS OF THIS AUTHENTICATION

In Guadalajara, Jalisco, at 18:30 on February 24 2006, the undersigned ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, appeared at the Business Center of Salón Brasil of the Hotel Hilton located at Avenida de las Rosas No. 2933, Colonia Rinconada del Bosque in Guadalajara Jalisco, at the request of Mr. EVERARDO GARIBAY RAMIREZ, who declares to be Mexican, of the age of majority, married, a Certified Public Accountant, domiciled at Calle Industria Vidriera No. 81, Colonia Industrial Zapopan Norte, in Zapopan Jalisco, born on February 10 1973 in Mexico City, Federal District, and who identifies himself by means of Voter's Identification Card [Credencial para Votar], with a photograph, file no. 82249652, and Voter's Identification Number [Clave de Elector] GRRMEV73021009H700, issued by the Federal Electoral Institute [Instituto Federal Electoral], photocopy of which, duly certified by the undersigned, I add to the Documentation Book of this Volume under the corresponding number, and who states that he appears as the Unauthorized Agent of the company known as Oculus Innovate Sciences, Inc. and as the Administrative and Finance Director and Legal Representative of the company known as Oculus Technologies of

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Mexico, S.A. de C.V., a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., declaring, under an oath to declare truthfully in accordance with Article 84, second paragraph, of the Notarial Law in effect, that he appears in representation of such company with the necessary legal capacity and that the authorities with which he appears have not been revoked or limited in any way, which he evidences to me by means of the first official transcript of Public Deed No. 95370 dated November 30 2005,certified by Notary Public Francisco Javier Arce Gargollo, Notary Public No. 74 of the Federal District, containing the Authentication of the Minutes of the General Ordinary and Extraordinary Shareholders' Meeting of the company known as "OCULUS TECHNOLOGIES OF MEXICO", a Variable Capital Corporation, in which, among other things, the following powers were granted: the Granting of a General Power of Attorney for Lawsuits and Collections, Administrative Actions, Execution and Granting of Credit Instruments, a Special Power for Administrative Actions with respect to Labor Matters, and the power to grant and revoke Powers of Attorney. These powers were granted to Mr. EVERARDO GARIBAY RAMIREZ, and such public deed was duly recorded under **Electronic Mercantile File No. 6970*1 of the Public Registry of Commerce [Registro Público de Comercio] of Morelia, Michoacan,** and I, the Notary, hereby certify that I personally saw the above document, which consisted of 25 pages, photocopy of which, duly certified by the undersigned, I attach to the Documentation Book of this Volume under the corresponding number and I declare that today, at 18:30 hours, I had a meeting scheduled with Mr. JORGE PAULINO HERMOSILLO MARTÍN at the address mentioned above, and taking advantage of the presence of such person, the appearance by the undersigned was requested for the issuance of the three letters which were shown to me, consisting of three pages, originals and copies, which report the following information:

The will of Oculus Innovative Sciences, Inc., to terminate the following agreements:

Stock Purchase Agreement executed between Javier Orozco Gutierrez, Química Pasteur, Limited Liability Company [Sociedad de Responsabilidad Limitada *or* S. de R.L.], Jorge Paulino Hermosillo Martín and Oculus Innovative Sciences, Inc.

Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, Limited Liability Company, Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences, Inc., and Oculus Technologies of México, a Variable Capital Corporation.

The will of Oculus Technologies of Mexico, a Variable Capital Corporation, to terminate the following agreement:

Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, a Limited Liability Company, Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, a Variable Capital Company.

Furthermore, as of this moment, in order to easily identify the person upon whom notice is to be served, the requesting party shows me the cover page of a brochure with a picture of Mr. Jorge Paulino Hermosillo Martín, dressed in *charro* attire and atop a horse, which I add as an integral part of this deed to the Documentation Book of this Volume under the corresponding number.

Once the undersigned Notary Public and the requesting party arrived at the above-cited address, Mr. Jorge Paulino Hermosillo Martín was already present, and he identified himself as

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ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

the person appearing on the brochure mentioned above, accompanied by a person he claimed to be his father as well as another person he claimed to be his Attorney. It is hereby evidenced that Mr. Everardo Garibay Ramírez told Mr. Hermosillo that the purpose of the meeting was to inform him that it was the will of Oculus Innovative Sciences, Inc. to terminate the following agreements: Stock Purchase Agreement executed by and between Javier Orozco Gutierrez, Química Pasteur, a Limited Liability Company, Jorge Paulino Hermosillo Martín and Oculus Innovative Sciences, Inc. and the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, Limited Liability Company, Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences, Inc., and Oculus Technologies of México, a Variable Capital Corporation. It is also the will of Oculus Technologies of Mexico, a Variable Capital Corporation, to terminate the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, a Limited Liability Company, Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, a Variable Capital Company. The three persons declared that they did not agree with this, and presented various arguments but which they were duly informed and notified, under the terms of the letters mentioned above, and thereafter the undersigned delivered such three letters, and they refused to receive them, and they were warned that notwithstanding their refusal, they have been duly notified of the will of the companies Oculus Innovative Sciences Inc. and Oculus Technologies of México, a Variable Capital Company. Thereafter, the undersigned proceeded to keep a copy of the above cited letters for the legal effects and purposes that may be necessary, which I attach as an integral part of the same, to the Documentation Book of this Volume under the corresponding number.

Therefore the undersigned Notary hereby concludes the actions hereunder at 19:30 hours on the date mentioned above, and Mr. EVERARDO GARIBAY RAMÍREZ, together with the undersigned Notary, signed it.

Signature of Mr. EVERARDO GARIBAY RAMÍREZ. Signature of Mr. ALFONSO CHACÓN ROBLES. The Authorizing Seal.

The undersigned Notary Public hereby certifies and evidences that the authenticated deed is a faithful copy of the original that I saw.

FINAL NOTE

Under numbers 2725 to 2730 inclusive, I add to the Documentation book of this Volume a Duplicate of the Notice given to the Files Director of Public Instruments of the State, a receipt for the payment of the taxes corresponding to Legal businesses in the amount of $90.00. Authenticated Instrument, Authority, Letters, Identification and brochure.

SINCE ALL OF THE REQUIREMENTS PROVIDED UNDER ARTICLE 124 OF THE NOTARIAL LAW IN EFFECT HAVE BEEN SATISFIED, IN COMPLIANCE WITH THIS PROVISION I HEREBY ISSUE THIS FIRST OFFICIAL TRANSCRIPT CONSISTING OF TWO PAGES FOR THE REQUESTING PARTY, **MR. EVERARDO GARIBAY RAMIREZ,** AS THE UNAUTHORIZED AGENT OF THE COMPANY KNOWN AS OCULUS INNOVATIVE SCIENCES, INC. AND AS THE ADMINISTRATIVE AND FINANCE DIRECTOR AND LEGAL REPRESENTATIVE OF THE COMPANY OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

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ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

IT IS HEREBY COMPARED AND CORRECTED.

GUADALAJARA, JALISCO, FEBRUARY 28 2006.

JALISCO

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Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

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PROGRESO SUR NO. 445 GUADALAJARA JALISCO, TEL. AND FAX 3825-4712, 38250508, 3825-0539
Notaria3zap@megared.net.mx

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

February 24 2006

Jorge Paulino Hermosillo Martín
Sierra Leona 1726
Guadalajara, Jalisco

RE: Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.v.

Dear Mr. Hermosillo:

I make reference to the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V., dated June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under the second paragraph of clause eight of the Master Agreement described under the above paragraph, I give you notice that it is the will of Oculus Innovative Sciences, Inc. to terminate the above-mentioned Agreement.

For such effects, and in accordance with the clause mentioned above, this notice is issued 30 days prior to the date on which the party I represent wishes the termination of the above-mentioned agreement to take effect.

Sincerely,

/s/ Jim Schutz

James Schutz
Attorney in Fact
Oculus Innovative Sciences, Inc.

[Stamped on the right side: COMPARED and illegible signature]

PROGRESO SUR NO. 445 GUADALAJARA JALISCO, TEL. AND FAX 3825-4712, 38250508, 3825-0539
Notaria3zap@megared.net.mx

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43 (Forty Three), second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized Agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, a Variable Capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

Illegible signature

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

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MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

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Letterhead of

OCULUS
Innovative Sciences

February 24 2006

Jorge Paulino Hermosillo Martín
Sierra Leona 1726
Guadalajara, Jalisco

RE: Stock Purchase Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín and Oculus Innovative Sciences Inc.

Dear Mr. Hermosillo:

I make reference to the Stock Purchase Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín and Oculus Innovative Sciences Inc., dated June 16 2005 as well as the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. on June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under Clauses 7.1 and 8.3 of the Stock Purchase Agreement and with respect to the same, the right conferred under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Innovative Sciences, Inc. to terminate the above-mentioned Agreement.

Sincerely,

/s/ Jim Schutz

James Schutz
Attorney in Fact
Oculus Innovative Sciences, Inc.

[Stamped on the right side: COMPARED and illegible signature]

PROGRESO SUR NO. 445 GUADALAJARA JALISCO, TEL. AND FAX 3825-4712, 38250508, 3825-0539
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MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

Illegible signature

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

PROGRESO SUR NO. 445 GUADALAJARA JALISCO, TEL. AND FAX 3825-4712, 38250508, 3825-0539
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MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

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ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

Guadalajara, Jalisco, February 24 2006

Jorge Paulino Hermosillo Martín
Sierra Leona 1726
Guadalajara, Jalisco

RE: Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V.

Dear Mr. Hermosillo:

I make reference to the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. dated June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Technologies of México, S.A. de C.V., to terminate the above-mentioned Agreement.

For such effects, and in accordance with the clause mentioned above, this notice is issued 30 days prior to the date on which the party I represent wishes the termination of the above-mentioned agreement to take effect.

Sincerely,

/s/ Everardo Garibay Ramírez

Everardo Garibay Ramírez
Attorney in Fact
Oculus Technologies of México, S.A. de C.V.

[Stamped on the right side: COMPARED and illegible signature]

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Notaria3zap@megared.net.mx

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

JALISCO *Illegible signature*

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

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EXHIBIT 10.29

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

NUMBER 16,242 SIXTEEN THOUSAND TWO HUNDRED AND FORTY TWO.

VOLUME FIFTY FIVE. **BOOK SIX.**

In the City of Guadalajara, Jalisco, on January 28 2006. The undersigned ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public's Office No. 42 (forty two) of Zapopan, Jalisco, acting under a Notarial Association Agreement [Convenio de Asociación Notarial] with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law [Ley del Notariado] in effect, AUTHENTICATES the Certification of Facts Statement [Acta de Certificación de Hechos] issued at 16:00 hours on February 24 2006, at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized Agent of the Company known as Oculus Innovate Sciences, Inc. and as the Legal Representative of the Company Oculus Technologies of Mexico, a Variable Capital Corporation [Sociedad Anónima de Capital Variable *or* S.A. de C.V.] a subsidiary of the US Company Oculus Innovative Sciences, Inc. The undersigned Notary Public appeared legally together with the requesting party at the Business Center of Salón Brasil of the Hilton Hotel located at Avenida de las Rosas no. 2933, Colonia Rinconada del Bosque in Guadalajara, Jalisco, in order to certify, in fact, the issuance made to FRANCISCO JAVIER OROZCO GUTIERREZ, representing himself and acting as the Legal Representative of the Company known as Química Pasteur, a Limited Liability Corporation [Sociedad de Responsabilidad Limitada *or* S. de R.L.], of 11 letters informing him of the termination of various agreements, two reports and one resignation, which act ended at 17:00 hours on the date mentioned above, with all the formalities indicated under law, requesting the Authentication of the same, and the transcription of the actions taken place.

The same is solely signed and authorized by the undersigned Notary Public in virtue of the fact that the document has already been signed by the requesting party, at 10:15 on February 28 2006. I hereby certify.

Signature of MR. ALFONSO CHACÓN ROBLES. The authorizing seal.

MATERIAL ACTIONS OF THIS AUTHENTICATION

In the City of Guadalajara, Jalisco, at 16:00 hours of February 24 2006, the undersigned ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public's Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, appeared at the Business Center of Salón Brasil of the Hilton Hotel located at Avenida de las Rosas 2933, Colonia Rinconada del Bosque, in Guadalajara, Jalisco, at the request of EVERARDO GARIBAY RAMIREZ, who declares to be Mexican, of the age of majority, married, a Certified Public Accountant, domiciled at Calle Industria Vidriera No. 81, Colonia Industrial Zapopan Norte, in Zapopan Jalisco, born on February 10 1973 in Mexico City, Federal District, and who identifies himself by means of Voter's Identification Card [Credencial para Votar], with a photograph, file no. 82249652, and Voter's Identification Number [Clave de Elector] GRRMEV73021009H700, issued by the Federal Electoral Institute [Instituto Federal Electoral], photocopy of which, duly certified by the undersigned, I add to the Documentation Book of this Volume under the corresponding number, and who states that he appears as the Unauthorized Agent of the company known as Oculus Innovate Sciences, Inc. and as the Legal Representative of the company known as Oculus Technologies of Mexico, S.A. de C.V., a

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

subsidiary of the US Company known as Oculus Innovative Sciences, Inc., declaring, under an oath to declare truthfully in accordance with Article 84, second paragraph, of the Notarial Law in effect, that he appears in representation of such company with the necessary legal capacity and that the authorities with which he appears have not been revoked or limited in any way, which he evidences to me by means of the first official transcript of Public Deed No. 95370 dated November 30 2005,certified by Notary Public Francisco Javier Arce Gargollo, Notary Public No. 74 of the Federal District, containing the Authentication of the Minutes of the General Ordinary and Extraordinary Shareholders' Meeting of the company known as "OCULUS TECHNOLOGIES OF MEXICO", a Variable Capital Corporation, in which, among other things, the following powers were granted: the Granting of a General Power of Attorney for Lawsuits and Collections, Administrative Actions, Execution and Granting of Credit Instruments, a Special Power for Administrative Actions with respect to Labor Matters, and the power to grant and revoke Powers of Attorney. These powers were granted to Mr. EVERARDO GARIBAY RAMIREZ, and such public deed was duly recorded under **Electronic Mercantile File No. 6970*1 of the Public Registry of Commerce [Registro Público de Comercio] of Morelia, Michoacan,** and I, the Notary, hereby certify that I personally saw the above document, which consisted of 25 pages, photocopy of which, duly certified by the undersigned, I attach to the Documentation Book of this Volume under the corresponding number and I declare that today, at 16:00 hours, I had a meeting scheduled with Mr. JORGE PAULINO HERMOSILLO MARTÍN at the address mentioned above, and taking advantage of the presence of such person, the appearance by the undersigned was requested for the issuance of the 11 letters which were shown to me, consisting of 13 pages, originals and copies, which report the following information:

The irrevocable resignation of Mr. Bruce Thornton as the Administrative Manger of the company Química Pasteur, Limited Liability Company [Sociedad de Responsabilidad Limitada *or* S. de R.L.];

The will of Oculus Innovative Sciences, Inc. to terminate the following agreements:

Stock Purchase Agreement executed between Javier Orozco Gutierrez, Química Pasteur, Limited Liability Company, Jorge Paulino Hermosillo Martín and Oculus Innovative Sciences, Inc.

Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, Limited Liability Company, Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences, Inc., and Oculus Technologies of México, a Variable Capital Corporation.

Partnership Interest Purchase Option Agreement executed by and between Javier Orozco Gutiérrez and Oculus Innovative Sciences, Inc.

The will of Oculus Technologies of Mexico, a Variable Capital Corporation, to terminate the following agreement:

Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, a Limited Liability Company, Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, a Variable Capital Company.

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

Mercantile Commission Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, a Limited Liability Corporation, and Oculus Technologies of México, a Variable Capital Corporation.

The Report prepared by Mr. Everardo Garibay Ramírez acting as the statutory examiner of the company Química Pasteur, a Limited Liability Corporation.

The Report prepared by Mr. Bruce Thornton, acting as the Administrative Manager of the company Química Pasteur, a Limited Liability Corporation.

Thereafter the undersigned Notary and the requesting party appeared at the above-cited domicile and we were met by Mr. FRANCISCO JAVIER OROZCO GUTIÉRREZ, who identified himself by means of a Voter's Identification Card, with a photograph, file no. 0000078831058, and Voter's Identification Number [Clave de Elector] ORGTFR10020714H900, issued by the Federal Electoral Institute, photocopy of which, duly certified by the undersigned, I add to the Documentation Book of this Volume under the corresponding number, and who I advised of the purpose of my visit, and in accordance with such purpose, I delivered to him the above referenced letters to him, personally, and as the Legal Representative of the company known as Química Pasteur, a Limited Liability Corporation, in accordance with the first official transcript shown of public deed no. 109,148, certified by Notary Public NO. 9 of the Federal District, Mr. José Ángel Villalobos Magaña, which evidenced the following powers granted to such party: a General Power for Lawsuits and Collections; Administrative Actions; Power for Administrative Actions with respect to Labor Matters; and the power to execute and endorse credit instruments issued by the company Química Pasteur, a Limited Liability corporation, represented herein by Mr. Everardo Garibay Ramírez in favor of Mr. Francisco Javier Orozco Gutiérrez, public deed that, due to its date, is still in the process of being recorded in the Public Registry of Commerce, and which I, the Notary, hereby certify I have seen and a photocopy of which, duly certified by the undersigned, I attach to the Documentation Book of this volume under the corresponding number. Once he had read the content of the above-cited letters and in accordance with the same, he signed duplicates of the same as a signal of his receipt of the originals, thereby being duly notified. The duplicates I attach, as an integral part of this action, to the Documentation Book of this Volume under the corresponding number.

In light of the above, the undersigned Notary hereby concludes his actions at 17:00 hours of the date mentioned above, the same being signed by EVERARDO GARIBAY RAMÍREZ, together with the undersigned Notary.

Signature of Mr. EVERARDO GARIBAY RAMÍREZ. Signature of Mr. ALFONSO CHACÓN ROBLES. The Authorizing Seal.

The undersigned Notary Public hereby certifies and evidences that the authenticated deed is a faithful copy of the original that I saw.

FINAL NOTE

Under numbers 2719 to 2724 inclusive, I add to the Documentation book of this Volume a Duplicate of the Notice given to the Files Director of Public Instruments of the State, a receipt for the payment of the taxes corresponding to Legal businesses in the amount of $90.00. Authenticated Instrument, Authority, Letters, Identification and brochure.

PROGRESO SUR NO. 445 GUADALAJARA JALISCO, TEL. AND FAX 3825-4712, 38250508, 3825-0539
Notaria3zap@megared.net.mx

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

MR. ALFONSO CHACÓN ROBLES
HEAD NOTARY PUBLIC
NOTARY PUBLIC OFFICE NO. 42 OF ZAPOPAN

SINCE ALL OF THE REQUIREMENTS PROVIDED UNDER ARTICLE 124 OF THE NOTARIAL LAW IN EFFECT HAVE BEEN SATISFIED, IN COMPLIANCE WITH THIS PROVISION I HEREBY ISSUE THIS FIRST OFFICIAL TRANSCRIPT CONSISTING OF TWO PAGES FOR THE REQUESTING PARTY, **MR. EVERARDO GARIBAY RAMIREZ,** AS THE UNAUTHORIZED AGENT OF THE COMPANY KNOWN AS OCULUS INNOVATIVE SCIENCES, INC. AND AS THE ADMINISTRATIVE AND FINANCE DIRECTOR AND LEGAL REPRESENTATIVE OF THE COMPANY OCULUS TECHNOLOGIES OF MEXICO S.A. DE C.V.

IT IS HEREBY COMPARED AND CORRECTED.

GUADALAJARA, JALISCO, FEBRUARY 28 2006.

JALISCO *Illegible stamp*	*Illegible signature*	*Seal of* ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

PROGRESO SUR NO. 445 GUADALAJARA JALISCO, TEL. AND FAX 3825-4712, 38250508, 3825-0539
Notaria3zap@megared.net.mx

Letterhead of

OCULUS
Innovative Sciences

Guadalajara, Jalisco, February 24 2006

Javier Orozco Gutiérrez

Partner
Química Pasteur, S. de R.L.

Guadalajara, Jalisco

RE: Química Pasteur, S. de R.L.

Dear Mr. Orozco:

With respect to my performance as the Administrative Manager of the company Química Pasteur, S. de R.L., by means of this letter, I notify you, as partner and holder of one partnership interest of the capital stock of the company mentioned above, the following:

That in compliance with my legal obligations as the Administrative Manager of Química Pasteur S. de R.L., I notify you that after exhaustively reviewing the accounting documentation of Química Pasteur S. de R.L. and after having ordered a financial audit over the same, we have found situations and issues that may be considered irregular and which may represent a fiscal contingency for the company.

The financial years reviewed correspond to 2004 and 2005, and we have found that all the documents reviewed that contain irregularities and which may represent a tax contingencies for the company took place before June 16 2005.

Such financial audits are now in their final stage and the results are available for your review starting on march 27 2006; however, I am now in a position where I must blow the whistle to you of the existence of the payments made by Química Pasteur S. de R.L. to various suppliers for assets and/ or services which in reality were never received by Química Pasteur S. de R.L., the amount of such payments was reimbursed in cash by such suppliers to ex-officers and shareholders of Química Pasteur S. de R.L. to apparently make payments to employees and officers for salaries and other benefits as well as for non-deductible expenses. This information was provided and confirmed by Messrs. Jorge Hermosillo Torres and Jorge Hermosillo Martín, the latter a partner of Química Pasteur S. de R.L. until June 16 2005, date on which he transferred his participation in such company to you.

Following I provide you details of the names of the suppliers and the amounts involved obtained from an in-depth analysis of documents carried out with respect to the declarations of Messrs. Jorge Hermosillo Torres and Jorge Hermosillo Martín, who also point out the fact that you were also aware of the above-cited operations:

Operations Described Above, 2000	**Amount**
MIRAMONTES PATIÑO MARIA DEL ROCIO	5,552,500
HERMOSILLO TORRES JORGE	2,907,736
MIRAMONTES BAÑUELOS OBDULIO	1,040,014
GONZALEZ ARAGON DE LARA PATRICIA ELIZABETH	365,761
	9,866,011

Operations Described Above, 2001	Amount
PEREZ GARCIA JUAN JOSE	5,478,400
HERMOSILLO TORRES JORGE	4,699,810
	10,178,210

Operations Described Above, 2002	Amount
COMERCIALIZADORA PUBLICITARIA INTEGRAL, S.A DE C.V.	3,052,917
LOPEZ GONZALEZ ROBERTO	2,787,478
PEREZ GARCIA JUAN JOSE	1,408,870
ROMERO VALENZUELA BENITO	1,382,400
HERMOSILLO TORRES JORGE	300,199
	8,931,864

Operations Described Above, 2003	Amount
COMERCIALIZADORA PUBLICITARIA INTEGRAL, S.A. DE C.V.	4,508,342
GOYA GLOBAL COMERCIAL PUBLICITARIA, S.A. DE C.V.	1,921,000
ARANA RAMIREZ JAVIER	476,000
	6,905,342

Operations Described Above, 2004	Amount
GOYA GLOBAL COMERCIAL PUBLICITARIA, S.A. DE C.V.	11,670,729
KARDEP COMERCIALIZADORA GENERAL, S.A. DE C.V.	2,261,000
	13,931,729

Operations Described Above, 2005	Amount
KARDEP COMERCIALIZADORA GENERAL, S.A. DE C.V.	7,234,105

This notice is granted for all applicable legal effects.

Sincerely,

/s/ Bruce Thornton

Bruce Thornton

Administrative Manager

Química Pasteur, S. de R.L.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of two pages, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate Sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

Illegible signature

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

Guadalajara Jalisco, February 24 2006

Francisco Javier Orozco Gutiérrez

Escudo Nacional 533

Guadalajara, Jalisco

RE: Mercantile Commission Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., and Oculus Technologies of México, S.A. de C.V.

Dear Mr. Orozco:

I make reference to the Mercantile Commission Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., and Oculus Technologies of México, S.A. de C.V., dated June 16 2005 and the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc. and Oculus Technologies of México, S.A. de C.V., dated June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under Clause 8 of the Mercantile Commission Agreement and with respect to the same, the right conferred under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Technologies of México, S.A. de C.V., to terminate the above-mentioned Mercantile Commission Agreement.

For such effects, this notice is granted 30 calendar days prior to the date on which the party I represent wishes to carry out the termination of the same.

Furthermore, in accordance with Clause Five of the above cited Mercantile Commission Agreement, I request that the Products, as such term is defined under the above-referenced contract, that to the date of termination notified by means of this letter, not be sold but rather returned to Oculus Technologies of México, S.A: de C.v., within the five business days following, to the warehouse of the party I represent, located at Industria Vidriera No. 81, Fracc. Industrial Zapopan, in Zapopan, Jalisco. I also notify you that to this date, Química Pasteur S. de R.L., has a debt of $23,109,428.37 (Twenty Seven Million One Hundred and Nine Thousand Four Hundred and Twenty Eight Pesos 37/100, Mexican Currency), derived from the performance, by the party I represent, of its obligations under this agreement.

Sincerely,

/s/ Everardo Garibay Ramírez

Everardo Garibay Ramírez

Attorney in Fact

Oculus Technologies de México, S.A. de C.V.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

Illegible signature

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

Guadalajara Jalisco, February 24 2006

Francisco Javier Orozco Gutiérrez

Attorney in Fact

Química Pasteur, S. de R.L.

Industria Maderera 154

Zapopan, Jalisco

RE: Mercantile Commission Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L. and Oculus Technologies of México, S.A. de C.V.

Dear Mr. Orozco:

I make reference to the Mercantile Commission Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L. and Oculus Technologies of México, S.A. de C.V., dated June 16 2005 as well as the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. on June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under Clause 8 of the Mercantile Commission Agreement and with respect to the same, the right conferred under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Technologies of México, S.A. de C.V., to terminate the above-mentioned Mercantile Commission Agreement.

For such effects, this notice is granted 30 calendar days prior to the date on which the party I represent wishes to carry out the termination of the same.

Furthermore, in accordance with Clause Five of the above cited Mercantile Commission Agreement, I request that the Products, as such term is defined under the above-referenced contract, that to the date of termination notified by means of this letter, not be sold but rather returned to Oculus Technologies of México, S.A: de C.v., within the five business days following, to the warehouse of the party I represent, located at Industria Vidriera No. 81, Fracc. Industrial Zapopan, in Zapopan, Jalisco. I also notify you that to this date, Química Pasteur S. de R.L., has a debt of $23,109,428.37 (Twenty Seven Million One Hundred and Nine Thousand Four Hundred and Twenty Eight Pesos 37/100, Mexican Currency), derived from the performance, by the party I represent, of its obligations under this agreement.

Sincerely,

/s/ Everardo Garibay Ramírez

Everardo Garibay Ramírez

Attorney in Fact

Oculus Technologies de México, S.A. de C.V.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

Illegible signature

Seal of
ALFONSO CHACÓN ROBLES, NOTA
PUBLIC NO. 42 OF ZAPOPAN, JALIS

Letterhead of

OCULUS
Innovative Sciences

Guadalajara, Jalisco, February 24 2006

Francisco Javier Orozco Gutiérrez

Attorney in Fact

Química Pasteur, S. de R.L.

Industria Maderera 154

Zapopan, Jalisco

RE: Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V.

Dear Mr. Orozco:

I make reference to the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. dated June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Technologies of México, S.A. de C.V., to terminate the above-mentioned Agreement.

For such effects, and in accordance with the clause mentioned above, this notice is issued 30 days prior to the date on which the party I represent wishes the termination of the above-mentioned agreement to take effect.

Sincerely,

/s/ Everardo Garibay Ramírez

Everardo Garibay Ramírez

Attorney in Fact

Oculus Technologies of México, S.A. de C.V.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

JALISCO *Illegible stamp*	*Illegible signature*	*Seal of* ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

Guadalajara, Jalisco, February 24 2006

Francisco Javier Orozco Gutiérrez

Escudo Nacional 533

Guadalajara, Jalisco

RE: Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V.

Dear Mr. Orozco:

I make reference to the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. dated June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Technologies of México, S.A. de C.V., to terminate the above-mentioned Agreement.

For such effects, and in accordance with the clause mentioned above, this notice is issued 30 days prior to the date on which the party I represent wishes the termination of the above-mentioned agreement to take effect.

Sincerely,

/s/ Everardo Garibay Ramírez

Everardo Garibay Ramírez

Attorney in Fact

Oculus Technologies of México, S.A. de C.V.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

JALISCO *Illegible stamp*	*Illegible signature*	*Seal of* ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

February 24 2006

Javier Orozco Gutiérrez

Escudo Nacional 533

Guadalajara, Jalisco

RE: Partnership Interest Purchase Option Agreement executed by and between Javier Orozco Gutiérrez and Oculus Innovative Sciences, Inc.

Dear Mr. Orozco:

I make reference to the Partnership Interest Purchase Option Agreement executed by and between Javier Orozco Gutiérrez and Oculus Innovative Sciences, Inc. dated June 16 2005 as well as the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. dated June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under Clause seven of the Partnership Interest Purchase Option Agreement and with respect to the same, by the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Innovative Sciences, Inc., to terminate the above-mentioned Agreement.

For such effects, and in accordance with the clause mentioned above, this notice is issued 30 days prior to the date on which the party I represent wishes the termination of the above-mentioned agreement to take effect.

Sincerely,

/s/ Jim Schutz

James Schutz

Attorney in Fact

Oculus Innovative Sciences, Inc.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

JALISCO *Illegible stamp*	*Illegible signature*	*Seal of* ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

February 24 2006

Francisco Javier Orozco Gutiérrez

Attorney in Fact

Química Pasteur, S. de R.L.

Industria Maderera 154

Zapopan, Jalisco

RE: Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V.

Dear Mr. Orozco:

I make reference to the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. dated June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Innovative Sciences, Inc., to terminate the above-mentioned Agreement.

For such effects, and in accordance with the clause mentioned above, this notice is issued 30 days prior to the date on which the party I represent wishes the termination of the above-mentioned agreement to take effect.

Sincerely,

/s/ Jim Schutz

James Schutz

Attorney in Fact

Oculus Innovative Sciences, Inc.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

JALISCO *Illegible stamp*	*Illegible signature*	*Seal of* ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

February 24 2006

Francisco Javier Orozco Gutiérrez

Escudo Nacional 533

Guadalajara, Jalisco

RE: Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V.

Dear Mr. Orozco:

I make reference to the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. dated June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Innovative Sciences, Inc., to terminate the above-mentioned Agreement.

For such effects, and in accordance with the clause mentioned above, this notice is issued 30 days prior to the date on which the party I represent wishes the termination of the above-mentioned agreement to take effect.

Sincerely,

/s/ Jim Schutz

James Schutz

Attorney in Fact

Oculus Innovative Sciences, Inc.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

JALISCO *Illegible stamp*	*Illegible signature*	*Seal of* ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

February 24 2006

Francisco Javier Orozco Gutiérrez

Escudo Nacional 533

Guadalajara, Jalisco

RE: Stock Purchase Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín and Oculus Innovative Sciences Inc.

Dear Mr. Orozco:

I make reference to the Stock Purchase Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín and Oculus Innovative Sciences Inc., dated June 16 2005 as well as the Master Agreement executed by and between Javier Orozco Gutiérrez, Química Pasteur, S. de R.L., Jorge Paulino Hermosillo Martín, Oculus Innovative Sciences Inc., and Oculus Technologies of México, S.A. de C.V. on June 16 2005.

By means of this letter, in the exercise of the rights conferred upon me under Clauses 7.1 and 8.3 of the Stock Purchase Agreement and with respect to the same, the right conferred under the second paragraph of Clause Eight of the Master Agreement described under the above paragraph, I hereby notify you that it is the will of Oculus Innovative Sciences, Inc. to terminate the above-mentioned Agreement.

Sincerely,

/s/ Jim Schutz

James Schutz

Attorney in Fact

Oculus Innovative Sciences, Inc.

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

Illegible signature

Seal of
ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Letterhead of

OCULUS
Innovative Sciences

Guadalajara, Jalisco, February 24 2006

Javier Orozco Gutiérrez

Shareholder and Legal Attorney in Fact

Química Pasteur, S. de R.L.

RE: Química Pasteur, S. de R.L.

Dear Mr. Orozco:

With respect to my performance as the Administrative Manager of Química Pasteur, S. de R.L. and in virtue of the various irregularities found in the accounting and tax documentation of the company, I hereby declare the following:

That I wish to present my irrevocable resignation as the Administrative Manager of Química Pasteur, S. de R.L., which resignation shall take effect as of the date of receipt of this notice.

The above, because it is in my own interests to do so.

Sincerely,

/s/ Bruce Thornton

Bruce Thornton

[Stamped on the right side: COMPARED and illegible signature]

[Handwritten note "I received a copy Feb. 24 2006" illegible signature]

The undersigned MR. ALFONSO CHACÓN ROBLES, Head Notary Public of Notary Public Office No. 42 of Zapopan, Jalisco, acting under a Notarial Association Agreement with Notary Public No. 3 of Zapopan, Jalisco, under the terms of Article 43, second paragraph of the Notary Law in effect, CERTIFY that the preceding copy, consisting of one page, is a faithful photocopy of its original, and is an integral part of the Certification of Facts Statement issued at the request of Mr. EVERARDO GARIBAY RAMIREZ, as the Unauthorized agent of the company known as Oculus Innovate sciences, Inc. and as the Legal Representative of the company Oculus Technologies of Mexico, Variable capital Corporation, a subsidiary of the US Company known as Oculus Innovative Sciences, Inc., which is hereby authenticated under Public Deed No. 16,243 and evidenced before the undersigned Notary, who compared it, and found that it is true and exact both in the front and back, with respect to which I certify it by means of my signature and official stamps. I hereby certify.

Guadalajara, Jalisco, February 28 2006.

JALISCO *Illegible stamp*	*Illegible signature*	*Seal of* ALFONSO CHACÓN ROBLES, NOTARY PUBLIC NO. 42 OF ZAPOPAN, JALISCO

Exhibit 16.1

[Letterhead of PricewaterhouseCoopers]

August 7, 2006

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Commissioners:

We have read the statements made by Oculus Innovative Sciences, Inc. (copy attached), included in the section "Change in Independent Registered Public Accounting Firm" included in the Registration Statement of Oculus Innovative Sciences, Inc. on Form S-l dated July 3, 2006. Events that should have been reported by Oculus Innovative Sciences Inc. we include as follows:

1. We advised the Audit Committee about the absence of financial accounting personnel with sufficient skills and experience to effectively evaluate and determine the appropriate accounting for non-routine and/or complex accounting transactions consistent with accounting principles generally accepted in the United States of America ("US GAAP"). As a result of this, a number of material audit adjustments to the financial statements were identified during the course of our audit procedures.

2. We advised the Audit Committee that the Company did not maintain effective controls to ensure the identification of accounting issues related to and the proper accounting for stock options with the right of rescission which were granted under certain Stock Plans that required registration or qualification under federal and state securities laws. We believe this occurred primarily because of insufficient oversight and the lack of personnel in the accounting and finance organization with the appropriate level of accounting knowledge, experience and training,

3. We advised the Audit Committee that the Company did not maintain an effective anti-fraud program designed to detect and prevent fraudulent activities in its consolidated entity.

4. We advised the Audit Committee of the need to expand significantly the scope of the audit of its consolidated entity to assess the impact of identified fraudulent activities on the Company's financial statements. We also advised the Audit Committee that the results of the fraud investigation may cause us to be unwilling to be associated with the Company's financial statements. Due to our dismissal, we did not so expand the scope of our audit or conduct such further investigation.

5. We advised the Audit Committee that the "tone at the top" set by the senior management doesn't appear to encourage an attitude within the entity that controls are important or that established controls can not be circumvented.

[Letterhead of PricewaterhouseCoopers LLP]

6. We advised the Audit Committee that the Company did not have the appropriate financial management and reporting infrastructure in place to meet the demands that will be placed upon it as a public company, including the requirements of the Sarbanes-Oxley Act of 2002, and that the Company may be unable to report its financial results accurately or in a timely manner.

7. We advised the Audit Committee that significant control deficiencies identified during our audit procedures, when considered in the aggregate, constituted a material weakness over financial reporting.

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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 Amendment No. 1 to Form S-1 (File No. 333-135584) 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
September 14, 2006

Exhibit 23.3

PATIENT STUDY CONSENT

I consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of my name and the findings of my patient study or studies or the disclosure of my ongoing study or studies.

/s/ Cheryl Bongiovanni

Name: Cheryl Bongiovanni, Ph.D., RVT, CWS

Dated: August 22, 2006

Exhibit 23.4

PHYSICIAN CLINICAL STUDY CONSENT

I consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of my name and the findings of my physician clinical study or studies or the disclosure of my ongoing study or studies.

/s/ Tom A. Wolvos, M.D., F.A.C.S.

Name: Tom A. Wolvos, M.D., F.A.C.S.

Dated: August 16, 2006

Exhibit 23.5

PHYSICIAN CLINICAL STUDY CONSENT

I consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of my name and the findings of my physician clinical study or studies or the disclosure of my ongoing study or studies.

/s/ David Armstrong

Name: Dr. David Armstrong

Dated: August 21, 2006

Exhibit 23.6

PHYSICIAN CLINICAL STUDY CONSENT

I consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of my name and the findings of my physician clinical study or studies or the disclosure of my ongoing study or studies.

/s/ David E. Allie

Name: David E. Allie, M.D.

Dated: August 20, 2006

Exhibit 23.7

PHYSICIAN CLINICAL STUDY CONSENT

I consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of my name and the findings of my physician clinical study or studies or the disclosure of my ongoing study or studies.

/s/ Alfredo Barrera

Name: Dr. Alfredo Barrera

Dated: August 24, 2006

Exhibit 23.8

OUTSIDE STOCK VALUATION FIRM CONSENT

We hereby consent to reference in the prospectus in the Form S-1 of Oculus Innovative Sciences, Inc. filed with the Securities and Exchange Commission, and all amendments thereto, of our reports to Oculus Innovative Sciences, Inc. setting forth our appraisal of Oculus Innovative Sciences, Inc.'s securities, and to the use in such prospectus of our firm's name and any statements contained in such reports, and also to the reference to our firm under the heading "Experts" in such prospectus. By giving such consent, Valuation Research Corporation does not thereby admit that it is an expert with respect to any part of Form S-1 in the meaning of the term "expert" as used in, or that VRC comes within the category of persons whose consent is required under the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

/s/ Justin Johnson

Valuation Research Corporation

By: Justin Johnson

Its:

Dated: August 24, 2006

Exhibit 23.9

CONSENT OF CHEVEZ, RUIZ, ZAMARRIPA Y CIA., S.C.

We consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of our legal opinion with respect to Quimica Pasteur, S. de R.L. We also consent to the reference of our Firm under the heading "Experts" in the Registration Statement.

/s/ Raul Ybarra Ysunza

Chevez, Ruiz, Zamarripa y Cía., S.C.
Santa Fe, Mexico

By: Raul Ybarra Ysunza

Its: Partner

Dated: August 31, 2006

Exhibit 23.10

PHYSICIAN CLINICAL STUDY CONSENT

I consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of my name and the findings of my physician clinical study or studies or the disclosure of my ongoing study or studies.

/s/ Luca Dalla Paola

Name: Luca Dalla-Paola, M.D.

Dated: August 25, 2006

Exhibit 23.11

PHYSICIAN CLINICAL STUDY CONSENT

I consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of my name and the findings of my physician clinical study or studies or the disclosure of my ongoing study or studies.

/s/ Andrew Boulton

Name: Andrew Boulton, M.D.

Dated: August 30, 2006

Exhibit 23.12

PHYSICIAN CLINICAL STUDY CONSENT

I consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc., on Form S-1, of my name and the findings of my physician clinical study or studies or the disclosure of my ongoing study or studies.

/s/ Ariel Miranda

Name: Dr. Ariel Miranda

Dated: August 31, 2006

[Pillsbury Winthrop Shaw Pittman LLP Letterhead]

September 18, 2006

Noelle Matteson
Phone: 650.233.4523
noelle.matteson@pillsburylaw.com

VIA ELECTRONIC TRANSMISSION

Securities and Exchange Commission
100 F Street, N.W.
Washington, D.C. 20549-0406
Mail Stop 6010
Attn: Mr. Don Hunt

Re: Oculus Innovative Sciences, Inc.-Registration Statement on Form S-1 (File No. 333-135584)

Ladies and Gentlemen:

On behalf of Oculus Innovative Sciences, Inc. (the "Registrant"), we enclose for filing under the Securities Act of 1933, as amended (the "Securities Act"), Amendment No. 1 to the above-referenced registration statement (the "Registration Statement") together with exhibits thereto.

Amendment No. 1 to the Registration Statement contains disclosures of events which have occurred since the initial filing as well as revisions that have been made in response to comments received from the staff (the "Staff") of the Securities and Exchange Commission (the "Commission") in their letter dated July 28, 2006. Set forth below are the Registrant's responses to the Staff's comments. The numbers of the responses and headings set forth below correspond to the numbered comments and headings on the letter from the Staff. Copies of the Staff's letter and marked copies of Amendment No. 1 to the Registration Statement are being provided supplementally with copies of this letter for the convenience of the Staff.

General

1. *Please confirm that any preliminary prospectus you circulate will include all non-Rule 430A information. This includes the price range and related information based on a bona fide estimate of the public offering within that range. Also, in the next amendment, please fill in the blanks throughout the filing, and note that we may have additional comments after you do so.*

Response: The Registrant confirms that any preliminary prospectus circulated will include all non-Rule 430A information, including the price range and related information, based on a bona fide estimate of the public offering price within that range. All blanks in the Registration Statement have been completed except for price range-related information and other information that has not yet been determined.

2. *Please provide us with copies of any graphics or artwork that you intend to use in your prospectus. We may have further comment after reviewing those materials.*

Response: Copies of the Registrant's artwork for the inside back cover have been filed with Amendment No. 1. The Registrant will provide the artwork for the inside front cover supplementally.

3. *We note that on your website you reference distribution of your products in Iran, Sudan, and Syria, countries identified by the U.S. State Department as state sponsors of terrorism, and subject to U.S. economic sanctions. Please describe for us the extent and nature of your past, current, and anticipated contacts with those countries, whether through subsidiaries, distributors, affiliates or other direct or indirect arrangements. Discuss sales or other contacts with the governments of these countries, including government-owned or controlled entities, and private parties. Please also describe any potential or actual military uses of your products, other than wound care.*

Response: The Registrant supplementally advises the Staff that it has not sold any products in the above-referenced countries and it has removed reference to these countries from its website. The Registrant has also amended its distribution agreement to eliminate these countries as territories in which the distributor is authorized to sell. The Registrant does not sell its products for military purposes and is not aware of any actual military uses. Because the Registrant's products have uses in burns, first-aid and surgical dressings and as a liquid disinfectant, they could be used for military purposes.

4. *Discuss for us the materiality to you of your contacts with Iran, Sudan, and Syria, individually and in the aggregate, and whether those contacts, individually or in the aggregate, constitute a material investment risk for your security holders. Please address materiality in quantitative terms, including the dollar amounts of any associated assets and liabilities, and revenues. Please also address materiality in terms of qualitative factors that a reasonable investor would deem*

important in making an investment decision, including the potential impact of corporate activities upon a company's reputation and share value.

We note, for example, that Arizona and Louisiana have adopted legislation that requires their state retirement systems to prepare reports regarding state pension fund assets invested in, and/or permits divestment of state pension fund assets from, companies that do business with U.S.-designated state sponsors of terrorism. The Pennsylvania legislature has adopted a resolution directing its Legislative Budget and Finance Committee to report annually to the General Assembly regarding state funds invested in companies that have ties to terrorist-sponsoring countries. The Missouri Investment Trust has established an equity fund for the investment of certain state-held monies that screens out stocks of companies that do business with U.S.-designated state sponsors of terrorism. Illinois, Maine, New Jersey and Oregon have adopted legislation requiring reporting of interests in, or divestment from, companies that do business with Sudan, and similar legislation has been proposed by several other states. Finally, Harvard University, Yale University, Stanford University, and other educational institutions have adopted policies prohibiting investment in, and/or requiring divestment from, companies that do business with Sudan. Your materiality analysis should address the potential impact of the investor sentiment evidenced by such actions directed toward companies that operate in Iran, Sudan, and Syria.

Response: We refer the Staff to the Registrant's response to Comment #3 above.

Prospectus Summary, page 1

Oculus Innovative Sciences, Inc., page 1

5. *Please clarify your disclosure in the final two paragraphs of this section so that potential investors can more readily identify the products you are currently marketing, those for which you are seeking or plan to seek regulatory approval, and the geographic markets for each. Consider presenting this information in bullet point or tabular format.*

Response: The Registrant has revised the disclosure as requested.

6. *Please tell us whether all of the sources of the data cited in the prospectus have consented to your use of their data and whether any reports were prepared specifically for your use.*

   Response: The Registrant supplementally notes that each source of data cited in the prospectus has consented to the use of their respective data. The Registrant confirms for the Staff that none of the reports cited were prepared specifically for the Registrant's use.

7. *Please revise the "Principal Risks" subsection of your summary to present the information disclosed using bullet points, subcaptions or another more readable format.*

   Response: The Registrant has revised the disclosure as requested.

The Offering, page 4

8. *Please expand your disclosure to address the treatment of shares reserved for future grants under your 2006 stock incentive plan.*

   Response: The Registrant has revised the disclosure as requested.

Summary Consolidated Financial Data, page 5

9. *Please revise the table in footnote (1) on page 5 and footnote (1) on page 30 to remove the caption which currently shows the totals of the stock-based compensation expense amounts presented in the individual income statement line items. We refer you to Section I.C.2 of the 12/1/05 Current Accounting and Disclosures Issues in the Division of Corporation Finance, which can be accessed at http://www.sec.gov/divisions/corpfin/acctdis120105.pdf.*

   Response: The Registrant has revised the disclosure as requested.

Risk Factors, page 7

10. *If true, please add a risk factor that addresses the fact that your Articles of Incorporation will authorize the issuance of 100,000,000 shares of common stock and 5,000,000 shares of preferred stock, that authorized but unissued shares may be issued without further shareholder approval and that these shares may be granted rights and preferences that are greater than those of common shares being offered pursuant to this prospectus.*

Response: The Registrant has revised the disclosure as requested.

We may incur significant liabilities..., page 9

11. *Please disclose whether you are aware of the Mexican Ministry of Health's intent to pursue claims against you. Also disclose the statute of limitations, if any, that would limit the MOH's ability to bring claims in the future.*

Response: The Registrant assumes that the Commission's inquiry pertains to the Ministry of Finance. The Registrant supplementally advises the Staff that it is unaware of any intent on the part of either the Ministry of Finance or the Mexican Ministry of Health to pursue any potential claims against the Registrant. The Registrant is hesitant to include this mitigating language in the risk factor. The Registrant has been informed by counsel in Mexico that the statute of limitations, including for actions for fraud, is five years from the date of the Registrant's last tax return, which was March 31, 2006, under the Mexican Federal Fiscal Code, and has revised the disclosure accordingly.

12. *Please revise the MD&A to discuss your relationship with MOH. We note the first and last sentences of this risk factor.*

Response: The Registrant has revised the disclosure as requested.

We are in a dispute with the licensor..., page 12

13. *Please disclose the material amount of your revenues from the patent license. Also, clarify whether the loss of the patent licenses may affect sales of your products outside of Japan. In addition, file the agreement as an exhibit.*

Response: The Registrant supplementally advises the Staff that the Registrant does not generate any revenue from this patent license. This license covers nine Japanese issued or pending patent applications on a precursor to the current Microcyn technology. The nine Japanese patents do not cover the current commercialized products, method of manufacturing, apparatus or therapeutic applications. The loss of the license will not affect the Registrant's ability to commercialize its products outside Japan. The Registrant has attempted to avoid providing mitigating language in its risk factor disclosure.

The Registrant respectfully submits that, for the reasons stated above, the patent license is not material to its current business and that filing it as a material contract would give it undue significance.

Capitalization, page 25

14. *Please revise to remove the caption relating to cash and cash equivalents from your presentation of capitalization.*

Response: The Registrant has revised the disclosure as requested.

Management's Discussion and Analysis..., page 31

15. *We note your discussion of the need to perform clinical trials on your Microcyn platform technology and your disclosure on page 3 that clinical trials will be "lengthy and expensive." We further note your reference on page 18 to development of a compound with potential applications in oncology. Provide more details of the specific plans to pursue commercialization of your products and product candidates, quantify the estimated costs and discuss the expected funding/financing sources. You should also discuss the expected timing of these events.*

Response: The Registrant has revised the disclosure as requested.

Discontinued Operations, page 33

16. *Please file as exhibits the agreements with Quimica Pasteur.*

Response: The Registrant has filed the agreements as requested.

Comparison of Years Ended March 31, 2006 and March 31, 2005, page 36

Cost of Revenues, pages 36 and 38

17. *Please revise to discuss the specific reasons for the significant gross loss each period and your plans and efforts to generate gross profit from your products and services. In addition, discuss the expected impact to Oculus Innovative Sciences if you are not able to do this.*

Response: The Registrant has revised the disclosure as requested.

Liquidity and Capital Resources, page 39

18. *Please tell us how you will account for the warrants issued in connection with the Loan and Security Agreement entered into in June 2006.*

Response: The Registrant has accounted for the warrants issued in connection with the Loan and Security Agreement entered into in June 2006 (which is a line of credit obligation) as a debt issuance cost in accordance with Accounting Principles Board Opinion No. 21, "Interest on Receivables and Payables." The warrants were recorded at fair value on the date of issuance, using the Black-Scholes options pricing model. Assumptions used were as follows: (a) fair value of the underlying stock was $4.50; (b) risk-free interest rate of 5.15%; (c) contractual life of 11 years; (d) dividend yield of 0%; and (e) volatility of 70%. The fair value of the warrants, which amounted to $1,047,000, is being presented as debt issuance costs on the June 30, 2006 balance sheet. These costs are being amortized as interest expense over the term of the parts of the credit facility, which expire at various times through April 2009.

As indicated in response to Comment 43, the Registrant Statement has been revised to include the Registrant's financial statements for the quarter ended June 30, 2006, in accordance with Rule 3-12 of Regulation S-K. The Registrant's accounting for these warrants is included in the June 30, 2006 financial statements.

Business, page 44

19. *Please file the consents required by Rule 436 for the physician clinical studies summarized in your prospectus.*

Response: The Registrant has filed the consents as requested.

Overview, page 44

20. *Please revise the first paragraph here and in the summary to clarify that you do not have the necessary regulatory approvals to market Microcyn in the United States as a drug.*

Response: The Registrant has revised the disclosure as requested.

Our Products — Microcyn Platform, page 49

21. *Please clarify how each of the products listed in the table differ. We note, for example, the varying indications for "Dermacyn Wound Care" in the United States, European Union and Canada. Are these different products? Also, please reconcile your product indication descriptions here with your disclosure on page*

3, which implies that the United States and European Union versions of Dermacyn are identical to one another and to Microyn60 in Mexico.

Response: The Registrant has revised the disclosure as requested. The Registrant advises the Staff that the description of the indications set forth in the table were taken from the actual labels of each product. As such, the Registrant sought to avoid any potential mischaracterization in explaining the technical terms. The Registrant, however, has revised disclosure elsewhere in the Registration Statement.

22. *Please explain technical terms, such as "stasis ulcers."*

Response: The Registrant has revised the disclosure to explain the technical terms as requested.

Clinical Trials and Physician Studies, page 51

Completed Trials and Studies, page 51

23. *Please specify which of the studies you sponsored and disclose the details of your sponsorship, quantifying the extent of your sponsorship if possible.*

Response: The Registrant has revised the disclosure as requested.

24. *Revise your disclosure to identify Dr. Luca Dalla Paola as a member of your business and medical advisory board.*

Response: The Registrant has revised the disclosure as requested.

25. *Tell us how you selected the physician clinical studies to highlight in your prospectus and provide us with details regarding the seven additional studies not summarized in the prospectus.*

Response: The Registrant supplementally advises the Staff that it selected the highlighted studies for inclusion in the Registration Statement as they contained the most relevant data in terms of the significance to the Registrant's current and planned business and were conducted under the most controlled conditions. Each of the studies highlighted, except for the study conducted by Dr. Barrera, enrolled more than 60 patients in each group and measured the healing time/ hospital stays and/or the reduction in the microbial load. Dr. Barrera's study also measured the reduction of hospital stay and bacterial strains in peritonitis, a

difficult to treat wound. The Barrera study highlights the non-toxicity of Microcyn in a very sensitive part of the body and the effectiveness in reducing the high amount of bacteria around the intestine.

In selecting the studies to highlight, the Registrant decided to include only controlled studies. Some of the studies described below (such as the studies of Drs. Paz, Wolvos and Bongiovanni) are case studies and were not considered for inclusion for that reason. The Registrant decided not to include the studies of Drs. Flores, Martinez-Munive and Paz because they are in the dental area, which is not a primary target market for the Registrant. The Registrant did not include the study of Dr. Ramirez because its primary focus was improvement of quality of life, which is not easily quantifiable as are data on specific clinical endpoints. The studies of Dr. Fermin Martinez did not have quantifiable end points, so the difference between the Microcyn group and the control group could not be easily measured. Finally, while Dr. Piaggessi's study was a controlled study, a relatively small number of patients were enrolled.

The Registrant supplementally provides to the Staff the following summary of the nine additional studies.

Dr. Cuauhtémoc Ramirez, a surgeon and phlebologist in the International Clinic in Matamoros, Mexico, conducted a 12-month study to determine the clinical benefits of superficial surgery and adjuvant therapy with Dermacyn in chronic venous ulcers. A total of 61 adults with venous ulcer of at least 10 years' duration, at least 3 centimeters in length or width and an ankle:brachial pressure index of at least 0.8 were included. The primary end-point was quality of life and the secondary purpose was to determine complete healing of ulcers on the trial leg and adverse events. The Microcyn group experienced significant improvement in quality of life (as defined in the study). In addition, 78% of ulcers treated with Microcyn healed in 9 months or less, compared to 47% in the control group. Approximately 20% of the patients treated with Microcyn reported a burning sensation. The study reported that the sensation was self limited and lasted a few minutes at the most. It disappeared in the second or third day of application and had no impact in the healing process.

Dr. Fremin Martínez de Jesus, the president of the Mexican Diabetic Foot Association, a group associated with the International Working Group on Diabetic Foot, conducted a study with Microcyn in diabetic feet necrobiosis in 2005 comparing the use of Microcyn on 20 patients to the use of povidone iodine on 20 patients. The study was designed to examine the effect of Microcyn on fetid odor

and cellulitis around ulcers, a reduction of which indicates slowing of progression of infection in diabetic foot ulcer. The results of this study showed significant reduction of fetid odor and cellulitis around ulcers. No adverse events were reported for the Microcyn group.

Dr. Juan Paz, a specialist in maxillo facial surgery at the ISSTE Hospital in Colima, Mexico, conducted a study with Microcyn in two case studies involving maxillo facial surgery. In one case, Microcyn was used to treat a fistula on the buccal gingiva in the patient. The patient was advised to rinse her mouth daily with Microcyn for two minutes. Dr. Paz reported that the patient's symptoms resolved in 48 hours, and the extent of healing after 15 days was unexpected, since the normal healing process would normally be expected to take several weeks. In the second case, Microcyn was used to rinse the mouth prior to surgery and to irrigate during the surgical procedure. Dr. Paz reported that the surgical field bled less than expected as compared to similar studies. No adverse events were reported.

Dr. Miguel A. Flores, a dental specialist at the University Michoacana de San Nicolás de Hidalgo in Michoacan, Mexico, conducted two studies. In one study, Dr. Flores used Microcyn to treat 109 patients with a diagnosis of root canal infection, comparing the results against results obtained from using sodium hypochlorite on 129 patients. Two patients had an acute local post-operative reaction after the root canal treatment with Microcyn, while 16 patients had such a post-operative reaction in the group treated with sodium hypochlorite. Dental losses only occurred in the hypochlorite group and none in the Microcyn control group. Ten patients in the Microcyn control group experienced a slight burning sensation on the tongue when gargling with Microcyn. In these cases, the burning sensation occurred only in the first two days of application and it was only necessary to instruct the patients to spit out the solution. The burning dissipated without any other secondary effect. This study reported no contraindications for the use of Microcyn.

Dr. Flores also reported a study conducted in 2004 on 14 patients with similar symptoms of frequent gingival bleeding due to peridontal disease. The patients were treated with Cavitron and Microcyn. The patients were instructed to use Microcyn as a mouthwash for two minutes three times per day. In none of the patients were adverse signs or symptoms observed in the use of Microcyn as an irrigating solution or a mouthwash. The period of resolution was two to four

weeks, and bleeding upon brushing resolved in all patients within 24 hours to four days. The report noted that these times for resolution were unexpectedly short.

Dr. Wolvos, a surgeon and medical director of Scottsdale Healthcare Wound Management Center of Arizona, conducted a study in June 2005 using Microcyn for cleansing, moistening and irrigating various types of wounds and ulcers, including postoperative wounds, traumatic wounds, decubitus ulcers, diabetic foot wounds, and dehisced abdominal wall wounds with exposed abdominal wall mesh, of 60 patients. The report showed that Microcyn was useful as a wound irrigation solution, a solution to moisten gauze dressings, and as the irrigation solution with the VAC Instill system, in a broad range of wounds. No adverse effects were reported

Cheryl Bongiovanni, Ph.D., the Director of Lake Wound Clinics in Lakeville, Oregon, conducted a study commencing in November 2005 using Microcyn to treat multiple types of infected chronic and acute wounds of eight patients. The study was designed to examine the effect of Microcyn on microbial load reduction in various types of wounds, including diabetic foot wounds, pressure ulcers and traumatic ulcers. The study showed that Microcyn was effective in reducing bacterial load, enhancing local blood supply, accelerating development of neovascularity and providing a wound environment that was hostile to opportunistic organisms. The solution was effective against MRSA and VRSA bacteria, which are known to be antibiotic-resistant. No adverse events were reported.

Dr. Alberto Piaggesi, Head of the Sezione Piede Diabetico, Axienda Ospedaliera Universitaria Pisana, Italy, conducted a study beginning in July 2005 in wide post-surgical infected ulcers of the diabetic foot, comparing the results of Microcyn on 18 patients to the results of povidone iodine on 15 patients. The study showed the Microcyn group to have significantly shorter healing time and a greater healing at 6 months, as compared to the povidone iodine group. No adverse events were reported for the Microcyn group.

Sales and Marketing, page 54

26. *Please file all material agreements required by Item 601(b) of Regulation S-K, including any material distribution agreement.*

Response: The Registrant notes the Staff's comment. The Registrant advises the Staff that it does not believe any of its distribution agreements are material to

its business at this time. Specifically, the Registrant is not presently earning material revenues under these agreements and respectfully submits that filing them as material contracts may give them an undue sense of significance.

27. *Please revise the last paragraph of this section to specify the regulatory approvals needed and disclose the steps you have taken to receive those approvals.*

Response: The Registrant has revised the disclosure as requested.

Other Market Opportunities, page 55

28. *Please disclose the amount of material revenues from each of the other market opportunities, such as the percentage of revenues from veterinary medicine.*

Response: The Registrant supplementally advises the Staff that it does not currently generate material revenues from any of these other market opportunities. The Registrant has revised the disclosure to so indicate.

29. *Please expand the second paragraph on page 55 to identify the leading manufacturer. Also, file the agreement as an exhibit.*

Response: The Registrant respectfully advises the Staff that the manufacturer has not consented to the disclosure of its identity. In addition, the Registrant respectfully submits that the agreement is not material to the Registrant's business at this time as it has received no revenue to date under the agreement. The Registrant submits that filing the agreement as a material contract may give the agreement unwarranted significance. If it should become a material agreement, the Registrant will file it as an exhibit.

30. *Please expand the third full paragraph on page 56 to specify the regulatory approvals needed.*

Response: The Registrant has revised the disclosure as requested.

Research and Development, page 56

31. *Please expand your disclosure to explain what your "L3 anti-viral compound" is and to provide details of the referenced preclinical studies. Please reconcile your development of this compound with your statement in the first sentence of this section regarding the goals of your research and development program.*

Response: The Registrant has revised the disclosure as requested.

Intellectual Property, page 57

32. *Please clarify the significance of having (i) filed provisional, as opposed to non- provisional, patent applications and (ii) received a notice of allowance from the U.S. Patent and Trademark Office.*

Response: The Registrant has revised the disclosure as requested.

Foreign Regulation, page 65

33. *Please disclose in greater detail the government regulatory approval processes for those jurisdictions in which you manufacture, market or sell your products, including, for example, Mexico.*

Response: The Registrant has revised the disclosure as requested.

Executive Officers, Key Employees and Directors, page 67

34. *Please discuss the business experience during the past five years of Mr. Alimi.*

Response: The Registrant has revised the disclosure as requested.

Employment, Severance and Change of Control Arrangements, page 74

35. *Please tell us how you will account for the additional options that will be granted upon completion of the offering discussed on page 74.*

Response: The Registrant would like to advise the Staff that it intends to account for these options in accordance with SFAS No. 123(R)-"*Share-Based Payment*," using the Black Scholes option pricing model to determine the fair value. The options will be fully expensed in the period they are granted. The Registrant has revised the Registration Statement discussion in Related Party Transactions to include a discussion of this expense.

Equity Compensation Plans, page 75

36. *Please summarize the material terms of your 2006 Stock Incentive Plan.*

Response: The Registrant has revised the disclosure as requested.

Physician Advisors, page 79

37. *Please clarify how you compensate your clinical investigational board.*

Response: The Registrant has revised the disclosure as requested.

38. *Please clarify the role of the business and medical advisory board and the clinical investigational board by including specific information regarding their activities for your company.*

Response: The Registrant has revised the disclosure as requested.

39. *Please tell us whether the physicians disclosed in this section have consented to the description of their role with you.*

Response: The Registrant supplementally advises the Staff that each of the named physicians has so consented.

Related Party Transactions, page 81

40. *Please disclose the payments to date to White Moon Medical.*

Response: The Registrant has revised the disclosure as requested.

41. *Please clarify why all options held by your directors will vest upon completion of this offering. For example, was this a term of their original option agreements or plan?*

Response: The Registrant has revised the disclosure as requested.

Change in Independent Registered Public Accounting Firm, page 93

42. *Please revise to provide all disclosures required by Item 304 of Regulation S-K and the Exhibit 16 letter from PricewaterhouseCoopers.*

Response: The Registrant has revised the disclosure and filed Exhibit 16.1 as requested.

Financial Statements, page F-1

43. *Please update the financial statements as required by Rule 3-12 of Regulation S-X.*

Response: The Registrant has revised the Registration Statement to include the financial information required by Rule 3-12 of Regulation S-X.

44. *Include updated accountants' consents with all amendments to the filing.*

Response: The Staff's comment is noted and updated consents will be filed as requested.

Consolidated Statements of Cash Flows, page F-7

45. *We note that the effect of exchange rates on cash of $144, $(127), and $(14) for fiscal 2006, 2005 and 2004, respectively, are the same as the foreign currency translations on your consolidated statements of stockholders' equity (deficit). Please tell us whether you prepared the statement of cash flows for your foreign operations using the exchange rates in effect at the time of the cash flows in accordance with paragraph 25 of SFAS 95. Revise as necessary.*

Response: The Registrant notes the Staff's observations relating to the manner in which it presented the effect of exchange rates on cash and cash equivalents in its statements of cash flows for the years ended March 31, 2004, 2005 and 2006. The Registrant advises the Staff that it is aware of the guidance provided in SFAS 95 paragraph 25. In addition, the Registrant's auditors identified and brought this matter to its attention. The Registrant advises the Staff that, after having analyzed the differences between the amounts presented and the effects of using average exchange rates, the Registrant deemed the differences to be insignificant in each of the periods presented. Such differences amounted to approximately $4,000 in 2004, and $30,000 in each of 2005 and 2006. Accordingly, the Registrant respectfully submits that it does not believe it is necessary to modify the presentation in the financial statements.

Note 3 — Summary of Significant Accounting Policies, page F-8

Accounts Receivable, page F-10

46. *Please clarify the nature of the government charge-backs and how these are recorded in your financial statements.*

Response: The Registrant has revised the disclosure as requested.

Note 8 — Accrued Expenses and Other Current Liabilities, page F-19

47. *Please tell us the nature of the accrual for stock option rescission.*

Response: The Registrant supplementally advises the Staff that it may have inadvertently violated applicable California securities law with respect to option grants under the Registrant's 1999, 2000 and 2003 stock option plans. Pursuant to California Securities Law ("CSL"), issuers can be liable to offerees for failure to obtain a required permit from the California Department of Corporations or otherwise qualify securities. Such a failure gives rise to a claim of the offeree to rescind or to require the repurchase of the securities, which allows the offeree to sue to recover (i) the consideration paid for such security plus legal interest, less the amount of any income received therefrom, upon the tender of such security, or (ii) for damages, if the offeree no longer owns the security, or if the consideration given for the security is not capable of being returned. A substantial majority of the offerees were in California.

Employee stock options typically fall within the category of securities for which consideration is not capable of being returned. Consequently, the repurchase of the option is used to terminate the civil liability for grants of employee stock options that are not in compliance with applicable CSL. According to information obtained telephonically from the California Department of Corporations, the repurchase offer price for options should be 20% of the aggregate exercise price for all outstanding options (whether or not vested) held by the offeree plus legal interest.

The statute of limitations for claims for rescission/repurchase is two years from the date of the violation or one year from the date of discovery by the offeree of the facts constituting the violation, whichever occurs first.

APB 25 paragraph 25 and SFAS 123 paragraph 25, both of which are titled "Awards That Call for Settlement in Cash," require entities to record stock based compensation awards as liability instruments when the optionee/employee has the ability to compel the entity to settle the award by transferring cash or other assets. In addition, other accounting literature (including literature relating to accounting for derivative financial instruments) requires liability classification when a net cash settlement is in the holder's control. The Registrant believes that since the optionee/employee holders of these awards possessed a free standing right to require cash settlement that liability classification of these awards is required under APB 25 and SFAS 123 (the standards applicable at the time of grant) and

that by analogy, such treatment is consistent with the principles of other literature relating to the classification of financial instruments. Accordingly, these awards were classified by the Registrant as liability instruments for their estimated cash settlement amounts.

Note 9 — Long-Term Debt, page F-19

48. *We note that you allocated a portion of the proceeds from your debt financings to warrants. Please revise to disclose the significant assumptions used to value the warrants.*

Response: The Registrant notes the Staff's observations relating to the absence of the significant assumptions used to value the warrants issued with debt related financings in Note 9 — Long-Term Debt. The significant assumptions are currently disclosed in Note 12 — Stockholders' Equity. The Registrant has cross referenced Note 12 to direct the reader to the significant assumptions used to value the warrants.

Note 12 — Stockholders' Equity, page F-24

Valuation of Common Stock, page F-27

49. *Provide us with an itemized chronological schedule detailing each issuance of your preferred shares, ordinary shares, stock options and warrants during the last 12 months. Include the following information for each issuance or grant date:*

a. Number of shares issued or issuable in the grant

b. Purchase price or exercise price per share

c. Any restriction or vesting terms

d. Management's fair value per share estimate

e. How management determined the fair value estimate

f. Identity of the recipient and relationship to the company

g. Nature and terms of any concurrent transactions with the recipient

h. Amount of any recorded compensation element and accounting literature relied upon

In the analysis requested above, highlight any transactions with unrelated parties believed by management to be particularly evident of an objective fair value per share determination. Progressively bridge management's fair value per share

determinations to the current estimated IPO price per share, identifying all material positive and negative events occurring during the period which could reasonably contribute to variances in fair value. Also, indicate when discussions were initiated with your underwriter(s).

Response: Attached as an appendix to this letter, the Registrant has supplementally provided information in response to the Staff's comment.

50. *We note that you refer to an independent valuation on page F-27. While you are not required to make reference to this independent valuation, when you do so, you must name the expert and file their written consent. See Item 601(b) of Regulation S-K. In addition, revise to disclose the method the expert used to determine the fair value of the common stock.*

Response: The Registrant has filed the consent and revised the disclosure as requested.

Note 17 — Discontinued Operations, page F-32

51. *Please disclose why you believe you will not have any loss exposure for the unpaid taxes related to your involvement with QP.*

Response: The Registrant has revised the disclosure as requested.

Part II

Recent Sales of Unregistered Securities — Page II-1

52. *Please revise your disclosures generally to include all of the information required by Item 701 of Regulation S-K, including, among other things, the following:*

- *Please identify by name or by class the persons to whom the securities were sold.*
- *Where an offering was conducted in reliance on Regulation D, please disclose the specific Regulation D exemption relied upon and the facts that supported the availability of that exemption.*
- *Where an offering was conducted in reliance on Rule 701, please disclose the facts that supported the availability of that exemption.*

- *Please provide the disclosures required by Item 701(b) with respect to any underwriters, placement agents, finders or other persons who participated in any offering.*

Note that this disclosure item is not limited to equity transactions. We note for example the debt transactions referenced on page 39.

Response: The Registrant has revised the disclosure as requested. The Registrant would like to advise the Staff that it has not issued any securities to consultants upon the exercise of options to purchase the Registrant's common stock.

53. *Rather than describing unrelated transactions on a group basis, please revise the second paragraph to separately provide all of the information required by Item 701 of Regulation S-K for each issuance to consultants.*

Response: The Registrant has revised the disclosure as requested.

54. *Provide the disclosure required by Item 701 of Regulation S-K for the warrants issued pursuant to section 6 of the loan and security agreement filed as Exhibit 10.13 and all of the warrants described on pages 25 and page F-26.*

Response: The Registrant has revised the disclosure as requested.

Item 17. Undertakings, page II-3

55. *Please provide the undertakings contained in Items 512(a)(5)(ii) and 512(a)(6) of Regulation S-K.*

Response: The Registrant respectfully submits that the undertaking in Item 512(a)(5)(ii) is not applicable in this instance and the Registrant has revised the disclosure to include the undertakings in Item 512(a)(6).

Exhibits

56. *Please file all other required exhibits to allow sufficient time for staff review.*

Response: The Staff's comment has been noted.

57. *Please tell us how your filing of forms of promissory notes as exhibits 4.7 through 4.10 satisfies the requirements of Regulation S-K Item 601.*

Response: The Registrant respectfully advises the Staff that each of the forms of promissory notes filed as Exhibits 4.7 through 4.10 were filed in reliance on Item 601(a)(2) of Regulation S-K. The Registrant has filed the requisite schedule identifying the other documents omitted and the material details in which such documents differ from each of the forms as filed.

* * * * *

Questions or comments regarding any matters with respect to the Registration Statement may be directed to the undersigned at (650) 233-4523. Comments can also be sent via facsimile at (866) 743-0981.

Very truly yours,

/s/ Noelle Matteson

Noelle Matteson

cc: Hojabr Alimi
William C. Davisson III

S. K. Burks
G. A. Lombardi

Appendix A

The Registrant supplementally advises the Staff of the following in response to Comment 47:

While not reflected in the Registration Statement, as filed, the Registrant currently anticipates a public offering price range of $5.22 to $6.81 per share (on a pre-reverse split basis) for the Registrant's common stock. A future amendment to the Registration Statement will give effect to an anticipated reverse stock split, which will depend on market conditions and the underwriters' estimate of an appropriate valuation.

Stock Options

Table A, below, lists data regarding all options granted to employees and directors from July 1, 2005 through August 2006. The Registrant believes that all of the options listed in Table A were granted at least the then-current fair value of the common stock as determined by the Registrant's Board of Directors at the time of each grant. The Registrant believes that its 2004 Stock Incentive Plan (the "Option Plan") meets the required criteria set forth in APB Opinion No. 25 and in the Internal Revenue Code of 1986, as amended (the "Code") that are essential to classify option grants as non-compensatory. The terms of the Option Plan require that incentive stock options have exercise prices equal to at least 100% of the fair market value of the common stock at the time of grant. All options granted to employees since July 1, 2005 were intended to be incentive stock options or were otherwise granted at least 100% of the then-current fair market value.

In the absence of a public trading market, the Board of Directors considered a variety of factors to determine the fair of its common stock value at each option grant date, including the factors described below:

- independent valuations of the common stock obtained in July 2005 and June 2006;
- the option grants involved illiquid securities in a private company;
- the shares of common stock acquired upon exercise are subject to vesting (generally 20% after the first year and ratably per month over the remaining three years or 1/60th per month over the five years);
- the price of the convertible preferred stock issued by the Registrant and the rights, preferences and privileges of the Registrant's preferred stock over the common stock, including:
  - the participation rights of the holders of Preferred Stock that provide for pro rata sharing of liquidation proceeds with the holders of common stock (up to a specified cap for each series of Preferred Stock) after the payment of the aggregate liquidation preference to the holders of Preferred Stock;
  - the conversion and anti-dilution provisions of the Preferred Stock and the fact that the Preferred Stock will not automatically convert into common

Stock unless the price per share is an initial public offering with aggregate offering proceeds of at least $20.0 million;

• the conversion and anti-dilution provisions of the Preferred Stock and the fact that the Preferred Stock will not automatically convert into common stock unless the price per share in an initial public offering with aggregate offering proceeds of at least $20.0 million;

• the cumulative nature of the Series A Preferred Stock dividends of $.09 per share commencing on January 1, 2006, payable prior to the payment of any other dividends;

• the non-cumulative nature of the Series B Preferred Stock dividends, with annual dividends of $0.225, when and if declared, per share prior to the payment of any other dividends;

• Series C dividends and warrants; and

• the voting powers of holders of Preferred Stock relative to holders of common stock.

• the Registrant's performance and progress in implementing its business strategy;

• equity market conditions; and

• the likelihood of achieving a liquidity event for the shares of common stock underlying the options, such as an initial public offering or sale of the Registrant, given prevailing market conditions.

The Registrant believes that the actions of its Board to establish the fair market value of the common stock at such dates were prudent and determined using due care so as to comply with the requirements of APB Opinion No. 25 as to non-compensatory options and to preserve the status of such options as incentive stock options under the Option Plan and the Code. Accordingly, no stock based compensation expense has been recognized with respect to these grants.

Table A — Options Granted to Employees and Board Members

Grant Date	Number of Shares	Exercise Price	Preferred Stock Price	Exercise Price as a Percentage of Preferred Stock	Mid-point of Expected Filing Range	Exercise Price as a % of Mid-point of Expected Filing Range
10/1/05	2,173,000	$ 2.54	$ 4.50	56%	$ 6.01	42%
1/3/06	220,000	$ 2.54	$ 4.50	56%	$ 6.01	42%

Grant Date	Number of Shares	Exercise Price	Preferred Stock Price	Exercise Price as a Percentage of Preferred Stock	Mid-point of Expected Filing Range	Exercise Price as a % of Mid-point of Expected Filing Range
3/31/06	175,000	$ 3.00	$ 4.50	67%	$ 6.01	50%
7/27/06	680,500	$ 3.00	$ 4.50*	67%	$ 6.01	50%

* In May 2006, the Registrant began to sell units consisting of shares of its Series C convertible preferred stock plus warrants to purchase common stock at $4.50 per unit.

The exercise price for the grants in October 2005 determined based on a report issued by Valuation Research Corporation ("VRC") in July 2005, which report valued the Registrant's common stock at $2.54 per share. In arriving at its conclusion, VRC relied on the income approach to establish the total equity value of the Registrant and the option pricing method to allocate value to the various equity components. The exercise price of the options granted in March 2006 was based upon the Board's determination of market value considering the aforementioned valuation and the state of the Registrant's business, its progress toward filing its Registration Statement, and the ongoing sales of its Series B preferred stock at $4.50 per share. The exercise price of the options granted in July 2006 was determined based in part on a second report issued by VRC in June 2006, which report valued the Registrant's common stock at $2.82 per share. In arriving at its conclusion, VRC used income and market approaches and allocated value using the option-pricing method. Other factors considered by the Board in setting the exercise price in excess of the valuation were the fact that the Registrant had in fact successfully filed its S-1 Registration Statement, the Registrant had terminated its relationship with QP, and the Registrant's independent public auditor had issued an unqualified opinion. The Registrant's organizational meeting with its investment bankers took place on July 27, 2005. Due to a variety of factors, including the Audit Committee's investigation into matters related to QP, and its ultimate decision to change auditors, the Registration Statement was not filed until July 3, 2006. In addition, the Registrant had determined to sell Series C Preferred Stock at $4.50 per share plus warrants to qualified institutional investors and large institutional accredited investors.

The options in the table above vest as to 20% on the one year anniversary of the vesting commencement date, and as to 1/60 each month thereafter until fully vested.

Options Granted to Non-Employees

On October 1, 2005, the Registrant granted an option to purchase 10,000 shares of common stock at $2.54 per share to a member of the Registrant's business and medical advisory board. The option vests ratably over five years. The grant was accounted for in accordance with SFAS No. 123/ 123(R) and EITF 96-18, with the fair value of the option being periodically remeasured as the option vests. Further, the value of any awards that were vested and nonforfeitable 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 the award that is subject to the future performance of the counterparty is adjusted at each

reporting date to its fair value based on the then current market value of the Registrant's stock and other assumptions that management believes are reasonable. The Registrant recorded $8,700 in stock compensation expense related to this grant.

All Securities Issuances

On June 30, 2005, the Registrant sold an aggregate of 1,310,046 shares of its Series B preferred stock at $4.50 per share to approximately 44 purchasers.

In June 2005, the Registrant issued 40,000 shares of its Series A preferred stock at $1.00 per share to a director. The stock was issued upon conversion of a $40,000 note issued in February 2003, which note was convertible at the option of the holder into Series A or common stock in accordance with its terms.

On July 15, 2005, the Registrant sold an aggregate of 563,095 shares of its Series B preferred stock at $4.50 per share to approximately 18 purchasers.

On July 20, 2005, a director exercised options to purchase an aggregate of 67,657 shares of common stock.

On various dates between August 1, and August 31, 2005, the Registrant sold an aggregate of 1,630,178 shares of its Series B preferred stock at $4.50 per share to approximately 67 purchasers.

In September and November 2005, the Registrant issued to members of its advisory board warrants to purchase an aggregate of 127,500 shares of common stock at $4.50 per share and 12,500 shares of common stock at $4.50 per share to the spouse of an advisory board member. The warrants vest over five years in accordance with a vesting schedule contained in agreements between the advisory board member and the Registrant.

Also in September 2005, the Registrant issued to a consultant and member of its advisory board a warrant to purchase 50,000 shares of common stock at $4.50 per share. The warrant vested monthly, with the final 25,000 shares to vest upon closing of a co-marketing deal by July 2006 with an identified medical device company with products complementary to the Registrant's products. The co-marketing agreement was not signed as required and this portion of the warrant lapsed.

On September 16 and September 30, 2005, the Registrant sold an aggregate of 284,127 shares of its Series B preferred stock at $4.50 per share to approximately 17 purchasers.

In September 2005, the Registrant issued to a law firm a warrant to purchase 30,374 shares of common stock at $4.50 per share as payment for legal services to be rendered pursuant to a consulting agreement. The warrant vests in relation to the amount of the monthly invoice.

On October 1, 2005 the Registrant granted options to purchase an aggregate of 2,163,000 shares of common stock at an exercise price of $2.54 per share. These grants are included in Table A, above.

On October 14 and October 27, 2005, the Registrant sold an aggregate of 312,436 shares of its Series B preferred stock at $4.50 per share to approximately 17 purchasers.

In October 2005, the Registrant issued to individuals and entities affiliated with Brookstreet Securities Corporation warrants to purchase an aggregate of 1,317,933 shares of common stock at $4.50 per share as partial payment for its services as placement agent for the Series B financing. There are no vesting restrictions on these warrants. The issuance of these warrants did not result in the recognition of compensation expense.

On January 3, 2006, the Registrant granted options to purchase an aggregate of 220,000 shares of common stock with an exercise price of $2.54 per share. These grants are included in Table A, above.

On January 25, 2006, the Registrant issued 50,000 shares of common stock to a Dr. Allie, member of its Advisory Board, for services provided at a medical conference. The services provided were valued at $2.54 per share.

On January 25, 2006, the Registrant issued warrants to purchase 15,000 shares of common stock at $4.50 per share to a consultant. The warrants vest monthly over the course of two years commencing on January 28, 2006.

On January 25, 2006, the Registrant issued to a consultant warrants to purchase 30,000 shares of common stock at $2.54 per share. The warrants vest in January 2007, assuming achievement of specified contractual milestones by December 31, 2006. Compensation expense is to be measured and recorded at fair value at the time the performance condition is satisfied. This individual, Dr. Wolvos, also completed a clinical study using one of the Registrant's products.

On March 31, 2006, the Registrant granted options to purchase an aggregate of 175,000 shares of common stock with an exercise price of $3.00 per share. These grants are included in Table A, above.

In June 2006, the Registrant issued 15,000 shares of common stock for $2.82 per share to an executive search firm as partial compensation for services rendered to the Registrant.

On June 14, 2006, in connection with a debt financing arrangement, the Registrant issued to the lender warrants to purchase up to 300,000 shares of its Series B preferred stock at $4.50 per share. 286,137 shares vested on June 4, 2006, and all or a part of the remaining 13,863 shares will vest when and if additional amounts are drawn down under the credit facility. These warrants are immediately exercisable. The Registrant accounted for the warrants as debt issuance cost in the amount of $1,047,000 in accordance with APB Opinion No. 21 "Interest on Receivable and Payables." The

warrants were recorded at fair value on the date of issuance using the Black-Scholes option pricing model.

On July 27, 2006, the Registrant granted options to purchase an aggregate of 680,500 shares of common stock with an exercise price of $3.00 per share. These grants are included in Table A, above.

Stock Compensation Expense

Total stock compensation expense recorded was as follows:

Expensed

	FY 06	Q1 07	Total
Issued 7/1/2005- 6/30/2006			
Warrants	$154,000	$ 25,000	$179,000
Non-employee stock options	$ 6,000	$ 3,000	$ 9,000
Shares Issued for services	$127,000	$ 44,000	$170,000
Issued prior to 7/1/2005	$310,000	$ 52,000	$362,000
Total for period	$597,000	$124,000	$720,000

The Registrant accounted for the issuance of stock based compensation to non-employees for services using the measurements date guidelines enumerated in SFAS 123 / 123(R) and EITF 96-18. Accordingly, the value of any awards that were vested and nonforfeitable 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 Registrant's stock and other assumptions that management believes are reasonable.

The foregoing analysis does not take into account the charge that will be taken by the Registrant in connection with the grant of options to the Registrant's Chief Financial Officer, which will be made upon the closing of the Registrant's initial public offering.