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

**FORM 10-Q**

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

**For the quarterly period ended December 31, 2013**

**or**

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

**For the transition period from _____ to _____**

**Commission File Number 001-33216**

**OCULUS INNOVATIVE SCIENCES, INC.**
(Exact name of registrant as specified in its charter)

| **Delaware** | **68-0423298** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S Employer Identification No.) |

**1129 North McDowell Blvd.**
**Petaluma, CA 94954**
(Address of principal executive offices) (Zip Code)

**(707) 283-0550**
(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of January 31, 2014, the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 7,239,131.

**OCULUS INNOVATIVE SCIENCES, INC.**

**Index**

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

**OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES**
**Condensed Consolidated Balance Sheets**
(In thousands, except share and per share amounts)

| | December 31, 2013 (Unaudited) | March 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,437 | $ 7,900 |
| Accounts receivable, net | 2,603 | 1,707 |
| Inventories, net | 970 | 992 |
| Prepaid expenses and other current assets | 483 | 935 |
| Total current assets | 7,493 | 11,534 |
| Property and equipment, net | 1,046 | 800 |
| Deferred offering costs | 1,160 | 44 |
| Other assets | 144 | 187 |
| Total assets | $ 9,843 | $ 12,565 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,638 | $ 808 |
| Accrued expenses and other current liabilities | 588 | 703 |
| Current portion of cash settlement liability (See Note 3) | – | 37 |
| Deferred revenue | 2,657 | 2,320 |
| Current portion of long-term debt, net of debt discount of $521 at March 31, 2013 | 37 | 1,259 |
| Total current liabilities | 4,920 | 5,127 |
| Deferred revenue | 1,514 | 2,619 |
| Long-term debt, net of debt discount of $248 at March 31, 2013, less current portion | 12 | 676 |
| Cash settlement liability, less current portion (See Note 3) | – | 62 |
| Total liabilities | 6,446 | 8,484 |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Convertible preferred stock, $0.0001 par value; 5,000,000 shares authorized, none issued and outstanding at December 31, 2013 (unaudited) and March 31, 2013, respectively | – | – |
| Common stock, $0.0001 par value; 14,285,715 shares authorized, 7,239,131 and 6,583,150 shares issued and outstanding at December 31, 2013 (unaudited) and March 31, 2013, respectively | 1 | 1 |
| Additional paid-in capital | 147,932 | 144,816 |
| Accumulated other comprehensive loss | (3,069) | (2,991) |
| Accumulated deficit | (141,467) | (137,745) |
| Total stockholders' equity | 3,397 | 4,081 |
| Total liabilities and stockholders' equity | $ 9,843 | $ 12,565 |

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

**OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES**
**Condensed Consolidated Statements of Comprehensive Loss**
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | |
| Product | $ 2,450 | $ 2,655 | $ 8,627 | $ 10,312 |
| Product licensing fees | 629 | 702 | 1,459 | 1,125 |
| Service | 214 | 183 | 668 | 680 |
| Total revenues | 3,293 | 3,540 | 10,754 | 12,117 |
| Cost of revenues | | | | |
| Product | 1,023 | 906 | 3,247 | 2,986 |
| Service | 161 | 163 | 493 | 576 |
| Total cost of revenues | 1,184 | 1,069 | 3,740 | 3,562 |
| Gross profit | 2,109 | 2,471 | 7,014 | 8,555 |
| Operating expenses | | | | |
| Research and development | 775 | 509 | 2,165 | 1,554 |
| Selling, general and administrative | 2,880 | 2,642 | 8,792 | 8,993 |
| Total operating expenses | 3,655 | 3,151 | 10,957 | 10,547 |
| Loss from operations | (1,546) | (680) | (3,943) | (1,992) |
| Interest expense | (618) | (275) | (1,056) | (843) |
| Interest income | – | 1 | 1 | 3 |
| Gain (loss) due to change in fair value of common stock (See Note 3) | 1,567 | (864) | 1,357 | (864) |
| (Loss) gain due to change in fair value of derivative instruments | – | (84) | – | 766 |
| Other expense, net | (14) | (10) | (81) | (56) |
| Net loss | (611) | (1,912) | (3,722) | (2,986) |
| Preferred stock deemed dividend | – | – | – | (1,062) |
| Net loss available to common shareholders | $ (611) | $ (1,912) | $ (3,722) | $ (4,048) |
| Net loss per common share: basic and diluted | $ (0.09) | $ (0.37) | $ (0.56) | $ (0.85) |
| Weighted-average number of shares used in per common share calculations: | | | | |
| Basic and diluted | 6,810 | 5,126 | 6,687 | 4,767 |
| Other comprehensive loss, net of tax | | | | |
| Net loss | $ (611) | $ (1,912) | $ (3,722) | $ (2,986) |
| Foreign currency translation adjustments | 8 | (16) | (78) | (17) |
| Other comprehensive loss | $ (603) | $ (1,928) | $ (3,800) | $ (3,003) |

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

**OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES**
**Condensed Consolidated Statements of Cash Flows**
(In thousands)
(Unaudited)

| | Nine Months Ended December 31, | |
|---|---|---|
| | **2013** | **2012** |
| **Cash flows from operating activities** | | |
| Net loss | $ (3,722) | $ (2,986) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 211 | 197 |
| Stock-based compensation | 1,114 | 1,397 |
| Change in fair value of derivative liability | – | (766) |
| (Gain) loss due to change in fair value of common stock (See Note 3) | (1,357) | 864 |
| Non-cash interest expense | 863 | 461 |
| Foreign currency transaction gains | (6) | 4 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (908) | (942) |
| Inventories, net | (2) | 46 |
| Prepaid expenses and other current assets | 435 | 171 |
| Accounts payable | 835 | (305) |
| Accrued expenses and other liabilities | (52) | 278 |
| Deferred revenue | (812) | 3,775 |
| Net cash (used in) provided by operating activities | (3,401) | 2,194 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (470) | (128) |
| Long-term deposits | 42 | (126) |
| Net cash used in investing activities | (428) | (254) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock, net of offering costs | 2,002 | 1,890 |
| Proceeds from the issuance of convertible preferred stock, net of offering costs | – | 907 |
| Proceeds from the exercise of common stock options and warrants | – | 16 |
| Proceeds received in connection with stock purchase agreement (See Note 3) | 33 | – |
| Deferred offering costs | (1,116) | – |
| Principal payments on long-term debt | (1,524) | (1,508) |
| Net cash (used in) provided by financing activities | (605) | 1,305 |
| Effect of exchange rate on cash and cash equivalents | (29) | 2 |
| Net (decrease) increase in cash and cash equivalents | (4,463) | 3,247 |
| Cash and cash equivalents, beginning of period | 7,900 | 3,351 |
| Cash and cash equivalents, end of period | $ 3,437 | $ 6,598 |
| | | |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest | $ 193 | $ 382 |
| **Non-cash financing activities:** | | |
| Common stock issued in connection with stock purchase agreement (See Note 3) | $ – | $ 3,500 |
| Reclassification of derivative liabilities to paid in capital | $ – | $ 1,636 |
| Warrants issued as derivative liabilities in connection with registered direct offering | $ – | $ 2,347 |
| Obligations settled in connection with stock purchase agreement (See Note 3) | $ 3,225 | $ – |

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

**OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
(Unaudited)

## Note 1. Organization and Summary of Significant Accounting Policies

### *Organization*

Oculus Innovative Sciences, Inc. (the "Company") was incorporated under the laws of the State of California in April 1999 and was reincorporated under the laws of the State of Delaware in December 2006. The Company's principal office is located in Petaluma, California. The Company is a global healthcare company that designs, produces, and markets prescription and non-prescription products in 31 countries. It is pioneering innovative products for the dermatology, surgical, advanced wound and tissue care, and animal healthcare markets. The Company's primary focus is on its proprietary technology platform called Microcyn® Technology. This technology is based on electrically charged oxychlorine small molecules designed to target a wide range of organisms that cause disease (pathogens). Several Microcyn® Technology tissue care products are designed to treat infections and enhance healing while reducing the need for antibiotics.

### *Reverse Stock Split*

Effective as of the open of business on April 1, 2013, the Company effected a reverse stock split of its common stock, par value $0.0001 per share. Every 7 shares of common stock were reclassified and combined into one share of common stock. No fractional shares were issued as a result of the reverse stock split. Instead, each resulting fractional share of common stock was rounded up to one whole share. The reverse stock split reduced the number of shares of the Company's common stock outstanding from 46,080,513 to 6,583,150. The total number of authorized shares of common stock was also proportionally decreased by a ratio of 1:7 and the par value per share of the common stock continued to be $0.0001.

All common shares and per share amounts contained in the condensed consolidated financial statements have been retroactively adjusted to reflect a 1 for 7 reverse stock split, effective April 1, 2013.

### *Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements as of December 31, 2013 and for the three and nine months then ended have been prepared in accordance with the accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission ("SEC") and on the same basis as the Company prepares its annual audited consolidated financial statements. The unaudited condensed consolidated balance sheet as of December 31, 2013, the condensed consolidated statements of comprehensive loss for the three and nine months ended December 31, 2013 and 2012, and the condensed consolidated statements of cash flows for the nine months ended December 31, 2013 and 2012 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The results for the three and nine months ended December 31, 2013 are not necessarily indicative of results to be expected for the year ending March 31, 2014 or for any future interim period. The condensed consolidated balance sheet at March 31, 2013 has been derived from audited consolidated financial statements. However, it does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended March 31, 2013, and notes thereto included in the Company's annual report on Form 10-K, which was filed with the SEC on June 25, 2013.

### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aquamed Technologies, Inc. ("Aquamed"), Oculus Technologies of Mexico S.A. de C.V., Oculus Innovative Sciences Netherlands, B.V. and Ruthigen, Inc. ("Ruthigen"). All significant intercompany accounts and transactions have been eliminated in consolidation. Aquamed has no current operations.

### *Use of Estimates*

The preparation of condensed 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Significant estimates and assumptions include reserves and write-downs related to receivables and inventories, the recoverability of long-lived assets, the valuation allowance relating to the Company's deferred taxes, the valuation of equity and derivative instruments, and debt discounts and the estimated amortization periods of upfront licensing fees received from customers. Periodically, the Company evaluates and adjusts estimates accordingly. The allowance for uncollectible accounts receivable balances amounted to $9,000 and $22,000, which are included in accounts receivable, net in the accompanying December 31, 2013 and March 31, 2013 condensed consolidated balance sheets, respectively. The reserve for excess and obsolete inventory balances amounted to $85,000 and $170,000, which are included in inventories, net in the accompanying December 31, 2013 and March 31, 2013 condensed consolidated balance sheets, respectively.

***Reclassifications***

Certain prior period amounts have been reclassified for comparative purposes to conform to the fiscal 2014 presentation. These reclassifications have no impact on the Company's previously reported net loss.

***Net Loss per Share***

The Company computes basic net loss per share 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 net loss per share for the three and nine months ended December 31, 2013 and 2012 (adjusted if applicable for the reverse stock split effective April 1, 2013) excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

| | December 31, | |
|---|---|---|
| | **2013** | **2012** |
| Options to purchase common stock | 1,253,000 | 987,000 |
| Warrants to purchase common stock | 1,334,000 | 1,462,000 |
| | 2,587,000 | 2,449,000 |

***Common Stock Purchase Warrants and Other Derivative Financial Instruments***

The Company classifies common stock purchase warrants and other free standing derivative financial instruments as equity if the contracts (i) require physical settlement or net-share settlement, or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies 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), (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement), or (iii) contain reset provisions as either an asset or a liability. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that its freestanding derivatives, which principally consist of warrants to purchase common stock, satisfied the criteria for classification as equity instruments at December 31, 2013, other than certain warrants that contain reset provisions and certain warrants that require net-cash settlement that the Company classified as derivative liabilities.

***Fair Value of Financial Assets and Liabilities***

Financial instruments, including cash and cash equivalents, accounts receivable, inventory, prepaid expenses and other current assets, accounts payable, accrued liabilities and deferred revenue are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The fair value of capital lease obligations and equipment loans approximates their carrying amounts as a market rate of interest is attached to their repayment. The Company measures the fair value of financial assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company uses three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets or liabilities

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — inputs that are unobservable (for example, cash flow modeling inputs based on assumptions)

Financial liabilities measured at fair value on a recurring basis are summarized below:

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivative liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's accounting and finance department, who reports to the Chief Financial Officer, determine its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's accounting and finance department and are approved by the Chief Financial Officer.

Level 3 Valuation Techniques:

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

The Company uses the Black-Scholes option valuation model to value Level 3 financial liabilities at inception and on subsequent valuation dates. This model incorporates transaction details such as the Company's stock price, contractual terms, maturity, risk free rates, as well as volatility.

A significant decrease in the volatility or a significant decrease in the Company's stock price, in isolation, would result in a significantly lower fair value measurement. Changes in the values of the derivative liabilities are recorded in "(Loss) gain due to change in fair value of derivative instruments" in the Company's condensed consolidated statements of comprehensive loss.

As of December 31, 2013, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

***Subsequent Events***

Management has evaluated subsequent events or transactions occurring through the date the condensed consolidated financial statements were issued (See Note 10).

***Recent Accounting Pronouncements***

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

**Note 2. Liquidity and Financial Condition**

The Company reported a net loss of $3,722,000 for the nine months ended December 31, 2013. At December 31, 2013 and March 31, 2013, the Company's accumulated deficit amounted to $141,467,000 and $137,745,000, respectively. The Company had working capital of $2,573,000 and $6,407,000 as of December 31, 2013 and March 31, 2013, respectively. The Company expects the need to raise additional capital from external sources in order to continue the longer term efforts contemplated under its business plan. The Company expects to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue its product development initiatives, penetrate markets for the sale of its products and continue as a going concern. If the closing of the intended initial public offering by the Company's subsidiary, Ruthigen, Inc. occurs, the Company will be repaid for certain costs incurred and advanced related to Ruthigen's intended initial public offering and certain other agreed-upon expenses, pursuant to the terms of the funding agreement the Company entered into with Ruthigen (See Note 4). At December 31, 2013, these costs amounted to $1,347,000, and $1,160,000 is reported as deferred offering costs in the accompanying condensed consolidated balance sheet and $187,000 is reported as selling, general and administrative expense.

On December 4, 2013, the Company entered into agreements with institutional and accredited investors to issue 550,000 shares of its common stock at $4.00 per share, with no warrant coverage, yielding gross proceeds of $2,200,000 and net proceeds of $2,002,000 after deducting placement agent commissions and other offering costs. The Company retained Dawson James Securities, Inc. as the exclusive placement agent for this offering, and paid them $154,000 in placement agent commissions. In addition to the payment of certain cash fees upon closing of the offering, the Company issued a warrant to Dawson James Securities, Inc. to purchase up to 16,500 shares of common stock. The warrants are exercisable at $5.00 per share and will expire on May 3, 2016.

The Company currently anticipates that its cash and cash equivalents will be sufficient to meet its working capital requirements to continue its sales and marketing and research and development efforts through at least January 1, 2015. However, in order to execute the Company's long-term Microcyn® product development strategy and to penetrate new and existing markets, the Company may need to raise additional funds through public or private equity offerings, debt financings, corporate collaborations or other means and potentially reduce operating expenditures.

Management believes that the Company has access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means; however, the Company has not secured any commitment for new financing at this time, nor can it provide any assurance that the Ruthigen initial public offering will be completed or that other new financings will be available on commercially acceptable terms, if needed. If the Company is unable to secure additional capital, it may be required to curtail its research and development initiatives and take additional measures to reduce costs in order to conserve its cash.

**Note 3. Condensed Consolidated Balance Sheets**

***Inventories***

Inventories consisted of the following:

| | December 31, 2013 | March 31, 2013 |
|---|---|---|
| Raw materials | $ 702,000 | $ 835,000 |
| Finished goods | 353,000 | 327,000 |
| | 1,055,000 | 1,162,000 |
| Less: inventory allowances | (85,000) | (170,000) |
| | $ 970,000 | $ 992,000 |

***Notes Payable***

On May 1, 2010, the Company entered into a loan and security agreement and a supplement to the loan and security agreement with Venture Lending & Leasing V, Inc., to borrow up to an aggregate of $3,000,000 (together, the "VLL5 Loan Agreements"). In connection with those agreements, the Company issued two warrants to Venture Lending & Leasing V, LLC, a Delaware limited liability company ("LLC5"), which, in the aggregate, had a total put option cash value of $750,000 (the "VLL5 Warrants").

On June 29, 2011, the Company entered into a loan and security agreement and a supplement to the loan and security agreement with Venture Lending & Leasing VI, Inc., to borrow up to an aggregate of up to $2,500,000 (together, the "VLL6 Loan Agreements"). In connection with those agreements, the Company issued three warrants to Venture Lending & Leasing VI, LLC, a Delaware limited liability company ("LLC6"), which, in the aggregate, had a total put option cash value of $1,250,000 (the "VLL6 Warrants").

On October 30, 2012, the Company entered into a stock purchase agreement with LLC5 and LLC6 for the issuance to LLC5 and LLC6 of shares of common stock having an aggregate fair market value equal to $3,500,000 (the "Shares"), in exchange for LLC5's agreement to surrender the VLL5 Warrants and LLC6's agreement to surrender the VLL6 Warrants. On November 1, 2012, the Company issued an aggregate of 617,284 shares of its common stock with an aggregate grant date fair market value of $3,500,000, or approximately $5.67 per share.

As of December 16, 2013, the Shares were sold for an average price of $5.35 per share, resulting in gross proceeds of $3,304,000 and net proceeds of $3,291,000 after deducting certain transaction costs. Pursuant to the stock purchase agreement, the net proceeds from the sale of the Shares were applied as follows:

(a) $2,000,000 of the proceeds received were retained by LLC5 and LLC6 as consideration for surrendering the VLL5 Warrants and VLL6 Warrants and the underlying put warrant liabilities.

(b) After the put warrant liabilities were satisfied, the remaining proceeds were applied to the reduction of the Company's remaining loans outstanding under the VLL5 Loan Agreements and the VLL6 Loan Agreements. As there was no outstanding loans under the VLL5 Loan Agreements, the Company used the amount to prepay the outstanding loans under the VLL6 Loan Agreements. $1,131,000 of the proceeds received was applied as a prepayment of the then outstanding debt under the VLL6 Loan Agreements and $94,000 of the proceeds received was applied as a prepayment of all future interest owed in connection with the VLL6 Loan Agreements.

(c) After the loans were prepaid in full, approximately $66,000 remained in excess of all outstanding obligations owed by the Company. Pursuant to the terms of the stock purchase agreement, such amount was allocated 50/50, and $33,000 was paid to the Company.

In connection with the VLL5 Loan Agreements and the VLL6 Loan Agreements, during the three months ended December 31, 2013 and 2012, the Company made interest payments of $48,000 and $116,000, respectively, and principal payments of $375,000 and $503,000, respectively. During the nine months ended December 31, 2013 and 2012, the Company made interest payments of $188,000 and $375,000, respectively, and principal payments of $1,379,000 and $1,335,000, respectively.

**Note 4. Commitments and Contingencies**

***Legal Matters***

In June 2006, the Company received a written communication from the grantor of a license to an earlier version of its technology indicating that such license was terminated due to an alleged breach of the license agreement by the Company. The license agreement extends to its 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 its use of the technology in the licensed territory. While the Company's 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 its consolidated financial position or results of comprehensive loss. The Company has not accrued a loss reserve for this matter.

On July 25, 2011, the Company received notice of a lawsuit filed in Mexico by Cesar Mangotich Pacheco and Prodinnv, S.A. de C.V. represented by Cesar Mangotich Pacheco. The lawsuit appears to allege conversion of assets, tortious interference and defamation, among other claims. The Company is currently evaluating the lawsuit, conferring with local counsel and translating the documents it has received. The Company's preliminary assessment is that the lawsuit is completely without merit and intends to vigorously defend its position. The Company has not accrued a loss reserve for this matter.

The Company, from time to time, is involved in legal matters arising in the ordinary course of its business including matters involving proprietary technology. While management believes that such matters are currently not material, 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 comprehensive loss.

***Employment Agreements***

As of December 31, 2013, the Company had employment agreements in place with five of its key executives. The agreements provide, among other things, for the payment of nine to twenty-four months of severance compensation for terminations under certain circumstances. With respect to these agreements, at December 31, 2013, potential severance amounted to $1,843,000 and aggregated annual salaries amounted to $1,310,000.

***Commercial Agreements***

On January 26, 2009, the Company entered into a commercial agreement with VetCure, Inc., a California corporation, to market and sell the Company's Microcyn® Technology-based animal healthcare products branded as Vetericyn®. VetCure, Inc. later changed its name to Vetericyn, Inc. This agreement was amended on February 24, 2009, July 24, 2009, June 1, 2010, and November 1, 2010. Pursuant to the agreement, the Company provides Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Microcyn® Technology-based animal healthcare products branded as Vetericyn®. The Company receives a fixed amount for each bottle of Vetericyn® sold by Vetericyn, Inc. At the time of these 2009 transactions, Vetericyn, Inc. was wholly-owned by Robert Burlingame, who was also a director of the Company at that time. Mr. Burlingame resigned from the Company's board of directors on February 10, 2010.

On September 15, 2009, the Company entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell certain of the Company's Microcyn® over-the-counter liquid and gel products. V&M Industries, Inc. subsequently changed its name to Innovacyn, Inc. On June 1, 2010, September 1, 2010, and November 1, 2010, the Company amended this agreement granting Innovacyn, Inc. the exclusive right to sell certain of its over-the-counter products. At the time of the 2009 transaction, V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was also a director of the Company at that time. Mr. Burlingame resigned from the Company's board of directors on February 10, 2010.

On July 1, 2011, Vetericyn, Inc. and Innovacyn, Inc. began to share profits with the Company related to the Vetericyn® and Microcyn® over-the-counter sales, resulting in the Company receiving about a 30% royalty of net revenue. During the three months ended December 31, 2013 and 2012, the Company recorded revenue related to these agreements in the amounts of $652,000 and $883,000, respectively. During the nine months ended December 31, 2013 and 2012, the Company recorded revenue related to these agreements in the amounts of $2,682,000 and $3,248,000, respectively. The revenue is recorded in product revenues in the accompanying condensed consolidated statements of comprehensive loss. At December 31, 2013 and March 31, 2013, the Company had outstanding accounts receivable of $340,000 and $264,000, respectively, related to Innovacyn, Inc.

On June 21, 2012, the Company entered into a collaboration agreement with AmDerma (the "Collaboration Agreement"). Pursuant to the Collaboration Agreement, AmDerma is responsible for the development of a Microcyn-based acne drug candidate in the United States, including all activities required to gain regulatory approvals. AmDerma will also be responsible for all costs. Additionally, within one year of the first commercial sale by AmDerma, AmDerma shall identify at least one secondary indication that AmDerma will develop. If AmDerma declines to pursue such secondary indication, then the right to develop such secondary indication will revert back to the Company. The Company granted AmDerma an exclusive, royalty-bearing perpetual license in the United States and India, with the right to sublicense and subcontract in certain circumstances, and a right of first refusal to expand the territory of the license to include the European Union, Canada, Brazil, and Japan. The Company retained rights to the "rest of world." Pursuant to the Collaboration Agreement, the Company achieved a milestone in December 2013 when it received the approval from the FDA for its Microcyn® Scar Management HydroGel and accordingly, recognized a $250,000 milestone payment as revenue during the three and nine months ended December 31, 2013.

On August 9, 2012, the Company, along with its Mexican subsidiary and manufacturer Oculus Technologies of Mexico S.A. de C.V., entered into a license, exclusive distribution and supply agreement with More Pharma Corporation, S. de R.L. de C.V. ("More Pharma") (the "License Agreement"). For a one-time payment of $500,000, the Company granted More Pharma an exclusive license, with the right to sublicense under certain conditions and with the Company's consent, to all of the Company's proprietary rights related to certain of its pharmaceutical products for human application that utilize the Company's Microcyn® Technology within Mexico. For an additional one-time payment of $3,000,000, the Company also agreed to appoint More Pharma as the exclusive distributor of certain of its products in Mexico for the term of the agreement. Additionally, the Company granted More Pharma an exclusive license to certain of the Company's then-held trademarks in exchange for a payment of $100,000. The Company has the ability to terminate the agreement if certain annual purchase minimums are not met. The term of the agreement is twenty-five years from the effective date of August 15, 2012. The term of the License Agreement will automatically renew after the twenty-five year term for successive two year terms as long as More Pharma has materially complied with any and all of the obligations under the License Agreement, including but not limited to, meeting the minimum purchase requirements set forth therein.

Additionally, on August 9, 2012, the Company entered into an exclusive distribution and supply agreement with More Pharma (the "Distribution Agreement"). For a one-time payment of $1,500,000, the Company granted More Pharma exclusive ability to market and sell certain of its pharmaceutical products for human application that utilize the Company's Microcyn® Technology. The Company also appointed More Pharma as its exclusive distributor, with the right to execute sub-distribution agreements under certain conditions and with the Company's consent, within the following countries: Antigua & Barbuda, Argentina, Aruba & Curacao, Bahamas, Barbados, Belize, Bolivia, Bonaire, Brazil, British Guyana, British Islands, Cayman Islands, Chile, Colombia, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, French Guyana, Grenada, Guadalupe, Guatemala, Haiti, Honduras, Jamaica, Martinique, Nicaragua, Paraguay, Peru, St. Bartolome, St. Vincent & Grenades, Surinam, Trinidad & Tobago, Turks & Caicos Islands, Uruguay, Venezuela and Virgin Islands.

The Company is recognizing the $5,100,000 related to the License Agreement and the Distribution Agreement as revenue on a straight line basis consistent with the Company's historical experience with contracts with similar terms, which is typically over three to five years of the contract. Additionally, the Company capitalized $214,000 of its transaction costs related to the License Agreement and the Distribution Agreement, which will be amortized by the Company as expense on a straight line basis consistent with the related revenue recognition practices. At December 31, 2013 and March 31, 2013, the Company had outstanding accounts receivable of $1,129,000 and $580,000, respectively, due from More Pharma. During three months ended December 31, 2013 and 2012, the Company recognized $379,000 and $379,000, respectively, related to the amortization of the upfront fees received in the transaction. During nine months ended December 31, 2013 and 2012, the Company recognized $1,131,000 and $569,000, respectively, related to the amortization of the upfront fees received in the transaction. The Company recognizes product sales on a sell-through basis as More Pharma sells products through to its customers.

***Other Matters***

*Ruthigen, Inc.*

The Company's wholly owned subsidiary, Ruthigen, Inc., was incorporated in the State of Nevada on January 18, 2013, and reincorporated from Nevada to Delaware on September 25, 2013. Ruthigen has established offices in Santa Rosa, California.

On January 31, 2014, the Company entered into certain new agreements with Ruthigen. Previously, the Company had entered into three key agreements with Ruthigen, which established the license and supply as well as shared services with the subsidiary, and governed the terms of its relationship with Ruthigen following the completion of Ruthigen's intended initial public offering. Each of these agreements (the "Ancillary Agreements") was entered into in the overall context of Ruthigen's separation from the Company (the "Separation"). The effective date for all three agreements is the closing date of Ruthigen's intended initial public offering, if any should occur.

Funding Agreement

Due to certain changes to the terms of Ruthigen's intended initial public offering that have occurred as well as any additional changes that may occur, the Company has entered into a new financing agreement with Ruthigen to govern the terms of certain additional financing to be provided to Ruthigen by the Company, pending the Separation, subject to the terms and conditions set forth in the agreement.

The Company has agreed to continue to fund Ruthigen for a total of up to $760,000 to allow Ruthigen to proceed with its intended initial public offering. The parties agreed that the Company has no further obligation to fund operations of Ruthigen beyond the amounts detailed in a budget to be mutually agreed upon by the parties in connection with the execution of the funding agreement and such amounts shall not exceed $760,000. Furthermore, any funds provided by the Company to Ruthigen pursuant to the funding agreement will be repaid by Ruthigen to the Company at the time of the closing of the Ruthigen initial public offering. The Company may, in its sole discretion, extend additional funds to Ruthigen, but it has no obligation to do so. The funding agreement also requires resignation of all Ruthigen board of director members from the Company's board of directors at the time Ruthigen's initial public offering is completed; and prior to that, the resignation of one Ruthigen board of director member at the time Ruthigen files an amended Registration Statement on Form S-1 with the SEC.

License and Supply Agreement

Pursuant to the license and supply agreement, the Company agreed to exclusively license certain of its proprietary technology to Ruthigen to enable Ruthigen's research and development and commercialization of the newly discovered RUT58-60, and any improvements to it, in the United States, Canada, European Union and Japan, referred to as the Territory, for certain invasive procedures in human treatment as defined in the license and supply agreement. On October 9, 2013, the Company entered into Amendment No. 1 to the license and supply agreement, which amended the second milestone event set forth in Section 7.1 of the license and supply agreement. On November 6, 2013, the Company entered into Amendment No. 2 to the license and supply agreement with Ruthigen to further amend the certain milestone events set forth in Section 7.1 of the license and supply agreement and to amend the terms of the manufacturing equipment purchases set forth in Section 6.13 of the license and supply agreement. On January 31, 2014, the Company entered into Amendment No. 3 to the license and supply agreement with Ruthigen to further amend certain milestone events and the terms of the manufacturing equipment purchases, and to remove sections of the license and supply agreement which related to an exclusive option granted to Ruthigen by the Company to expand the terms of the license and agreement to dermatologic uses. All other terms and conditions of the license and supply agreement remain unmodified and in full force and effect.

Under the terms of the license and supply agreement, the Company will be prohibited from using the licensed proprietary technology to sell products that compete with Ruthigen's products within the Territory, and Ruthigen cannot sell any device or product that competes with the Company's products being sold or developed as of the effective date of the license and supply agreement.

Ruthigen will be required to make a total of $8,000,000 in milestone payments to the Company for the first product only, as follows: upon completion of last patient enrollment in Ruthigen's Phase 1/2 clinical study; upon completion of last patient enrollment in Ruthigen's first pivotal clinical study; upon completion of Ruthigen's first meeting with the U.S. Food and Drug Administration ("FDA") following completion of Ruthigen's first pivotal clinical trial; and upon first patient enrollment in Ruthigen's second pivotal clinical trial. In addition, as further consideration under the agreement, Ruthigen will be required to make royalty payments to the Company based on Ruthigen's annual net sales of the product from the date of first commercial sale to the date that Ruthigen ceases to commercialize the product, which percentage royalty rate will vary between 3% and 20% and will increase based on various net sales thresholds and will differ depending on the country in which the sales are made.

Shared Services Agreement

The Company also entered into a shared services agreement with Ruthigen that would take effect upon the completion of Ruthigen's proposed initial public offering, if any should occur, pursuant to which it will provide Ruthigen with general services, including general accounting, human resources, laboratory personnel and shared R&D resources while Ruthigen plans to establish an independent facility and systems. As a wholly owned subsidiary of the Company, Ruthigen will be financed by the Company until the completion of the proposed initial public offering, if any should occur, and after such event, Ruthigen would become responsible for its own expenses. On January 31, 2014, the Company entered into Amendment No. 1 to the shared services agreement with Ruthigen to amend the terms of certain standard activities the Company shall provide Ruthigen and the terms related to access to the Company's facilities. All other terms and conditions of the shared services agreement remain unmodified and in full force and effect.

Separation Agreement

The Company entered into a separation agreement with Ruthigen that contains key provisions relating to its ongoing relationship with Ruthigen following the completion of Ruthigen's intended initial public offering. On January 31, 2014, the parties amended the separation agreement.

The separation agreement takes effect upon the closing of Ruthigen's intended initial public offering and terminates on the earlier of 8.5 years following the closing of the offering, or when the parties mutually agree to terminate it. The separation agreement also contains a series of restrictions on the Company's ability to transfer the Ruthigen shares it owns. The Company is restricted from transferring any of the Ruthigen shares it owns during the first year (the "lock up period") immediately following Ruthigen's intended initial public offering.

Following the one-year lock up period, transfers by the Company of the Ruthigen shares it owns must be conducted with the consent of Ruthigen's board of directors or within the prescribed requirements for such transfers set forth in the separation agreement. These prescribed requirements include that the transfers must be in private placement transactions, the purchase price discount may not exceed certain percentages depending on the transferee, the amount of shares transferred in a given transfer (or series of transfers comprising a single transaction) may not exceed the greater of 5% of Ruthigen's outstanding shares or $1.5 million in net proceeds to the Company, as well as certain other requirements set forth in the separation agreement. In addition to the prescribed manner for the Company to conduct transfers described above, if, following a minimum of 41.5 months following the closing of Ruthigen's initial public offering have lapsed under the separation agreement and the Company has not consummated transfers of the Ruthigen shares it owns resulting in at least $3.8 million in net proceeds to the Company, then the Company has a one-time transfer and registration right to transfer the Ruthigen shares it owns in an amount equal to the difference between $3.8 million and the Ruthigen shares transferred by the Company pursuant to the separation agreement as of the time the Company elects to exercise its one-time right. Transfers conducted using this one-time right must be conducted with the consent of Ruthigen's board of directors or within the prescribed requirements for such transfers set forth in the separation agreement, including, for example, that the purchase price discount may not exceed certain percentages, the amount of shares transferred may not exceed $3.8 million in net proceeds to the Company, as well as certain other requirements set forth in the separation agreement.

The amended separation agreement amended the terms of the prior separation agreement such that the terms of the funding agreement shall control the methodology for the allocation of the operational and offering related expenses incurred prior to and in connection with Ruthigen's intended initial public offering for which Ruthigen is required to reimburse the Company.

The separation agreement also sets forth the methodology for the allocation of the operational and offering related expenses incurred prior to and in connection with Ruthigen's intended initial public offering for which Ruthigen is required to reimburse the Company. Ruthigen will also reimburse the Company for expenses such as salaries and benefits advanced or paid on Ruthigen's behalf, or for Ruthigen's benefit, during a transition period following the closing of Ruthigen's intended initial public offering.

The separation agreement provides that each party will indemnify, defend and hold harmless the other party and its affiliates for third party claims asserted against the other party. This includes an indemnification by the Company to Ruthigen related to obligations that the Company has under certain loan and security agreements entered into by the Company with Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. The separation agreement also provides that, so long as the Company shall maintain a directors' and officers' insurance program covering the past and present officers and directors of the Company, the program shall be standard in the Company's industry and the Company shall not exclude any former director of the Company from any insurance policy coverage if such coverage is made available to the Company's then existing directors and officers.

**Note 5. Stockholders' Equity**

***Registered Direct Offering***

On December 4, 2013, the Company entered into agreements with institutional and accredited investors to issue 550,000 shares of its common stock at $4.00 per share, with no warrant coverage, yielding gross proceeds of $2,200,000 and net proceeds of $2,002,000 after deducting placement agent commissions and other offering costs. The Company retained Dawson James Securities, Inc. as the exclusive placement agent for this offering, and paid them $154,000 in placement agent commissions. In addition to the payment of certain cash fees upon closing of the offering, the Company issued a warrant to Dawson James Securities, Inc. to purchase up to 16,500 shares of common stock. The warrants are exercisable at $5.00 per share and will expire on May 3, 2016.

***Common Stock Issued to Non-Employees For Services***

On April 24, 2009, the Company entered into an agreement with Advocos LLC, a contract sales organization that serves as part of the Company's sales force, for the sale of the Company's wound care products in the United States. Pursuant to the agreement, the Company agreed to pay the contract sales organization a monthly fee and potential bonuses that will be based on achievement of certain levels of sales. The Company agreed to issue the contract sales organization cash or shares of common stock as compensation for its services. During the three months ended December 31, 2013 and 2012, the Company issued 27,173 and 10,714 shares of common stock, respectively, in connection with this agreement. During the nine months ended December 31, 2013 and 2012, the Company issued 65,620 and 25,106 shares of common stock, respectively, in connection with this agreement. The Company has determined that the fair value of the common stock, which was calculated as shares were issued, was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair value of the stock as compensation expense. During the three months ended December 31, 2013 and 2012, the Company recorded $74,000 and $67,000 of expense related to this agreement, respectively. During the nine months ended December 31, 2013 and 2012, the Company recorded $209,000 and $182,000 of expense related to this agreement, respectively. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of comprehensive loss.

On December 17, 2009, the Company entered into an agreement with Windsor Corporation. Windsor Corporation provides financial advisory services to the Company. Pursuant to the agreement, the Company agreed to pay Windsor Corporation, on a quarterly basis, cash or common stock as compensation for services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair value of the stock as compensation expense. During the three months ended December 31, 2013, the Company issued 18,264 shares of common stock and recorded $60,000 of stock compensation expense related to this agreement. During the nine months ended December 31, 2013, the Company issued 30,361 shares of common stock and recorded $109,000 of stock compensation expense related to this agreement. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of comprehensive loss.

On September 4, 2012, the Company entered into an agreement with Worldwide Financial Marketing, Inc. for certain financial advisory services. Pursuant to the agreement, the Company agreed to pay Worldwide Financial Marketing, Inc. common stock as compensation for services provided. Accordingly, the Company recorded the fair value of the stock as compensation expense. During the three months ended December 31, 2013, the Company issued 10,000 shares of common stock, in connection with this agreement. During the three months ended December 31, 2013, the Company recorded $24,000 of stock compensation expense related to this agreement. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of comprehensive loss.

**Note 6. Stock-Based Compensation**

The Company accounts for share-based awards exchanged for employee services at the estimated grant date fair value of the award. The Company amortizes the fair value of employee stock options on a straight-line basis over the requisite service period of the awards. Compensation expense includes the impact of an estimate for forfeitures for all stock options. The estimated forfeiture rates used during the nine months ended December 31, 2013 ranged from 1.13% to 4.77%.

Employee stock-based compensation expense is as follows:

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Cost of service revenue | $ 29,000 | $ 37,000 | $ 84,000 | $ 103,000 |
| Research and development | 45,000 | 57,000 | 122,000 | 187,000 |
| Selling, general and administrative | 217,000 | 176,000 | 566,000 | 660,000 |
| Total stock-based compensation | $ 291,000 | $ 270,000 | $ 772,000 | $ 950,000 |

At December 31, 2013, there were unrecognized compensation costs of $1,156,000 related to stock options which are expected to be recognized, over a weighted-average amortization period of 2.33 years.

The Company estimated the fair value of employee stock options using the Black-Scholes option pricing model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service periods of the respective awards. The fair value of employee stock options was estimated using the following weighted-average assumptions:

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Expected life | 5.10 years | 5.00 years | 5.83 years | 5.79 years |
| Risk-free interest rate | 1.75% | 0.62% | 1.44% | 0.72% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Volatility | 82% | 89% | 85% | 88% |
| Fair value of options granted | $ 2.16 | $ 6.51 | $ 2.11 | $ 8.05 |

The expected term of stock options represents the average period the stock options are expected to remain outstanding and is based on the expected term calculated using the approach prescribed by the Securities and Exchange Commission's Staff Accounting Bulletin No. 110 for “plain vanilla” options. The expected stock price volatility for the Company’s stock options was determined by examining the historical volatility of the Company and the historical volatilities of the Company’s industry peers. The Company will continue to analyze the stock price volatility and expected term assumptions as more data for the Company’s common stock and exercise patterns become available. The risk-free interest rate assumption is based on the U.S. Treasury instruments whose term was consistent with the expected term of the Company’s stock options. The expected dividend assumption is based on the Company’s history and expectation of dividend payouts. The Company estimates forfeitures based on historical experience and reduces compensation expense accordingly.

A summary of all option activity as of December 31, 2013 and changes during the nine months then ended is presented below:

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at March 31, 2013 | 975,000 | $ 15.08 | | |
| Options granted | 362,000 | 2.97 | | |
| Options exercised | – | – | | |
| Options forfeited or expired | (84,000) | 15.86 | | |
| Outstanding at December 31, 2013 | 1,253,000 | $ 11.54 | 7.24 | $ 220,000 |
| Exercisable at December 31, 2013 | 883,000 | $ 14.58 | 6.35 | $ 76,000 |
| Options available for grant as of December 31, 2013 | 824,000 | | | |

The aggregate intrinsic value is calculated as the difference between the exercise price of the stock options and the underlying fair value of the Company’s common stock ($3.48) for stock options that were in-the-money as of December 31, 2013.

The Company did not capitalize any cost associated with stock-based compensation.

No income tax benefit has been recognized related to stock-based compensation expense and no tax benefits have been realized from exercised stock options.

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

**Note 7. Income Taxes**

The Company completed a study during the year ended March 31, 2013 to assess whether a change in control had occurred or whether there have been multiple changes of control since the Company's formation. The Company determined, based on the results of the study, no change in control occurred for purposes of Internal Revenue Code section 382. In addition, the Company is not aware of any changes in ownership during the nine months ended December 31, 2013 that would result in a change in control under Internal Revenue Code section 382. The Company, after considering all available evidence, fully reserved against its deferred tax assets since it is more likely than not that such benefits will not be realized in future periods. The Company incurred losses for both financial reporting and income tax purposes for the nine months ended December 31, 2013. 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 standards, the valuation allowance will be reduced accordingly.

As a result of certain realization requirements of Accounting Standards Codification Topic 718, the Company's deferred tax assets and liabilities do not include certain deferred tax assets at December 31, 2013 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting purposes. Equity will be increased by approximately $533,000 if and when such deferred tax assets are ultimately realized.

**Note 8. Segment and Geographic Information**

The Company generates revenues from tissue care products which are sold into the human and animal healthcare markets and the Company also generates revenues from laboratory testing services which are provided to medical device manufacturers. The Company operates a single segment business for product sales which consists of three geographical sales territories as follows:

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| U.S. | $ 1,331,000 | $ 1,653,000 | $ 4,552,000 | $ 5,584,000 |
| Mexico | 1,237,000 | 1,356,000 | 4,013,000 | 4,596,000 |
| Europe and Other | 511,000 | 348,000 | 1,521,000 | 1,257,000 |
| | $ 3,079,000 | $ 3,357,000 | $ 10,086,000 | $ 11,437,000 |

For the three months ended December 31, 2013 and 2012, the Company received licensing revenues of $629,000 and $702,000, respectively. Such revenues are included in the Company's calculation of product revenues and are reflected in the table above under the respective geographic region where such licensing revenues were earned. For the nine months ended December 31, 2013 and 2012, the Company received licensing revenues of $1,459,000 and $1,125,000, respectively. Such revenues are included in the Company's calculation of product revenues and are reflected in the table above under the respective geographic region where such licensing revenues were earned.

The Company's service revenues amounted to $214,000 and $183,000 for the three months ended December 31, 2013 and 2012, respectively, and the Company's service revenues amounted to $668,000 and $680,000 for the nine months ended December 31, 2013 and 2012, respectively.

**Note 9. Significant Customer Concentrations**

For the three months ended December 31, 2013, one customer represented 38%, one customer represented 20%, and one customer represented 14% of net revenue. For the three months ended December 31, 2012, one customer represented 25%, one customer represented 24%, and one customer represented 15% of revenue.

For the nine months ended December 31, 2013, one customer represented 37%, one customer represented 25%, and one customer represented 10% of net revenue. For the nine months ended December 31, 2012, one customer represented 27% of revenue.

At December 31, 2013, one customer represented 43%, one customer represented 21%, and one customer represented 13% of the net accounts receivable balance. At March 31, 2013, one customer represented 34%, one customer represented 26%, and one customer represented 15% of the net accounts receivable balance.

**Note 10. Subsequent Events**

*Guarantee of Severance for Hojabr Alimi*

On March 21, 2013, the Company's subsidiary, Ruthigen, Inc., entered into an employment agreement with an effective date of February 4, 2013 (the "Employment Agreement") with Hojabr Alimi to reflect his new role and responsibilities as Chief Executive Officer of Ruthigen, Inc. Mr. Alimi is the former Chief Executive Officer of the Company.

On January 31, 2014, the Company approved the guarantee of certain severance payments to be made to Mr. Alimi. Pursuant to the terms of the guarantee of severance, if (i) the proposed Ruthigen initial public offering does not occur, (ii) Mr. Alimi ceases to be employed by Ruthigen because Ruthigen is bankrupt or otherwise insolvent, and (iii) Ruthigen severance benefits are due to Mr. Alimi under the Employment Agreement but Ruthigen lacks the financial resources to pay same, then the Company has agreed to pay Mr. Alimi a lump sum payment of $385,000; provided that such severance payment obligation is expressly subject to the same terms and conditions as apply to Ruthigen's payment thereof as set forth in the Employment Agreement.

All other terms of Mr. Alimi's employment will continue as described in the Employment Agreement.

**Item 2. 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 in conjunction with the condensed consolidated financial statements and notes to those statements included elsewhere in this Quarterly Report on Form 10-Q as of December 31, 2013 and our audited consolidated financial statements for the year ended March 31, 2013 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on June 25, 2013.*

*This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words "expects," "anticipates," "suggests," "believes," "intends," "estimates," "plans," "projects," "continue," "ongoing," "potential," "expect," "predict," "believe," "intend," "may," "will," "should," "could," "would," "proposal," and similar expressions are intended to identify forward-looking statements.*

*Forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to the risks described in our Annual Report on Form 10-K including: our ability to become profitable; the progress and timing of our development programs and regulatory approvals for our products; the benefits and effectiveness of our products; the ability of our products to meet existing or future regulatory standards; the progress and timing of clinical trials and physician studies; our expectations related to the use of our cash reserves; our expectations and capabilities relating to the sales and marketing of our current products and our product candidates; our ability to gain sufficient reimbursement from third-party payors; our ability to compete with other companies that are developing or selling products that are competitive with our products; the establishment of strategic partnerships for the development or sale of products; the risk our research and development efforts do not lead to new products; the timing of commercializing our products; our ability to penetrate markets through our sales force, distribution network, and strategic business partners to gain a foothold in the market and generate attractive margins; the expansion of our sales force and distribution network; the ability to attain specified revenue goals within a specified time frame, if at all, or to reduce costs; the outcome of discussions with the U.S. Food and Drug Administration, or FDA, and other regulatory agencies; the content and timing of submissions to, and decisions made by, the FDA and other regulatory agencies, including demonstrating to the satisfaction of the FDA the safety and efficacy of our products; our ability to manufacture sufficient amounts of our product candidates for clinical trials and products for commercialization activities; our ability to protect our intellectual property and operate our business without infringing on the intellectual property of others; our ability to continue to expand our intellectual property portfolio; our expectations about the outcome of litigation and controversies with third parties; the risk we may need to indemnify our distributors or other third parties; our ability to attract and retain qualified directors, officers and employees; our expectations relating to the concentration of our revenue from international sales; our ability to expand to and commercialize products in markets outside the wound care market; 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. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, except as required by law.*

**Additional Information**

Investors and others should note that we announce material financial information using our company website (www.oculusis.com), our investor relations website (ir.oculusis.com), SEC filings, press releases, public conference calls and webcasts. Information about Oculus, our business, and our results of operations may also be announced by posts on the following social media channels:

- Oculus corporate blog (http://oculusis.com/dialogue/)
- Oculus Facebook page (www.facebook.com/oculusinnovativesciences)
- Dan McFadden's Twitter feed (http://twitter.com/dmcfaddenocls). Mr. McFadden is the Vice President of Public and Investor Relations of our Company.

The information that we post on these social media channels could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in Oculus to review the information that we post on these social media channels. These social media channels may be updated from time to time on Oculus' investor relations website. The information on or accessible through our websites and social media channels is not incorporated by reference in this Quarterly Report on Form 10-Q.

**Our Business**

We are a global healthcare company that designs, produces, and markets prescription and non-prescription products in 31 countries. We are pioneering innovative products for the dermatology, surgical, advanced wound and tissue care, and animal healthcare markets. Our primary focus is on the commercialization of our proprietary technology platform called Microcyn® Technology. This technology is based on electrically charged oxychlorine small molecules designed to target a wide range of organisms that cause disease (pathogens). These organisms include viruses, fungi, spores and antibiotic-resistant strains of bacteria, such as methicillin-resistant *Staphylococcus aureus*, or MRSA, and vancomycin-resistant *Enterococcus,* or VRE, as well as *Clostridium difficile,* or C. diff, a highly contagious bacteria spread by human contact. Several Microcyn® Technology tissue care products are designed to treat infections and enhance healing while reducing the need for antibiotics. Infection is a serious potential complication in both chronic and acute wounds, and controlling infection is a critical step in wound healing.

To date, we have obtained eight approvals or clearances from the U.S. Food and Drug Administration, or FDA, that permit us to sell our Microcyn-based products as medical devices under Section 510(k) of the Federal Food, Drug and Cosmetic Act in the United States. In December 2013, we announced that we had received our latest 510(k) device clearance from the FDA for our new Microcyn® Scar Management HydroGel. The Rx product, under the supervision of a healthcare professional, is intended for the management of old and new hypertrophic and keloid scarring resulting from burns, general surgical procedures and trauma wounds. Our U.S. dermatology partner, Quinnova Pharmaceuticals, Inc., intends to commercialize this product in the first half of 2014.

We do not have the necessary regulatory approvals to market Microcyn® as a drug or as a medical device with an antimicrobial or wound healing indication in the United States. Through our wholly owned subsidiary, Ruthigen, Inc., we expect to apply to the FDA for clearance as an antimicrobial drug.

Outside the United States, our Microcyn® Technology products have a CE Mark device approval in Europe for debriding, irrigating and moistening acute and chronic wounds in comprehensive wound treatment through potential local antimicrobial effect in the wound bed and creating a moist environment. In February 2014, we announced receipt of European CE Mark device approval for our Microcyn®-based GramaDerm® Solution and GramaDerm® Hydrogel. Both products are intended for use in the topical treatment of mild to moderate acne and are designed to complement other acne treatments. In Mexico, we are approved as a drug for antiseptic and were granted a Mexican patent for the use of our novel antimicrobial surgical solution in the treatment and prevention of peritonitis. In India, our technology has a drug license for cleaning and debriding in wound management. In China, we have obtained a medical device approval by the State Food and Drug Administration for reducing the propagation of microbes in wounds and creating a moist environment for wound healing.

While we do not have the necessary regulatory clearance for an antimicrobial or wound healing indication in the United States, several factors, including our global product experience, clinical and laboratory testing, physician-led clinical studies based on our technology and scientific papers authored about our technology, suggest that our Microcyn® Technology may help reduce a wide range of pathogens in acute and chronic wounds, while curing or improving infection, and concurrently enhancing wound healing through modes of action unrelated to the treatment of infection. These physician-led clinical studies suggest that our Microcyn® Technology is safe, easy to use and complementary to many existing treatment methods in wound care. Physician-led clinical studies and usage of our products in the United States suggest that our 510(k) cleared products may shorten hospital stays, lower aggregate patient care costs and, in certain cases, reduce the need for systemic antibiotics.

Common methods of controlling infection, including topical antiseptics and antibiotics, have proven to be only 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. The use of antibiotics can lead to the emergence of resistant bacteria, such as MRSA and VRE. Systemic antibiotics may be less 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 and we believe Microcyn® Technology can fill a niche in the skin care and chronic/acute wound care markets.

We believe Microcyn® Technology is a stable, anti-infective therapeutic that treats infections and enhances wound healing through increased blood flow to the wound bed and reduction of chronic inflammation. Also, we believe Microcyn® Technology 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 cleaning, debridement, prevention and treatment of infections and wound healing. We believe that unlike antibiotics, antiseptics, growth regulators and other advanced wound care products, Microcyn® Technology is a stable wound care solution that is as safe as saline, and also treats infection while simultaneously accelerating wound healing. Also, unlike most antibiotics, we believe Microcyn® Technology does not target specific strains of bacteria, a practice which has been shown to promote the development of resistant bacteria. In addition, our products are shelf stable, non-toxic, require no special preparation and are easy to use.

Our goal is to become a worldwide leader as the standard of care in the treatment and irrigation of open wounds and skin care. We currently have, and intend to seek additional, regulatory clearances and approvals to market our Microcyn-based products worldwide. In July 2004, we first began selling Microdacyn60™ in Mexico after receiving approval from the Mexican Ministry of Health, for use as an antiseptic, disinfectant and sterilant. Since then, physicians and scientists in the United States, Europe, India, Pakistan, China and Mexico have conducted more than 40 clinical and scientific studies of Microcyn® Technology, generating data suggesting that the technology is non-irritating to healthy tissue, reduces microbial load, accelerates wound healing, reduces pain, shortens treatment time and may have the potential to reduce costs to healthcare providers and patients. Most of these studies were not intended to be rigorously designed or controlled clinical trials and, as such, did not have all of the controls required for clinical trials used to support a new drug application submission to the FDA, nor did the studies include blinding, randomization, predefined clinical end points, use of placebo and active control groups or U.S. Good Clinical Practice (GCP) requirements. We used the data generated from certain of these studies to support our CE Mark application with the European Union for certification of our Microcyn® Technology products for wound cleaning and reduction of microbial load in the European Economic Area. We received a Class II CE Mark in November 2004, subsequently upgraded to a Class III CE Mark in early 2013, and have also received additional international approvals in China, Canada, Mexico, India and select Latin America, Asian and Middle East countries. To date, our Microcyn-based products have received eight FDA 510(k) clearances in the United States. Many of these clearances are for use as a medical device in wound cleaning, or debridement, lubricating, moistening and dressing, including traumatic wounds and acute and chronic dermal lesions. We have also received FDA clearance for use in dermatology for management of atopic dermatitis, radiation dermatitis and hypertrophic and keloid scars.

**Sales and Marketing**

We generate revenue through established and scalable commercial operations including manufacturing in Mexico and the United States, and product sales via our domestic and international strategic business partners.

We launched sales of Microcyn® Technology products in October 2008 and our initial sales were in the podiatry market in the United States. In the second quarter of 2009, we expanded our sales efforts to include wound care centers, hospitals, nursing homes, urgent care clinics and home healthcare, utilizing a contract sales organization to aid our sales force. We continue to seek opportunities to expand the applicability of our products into current and new markets. Our products are primarily purchased by, among others, hospitals, physicians, nurses, and other healthcare practitioners who are the primary caregivers to patients, both human and animal, being treated for acute or chronic wounds or undergoing surgical procedures as well as to dermatologists for treatment of various skin afflictions.

We currently make Microcyn-based human advanced wound and tissue care products available, both as prescription and over-the-counter products, under our eight 510(k) clearances in the United States, primarily through a combination of partnerships with certain strategic partners. In collaboration with Advocos LLC, a specialty U.S. contract sales organization, we have commercialized a family of Microcyn® products for advanced wound care, and we have also commercialized Microcyn® products for dermatology through a partnership with Quinnova Pharmaceuticals.

Through our animal healthcare partner Innovacyn, Inc., we currently make available Microcyn® Technology-based animal healthcare products, designed specifically for the care of horses, dogs, cats, exotic pets and farm/ranch animals and branded as Vetericyn®, in the United States and Europe. We are currently introducing Vetericyn®-branded products into Canada and Asia.

In addition to our current product registration and approvals, we intend to pursue additional regulatory approvals in Europe, China, India, Latin America, Asia, Middle East and Mexico for additional Microcyn® Technology-based products and plan to initiate commercialization upon obtaining these approvals.

*Animal Healthcare*

On January 26, 2009, we entered into a commercial agreement with VetCure, Inc., a California corporation, to market and sell our Microcyn® Technology-based animal healthcare products branded as Vetericyn® products. VetCure, Inc. later changed its name to Vetericyn, Inc. This agreement was amended on February 24, 2009, July 24, 2009, June 1, 2010, and November 1, 2010. Pursuant to the agreement, we provide Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Microcyn® Technology-based animal healthcare products branded as Vetericyn®. We receive a fixed amount for each bottle of Vetericyn® sold by Vetericyn, Inc. At the time of these 2009 transactions, Vetericyn, Inc. was wholly-owned by Robert Burlingame, who was also a director of our Company at that time. Mr. Burlingame resigned from our board of directors on February 10, 2010.

On September 15, 2009, we entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell certain of our Microcyn over-the-counter liquid and gel products. V&M Industries, Inc. subsequently changed their name to Innovacyn, Inc. On June 1, 2010, September 1, 2010, and November 1, 2010, we amended this agreement granting Innovacyn, Inc. the exclusive right to sell certain of our over-the-counter products. At the time of the 2009 transaction, V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was also a director of our Company at that time. Mr. Burlingame resigned from our board of directors on February 10, 2010.

Additionally, on July 1, 2011, Vetericyn, Inc. and Innovacyn, Inc. began to share profits with us related to the Vetericyn® and Microcyn® over-the-counter sales, resulting in our receipt of about a 30% royalty of net revenue.

*Advanced Wound Care*

In collaboration with Advocos LLC, a specialty U.S. contract sales organization, we market a family of Microcyn® products for advanced wound care sold through a contract sales force in the United States. In January 2014, we announced the introduction of two new products into our advanced wound care product line:

- An innovative advance in hypochlorous acid hydrogel technology, Microcyn® Wound & Skin Spray HydroGel is now available in a three-ounce spray bottle formulation, allowing it to be easily and conveniently sprayed directly onto the wound site.

- Our leading product, Microcyn® Wound & Skin Care with preservatives, which is proven and easy-to-use, is now available for the first time in a multi-use two-ounce spray bottle. The reduced bottle size allows it to be used both in the clinic, as well as economically dispensed or prescribed for patients' at-home use.

Innovacyn has also licensed the U.S. rights to our Puracyn™ Skin and Wound Care products for human over-the-counter product sales. Most recently, Innovacyn secured consignment sales of this product into the majority of U.S. Walgreens stores.

*Dermatology*

On February 14, 2011, we entered into an agreement with Quinnova Pharmaceuticals, Inc. and Quinnova licensed, with a $500,000 prepayment and ongoing double-digit royalties, the U.S. and Canadian rights to our Microcyn-based dermatology atopic dermatitis hydrogel that received FDA clearance in February 2011. Future prescription dermatology products can also be licensed for additional upfront payments. In addition, Quinnova agreed to co-promote our current prescription Microcyn-based wound care products to podiatry professionals in the United States and Canada. Quinnova has a sales force of over 35 people, selling to dermatologists and podiatrists with a complete line of dermatology products.

We currently derive a significant portion of our revenues from our dermatology products, which are sold in partnership with Quinnova. We anticipate our presence in the market to continue to grow. Quinnova launched the Atrapro™ family of products formulated from our Microcyn® Technology platform in late February 2012. In partnership with Quinnova, we now market the following products:

- Atrapro™ Antipruritic Hydrogel, a non-oily, quick drying gel designed for the relief of pain, burning and itching associated with various dermatoses (pruritus), which may include the treatment of atopic dermatitis and radiation dermatitis.

- Atrapro™ Dermal Spray with Preservatives, a non-cytotoxic, non-irritating, and non-sensitizing spray for the management via debridement of wounds such as partial- and full-thickness wounds, post-surgical wounds, first- and second-degree burns, and grafted and donor sites.

- A convenience kit for the treatment of various dermatoses which packages together Quinnova's Neosalus® Cream with Proderm Technology® and Atrapro™ Antipruritic Hydrogel, a product based on our Microcyn® Technology.

Quinnova was recently acquired by Everett Laboratories, Inc. and it is expected the acquisition will allow Everett to increase and diversify its presence in the fast-growing U.S. dermatology market. At this time, we do not believe the acquisition will affect our partnership with Quinnova, and rather, expect that sales of our products will continue to grow.

We also sold the option to exclusively sell and distribute our proprietary Microcyn-based acne drug candidate to AmDerma Pharmaceuticals, LLC for a one-time non-refundable payment of $500,000. On June 23, 2011, AmDerma exercised its option to license rights to the drug candidate. On June 21, 2012, we entered into a collaboration agreement with AmDerma. Pursuant to the agreement, AmDerma is responsible for the development of a Microcyn-based acne drug candidate in the United States, including all activities required to gain regulatory approvals. AmDerma will also be responsible for all costs. Additionally, within one year of the first commercial sale by AmDerma, AmDerma shall identify at least one secondary indication that AmDerma will develop. If AmDerma declines to pursue such secondary indication, then the right to develop such secondary indication will revert back to us. We granted AmDerma an exclusive, royalty-bearing perpetual license in the United States and India, with the right to sublicense and subcontract in certain circumstances, and a right of first refusal to expand the territory of the license to include the European Union, Canada, Brazil, and Japan. We retained rights to the "rest of world."

*Critical Care*

On August 22, 2011, we entered into an agreement to license the exclusive global rights to a unique endotracheal tube, or ETT, from the National Institutes of Health. We believe the ETT represents a potential breakthrough technology in mitigating ventilator-associated pneumonia. Under the licensing agreement, we paid a nonrefundable royalty of $20,000, and agreed to pay minimum annual royalties of $5,000, and additional royalties based off of net sales from use of the license. The patent term of the ETT expires on March 15, 2025. The ETT requires a device clearance in the United States and we expect to obtain such clearance in the near future.

**International Sales and Marketing by Our Strategic Business Partners**

*Europe*

We currently rely on exclusive agreements with country-specific distributors for the sale of Microcyn-based products in Europe, including Italy, the Netherlands, Germany, Czech Republic, Slovakia, Sweden, Norway, Switzerland, Poland, Finland and Denmark. In July 2013, we added two new partners in the European Union to sell our Dermacyn® family of products in Finland and Serbia.

*People's Republic of China*

On January 28, 2011, we entered into an agreement with Tianjin Ascent Import and Export Company, Ltd., a distributor in China, to sell certain of our liquid products, which are currently sold under the product name "Microcyn" in the United States, into the People's Republic of China. Pursuant to the agreement, we received a $350,000 non-refundable upfront payment from the distributor in return for exclusivity to sell these liquid products for the first contract year. In order to maintain exclusivity in subsequent years, the distributor will need to meet minimum purchase requirements each contract year. The initial term of the contract is for five years and is cancellable if certain conditions are not met.

On June 26, 2011, we entered into an agreement with Shanghai Sunvic Technology Co. Ltd., a distributor in China, to sell certain of our gel products, which are currently sold under the product name "Microcyn" in the United States, into the People's Republic of China. The initial term of the contract is for five years and is cancellable if certain conditions are not met.

*Mexico, South and Central America, and the Caribbean*

On August 9, 2012, we, along with our Mexican subsidiary and manufacturer Oculus Technologies of Mexico S.A. de C.V., entered into a license, exclusive distribution and supply agreement with More Pharma Corporation, S. de R.L. de C.V. ("More Pharma"). For a one-time payment of $500,000, we granted More Pharma an exclusive license, with the right to sublicense under certain conditions and with our consent, to all of our proprietary rights related to certain of our pharmaceutical products for human application that utilize our Microcyn® Technology within Mexico. For an additional one-time payment of $3,000,000, we also agreed to appoint More Pharma as the exclusive distributor of certain of our products in Mexico for the term of the agreement. Additionally, we granted More Pharma an exclusive license to certain of our then-held trademarks in exchange for a payment of $100,000. The term of the agreement is twenty-five years from the effective date of August 15, 2012. The term of the license agreement will automatically renew after the twenty-five year term for successive two year terms as long as More Pharma has materially complied with any and all of the obligations under the license agreement, including but not limited to, meeting the minimum purchase requirements set forth therein.

On August 9, 2012, we also entered into an exclusive distribution and supply agreement with More Pharma. For a one-time payment of $1,500,000, we granted More Pharma exclusive ability to market and sell certain of our pharmaceutical products for human application that utilize our Microcyn® Technology. We also appointed More Pharma as our exclusive distributor, with the right to execute sub-distribution agreements under certain conditions and with our consent, within the following countries: Antigua & Barbuda, Argentina, Aruba & Curacao, Bahamas, Barbados, Belize, Bolivia, Bonaire, Brazil, British Guyana, British Islands, Cayman Islands, Chile, Colombia, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, French Guyana, Grenada, Guadalupe, Guatemala, Haiti, Honduras, Jamaica, Martinique, Nicaragua, Paraguay, Peru, St. Bartolome, St. Vincent & Grenades, Surinam, Trinidad & Tobago, Turks & Caicos Islands, Uruguay, Venezuela and Virgin Islands.

In May 2013, we obtained, in close collaboration with our global partner More Pharma, new regulatory approvals for Microcyn®-based antiseptic products, under the brand name Microdacyn®, in Panama and El Salvador. More Pharma intends to begin commercialization of these new antiseptic products in both countries in the summer of 2013, and to continue to expand product offerings of Microcyn-based products into the other countries of South and Central America, and the Caribbean in the near future. In July 2013, we were granted a Mexican patent for the use of our novel antimicrobial surgical solution in the treatment and prevention of peritonitis. The term of the patent expires in 2027 and will allow More Pharma the opportunity to pursue a new drug candidate in Latin America. More Pharma has also received regulatory approval to market our Microdacyn60® family of products in Honduras. In December 2013, More Pharma also secured regulatory approval in Mexico for our new Microcyn-based scar management hydrogel under the brand name of Epicyn™, targeting a launch date of Q3 2014.

*"Rest of World"*

In India, we entered into an exclusive agreement with Alkem Laboratories, a large pharmaceutical company in India, for the sale of Microcyn-based products in India and Nepal.

Throughout the rest of the world, we intend to use strategic partners and distributors who have a significant sales, marketing and distribution presence in their respective countries. We have established partners and distribution channels for our wound care products in Bangladesh, Pakistan, Singapore, United Arab Emirates, Jordan, Kuwait, Yemen, Iraq, Malaysia, Indonesia and Saudi Arabia. We have also received approval to launch a new Microcyn-based medical device in Indonesia.

In April 2013, we announced that our Singapore business partner, Dyamed Biotech Pte. Ltd, is initiating the rollout of five new Microcyn® Technology-based products in Singapore and Malaysia, both in the hospital and consumer markets. The five products, which include Dermacyn™ BabyGuard, Dermacyn DermaGuard, Dermacyn SkinGuard Solution, Dermacyn SkinGuard Hydrogel and Dermacyn Wound Care Hydrogel, will be rolled out sequentially and all products are expected to be commercialized in the near future.

In April 2013, we obtained new regulatory approvals in Dubai, United Arab Emirates, Kuwait, and Iraq for three new Microcyn®-based consumer products: Face Cool™, a hydrogel for the treatment of acne and various dermatoses; Baby Cool™, a hydrogel for treatment of baby rash; and Lady Cool™, a feminine hygiene wash. All products are targeted to be launched in the fall of 2013.

**Ruthigen, Inc.**

Our wholly owned subsidiary, Ruthigen, Inc., was incorporated in the State of Nevada on January 18, 2013, and reincorporated from Nevada to Delaware on September 25, 2013. Ruthigen has established offices in Santa Rosa, California.

On January 31, 2014, we entered into certain new agreements with Ruthigen. Previously, we had entered into three key agreements with Ruthigen, which established the license and supply as well as shared services with the subsidiary, and governed the terms of our relationship with Ruthigen following the completion of Ruthigen's intended initial public offering. Each of these agreements (the "Ancillary Agreements") was entered into in the overall context of Ruthigen's separation from us (the "Separation"). The effective date for all three agreements is the closing date of Ruthigen's intended initial public offering, if any should occur.

*Funding Agreement*

Due to certain changes to the terms of Ruthigen's intended initial public offering that have occurred as well as any additional changes that may occur, we entered into a new financing agreement with Ruthigen to govern the terms of certain additional financing to be provided to Ruthigen by us, pending the Separation, subject to the terms and conditions set forth in the agreement.

We agreed to continue to fund Ruthigen for a total of up to $760,000 to allow Ruthigen to proceed with its intended initial public offering. The parties agreed that we have no further obligation to fund operations of Ruthigen beyond the amounts detailed in a budget to be mutually agreed upon by the parties in connection with the execution of the funding agreement and such amounts shall not exceed $760,000. Furthermore, any funds provided by us to Ruthigen pursuant to the funding agreement will be repaid to us by Ruthigen at the time of the closing of the Ruthigen initial public offering. We may, in its sole discretion, extend additional funds to Ruthigen, but we have no obligation to do so. The funding agreement also requires resignation of all Ruthigen board of director members from our board of directors at the time Ruthigen's initial public offering is completed; and prior to that, the resignation of one Ruthigen board of director member at the time Ruthigen files an amended Registration Statement on Form S-1 with the SEC.

*License and Supply Agreement*

Pursuant to the license and supply agreement, we agreed to exclusively license certain of our proprietary technology to Ruthigen to enable Ruthigen's research and development and commercialization of the newly discovered RUT58-60, and any improvements to it, in the United States, Canada, European Union and Japan, referred to as the Territory, for certain invasive procedures in human treatment as defined in the license and supply agreement. On October 9, 2013, we entered into Amendment No. 1 to the license and supply agreement, which amended the second milestone event set forth in Section 7.1 of the license and supply agreement. On November 6, 2013, we entered into Amendment No. 2 to the license and supply agreement with Ruthigen to further amend the certain milestone events set forth in Section 7.1 of the license and supply agreement and to amend the terms of the manufacturing equipment purchases set forth in Section 6.13 of the license and supply agreement. On January 31, 2014, we entered into Amendment No. 3 to the license and supply agreement with Ruthigen to further amend certain milestone events and the terms of the manufacturing equipment purchases, and to remove sections of the license and supply agreement which related to an exclusive option granted by us to Ruthigen to expand the terms of the license and agreement to dermatologic uses. All other terms and conditions of the license and supply agreement remain unmodified and in full force and effect.

Under the terms of the license and supply agreement, we will be prohibited from using the licensed proprietary technology to sell products that compete with Ruthigen's products within the Territory, and Ruthigen cannot sell any device or product that competes with our products being sold or developed as of the effective date of the license and supply agreement.

Ruthigen will be required to make a total of $8,000,000 in milestone payments to us for the first product only, as follows: upon completion of last patient enrollment in Ruthigen's Phase 1/2 clinical study; upon completion of last patient enrollment in Ruthigen's first pivotal clinical study; upon completion of Ruthigen's first meeting with the U.S. Food and Drug Administration ("FDA") following completion of Ruthigen's first pivotal clinical trial; and upon first patient enrollment in Ruthigen's second pivotal clinical trial. In addition, as further consideration under the agreement, Ruthigen will be required to make royalty payments to us based on Ruthigen's annual net sales of the product from the date of first commercial sale to the date that Ruthigen ceases to commercialize the product, which percentage royalty rate will vary between 3% and 20% and will increase based on various net sales thresholds and will differ depending on the country in which the sales are made.

*Shared Services Agreement*

We also entered into a shared services agreement with Ruthigen that would take effect upon the completion of Ruthigen's proposed initial public offering, if any should occur, pursuant to which we will provide Ruthigen with general services, including general accounting, human resources, laboratory personnel and shared R&D resources while Ruthigen plans to establish an independent facility and systems. As a wholly owned subsidiary of our Company, Ruthigen will be financed by us until the completion of the proposed initial public offering, if any should occur, and after such event, Ruthigen would become responsible for its own expenses. On January 31, 2014, we entered into Amendment No. 1 to the shared services agreement with Ruthigen to amend the terms of certain standard activities we shall provide Ruthigen and the terms related to access to our facilities. All other terms and conditions of the shared services agreement remain unmodified and in full force and effect.

*Separation Agreement*

*Effectiveness and Term* – On August 2, 2013, we entered into a separation agreement with Ruthigen that contains key provisions relating to our ongoing relationship with Ruthigen, and more specifically governs our relationship with Ruthigen following the completion of Ruthigen's intended initial public offering. On January 31, 2014, we amended the separation agreement.

Because we will continue to own, at least initially, the majority of Ruthigen's outstanding common stock following Ruthigen's intended initial public offering, the separation agreement contains certain limitations on our ability to control various aspects of Ruthigen's business and operations in order for Ruthigen to operate as independently as possible from us to unlock the value proposition of RUT58-60, which Ruthigen expects to result in financial gain to us and Ruthigen, if Ruthigen is successful. The separation agreement takes effect upon the closing of Ruthigen's intended initial public offering and terminates 8.5 years following the closing of Ruthigen's intended initial public offering, unless the parties mutually agree to terminate it earlier, and, as a general matter, most of the material restrictions and obligations contained in the separation agreement lapse when we and our subsidiaries (other than Ruthigen) own less than 19.9%, or the ownership threshold for purposes of the agreement, of the outstanding shares of Ruthigen's common stock.

*Expense Allocation and Reimbursement* – We amended the terms of the prior separation agreement such that the terms of the funding agreement shall control the methodology for the allocation of the operational and offering related expenses incurred prior to and in connection with Ruthigen's intended initial public offering for which Ruthigen is required to reimburse us.

*Marketing and Transfer Restrictions* – In order for the parties to control the flow of the Ruthigen shares held by us into the market to attempt to minimize price volatility and instability in the trading market for Ruthigen's shares, the separation agreement contains a series of restrictions on our ability to transfer the Ruthigen shares we own. As a general matter, transfers of the Ruthigen shares we own are primarily expected to be conducted through private marketing efforts in private placement transactions, except in the cases prescribed in the separation agreement. For example, we are restricted from engaging in marketing efforts related to the transfer of the Ruthigen shares we own and we are required to refer indications of interest from third parties regarding the transfer of the Ruthigen shares we own to Ruthigen, in each case, except during certain prescribed periods set forth in the separation agreement. With respect to transfer restrictions, we are restricted from transferring any of the Ruthigen shares we own during the one-year lock up period immediately following Ruthigen's intended initial public offering. Following the one-year lock up period, transfers by us of the Ruthigen shares we own must be conducted with the consent of Ruthigen's board of directors or within the prescribed requirements for such transfers set forth in the separation agreement. These prescribed requirements include that the transfers must be in private placement transactions, that the purchase price discount may not exceed 15% or 20% of the prevailing market price depending on the type of transferee, the amount of shares transferred in a given transfer (or series of transfers comprising a single transaction) may not exceed the greater of 5% of Ruthigen's outstanding shares or $1.5 million in net proceeds to us, as well as certain other requirements set forth in the separation agreement. Ruthigen has also agreed to assist us in consummating transfers of the Ruthigen shares we own, because Ruthigen expects to be well-informed as to where the investor demand for Ruthigen's shares resides and Ruthigen believes its involvement may be beneficial to us and the trading market for Ruthigen's shares. In addition to the prescribed manner for us to conduct transfers described above, if, following a minimum of 41.5 months following the closing of Ruthigen's intended initial public offering, we have not consummated transfers of the Ruthigen shares we own resulting in at least $3.8 million in net proceeds to us, then we have a one-time transfer and registration right to transfer the Ruthigen shares we own in an amount equal to the difference between $3.8 million and the net proceeds received by us resulting from transfers of the Ruthigen shares we own as of the time we elect to exercise our one-time right. Transfers conducted using this one-time right must be conducted with the consent of Ruthigen's board of directors or within the prescribed requirements for such transfers set forth in the separation agreement, including, for example, that the purchase price discount may not exceed 30% of the prevailing market price, the amount of shares transferred may not exceed $3.8 million in net proceeds to us, as well as certain other requirements set forth in the separation agreement. The separation agreement also provides for certain cooling off periods between marketing attempts and/or successful transfers, the length of which are dependent upon whether and how many Ruthigen shares we transfer.

*Distribution* - Ruthigen believes that a distribution of Ruthigen shares by us to our shareholders would be advantageous to the market for Ruthigen's shares by increasing liquidity, would accelerate Ruthigen's ability to become independent from us by decreasing our ownership of Ruthigen's common stock and would be beneficial for our stockholders who would have a direct opportunity to participate in the Ruthigen value proposition. We have advised Ruthigen that, following the completion of Ruthigen's intended initial public offering and subject to the expiration of any applicable lock-up periods or other agreements we have or may have with Ruthigen, we do not have any near term plans to distribute the Ruthigen shares held by us to our stockholders. The decision to conduct any such distribution is at the sole discretion of our board of directors. There is no assurance that such a distribution will ever occur. However, pursuant to the separation agreement, we have agreed, from time to time, to retain investment bankers and tax advisors to re-evaluate the advisability of conducting a plan of distribution of the Ruthigen shares we own and Ruthigen has agreed to register any shares that we may distribute in the future. Presently, it is expected that any potential distribution will be taxable to our Company and our stockholders.

*Registration Rights* – The separation agreement provides us with certain "piggy back" registration rights if Ruthigen proposes to publicly register any of its common stock following the completion of Ruthigen's intended initial public offering, subject to certain conditions and limitations. The inclusion of the Ruthigen shares we own in such registration will be subject to the same terms that Ruthigen offers its own securities in such offering and our registration rights will never be never be more than 30% of the value of all securities to be registered in such offering. In addition, following transfers by us of the Ruthigen shares, we have certain demand registration rights requiring Ruthigen to register all of the Ruthigen shares we have transferred. In addition, as described under "*Marketing and Transfer Restrictions*" above, if, following a minimum of 41.5 months following the closing of Ruthigen's intended initial public offering have lapsed under the separation agreement and we have not consummated transfers of the Ruthigen shares we own resulting in at least $3.8 million in net proceeds to us, then we have a one-time transfer and registration right that requires Ruthigen, subject to certain conditions and limitations, to register the difference between $3.8 million and the Ruthigen shares transferred by us pursuant to the separation agreement as of the time we elect to exercise our one-time right.

*Standstill* – We have agreed that, subject to the ownership threshold, we shall not, and shall not act in concert with any person to, make or participate in a solicitation of proxies or powers of attorney or similar rights to vote any of the Ruthigen shares we own or to deposit the Ruthigen shares we own in a voting trust.

*Restrictions Relating to Debt* – We have agreed that, subject to the ownership threshold, we shall disclose in writing the existence of the transfer and other restrictions involving the Ruthigen shares we own, which are set forth in the separation agreement, to potential lenders in the context of our potential negotiations to incur debt in the future, where such debt would be collateralized by the Ruthigen shares we own.

*WTI Loans* – Ruthigen's primary assets serve as collateral under certain loan and security agreements, or the WTI loan agreements, between us and Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. The separation agreement provides that if we default under the WTI loan agreements and Ruthigen is required to make payments or transfer its assets to Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. on our behalf, then Ruthigen is not required to make payments that it may owe to us until such time as we reimburse Ruthigen or Ruthigen is otherwise made whole after having met our obligations under the WTI loan agreements.

*Voting* – We have agreed that, subject to the ownership threshold, we shall vote or consent all of the Ruthigen shares we own in the same manner as the majority of the minority holders of Ruthigen's common stock (non-Oculus holders).

*Equity Plan, Oculus Equity and Corporate Governance* – We and Ruthigen have agreed on the principal terms of Ruthigen's equity incentive plan, including the formula for the number of shares reserved under the plan, the vesting schedule of awards under the plan, timing, size and award type of the initial grants to be made following the closing of Ruthigen's intended initial public offering, and the formula for the evergreen refresh provision and other share caps on certain types of awards and future equity plans. The separation agreement clarifies that options for common stock of our Company held by employees and directors of Ruthigen shall continue to vest as long as the individuals continue in service to Ruthigen. In addition, the separation agreement provides that Ruthigen's restated articles of incorporation and bylaws for purposes of operating as a public company will contain provisions for a staggered board of directors and plurality voting for the election of directors.

*Indemnification* – The separation agreement provides that each party will indemnify, defend and hold harmless the other party and its affiliates for third party claims asserted against the other party, and that we will indemnify, defend and hold harmless Ruthigen and its affiliates from and against any and all direct losses relating to the WTI loan agreements.

*Directors' and Officers' Insurance* – The separation agreement provides that, so long as we shall maintain a directors' and officers' insurance program covering the past and present officers and directors of our Company, the program shall be standard in our industry and if there is a change to the program, then we shall provide prior notice. In addition, we have agreed not to exclude any former Oculus director from any insurance policy coverage if such coverage is made available to our Company's then existing directors and officers.

*Miscellaneous* – The separation agreement also contains customary provisions regarding confidentiality, access to information, books and records, dispute resolution and the release of claims that pre-date the effective date of the separation agreement.

**NVN Therapeutics**

We established a nutritional products division in the beginning of 2012 to expand our product pipeline. NVN Therapeutics is based in Sacramento, California. This division was originally intended to develop and manufacture medical foods with a primary focus on the women's healthcare market. However, as a result of recently revised FDA guidance regarding medical foods, we have ceased production of medical foods and we are redirecting its efforts into the development and manufacture of dietary supplements for this same women's healthcare market.

Our competition in this segment is generally from other consumer and healthcare manufacturers. Competitive factors include consumer advertising, formulation, packaging, scientific innovation, intellectual property, price and availability of product forms. A significant aspect of competition is the search for ingredient innovations. The introduction of new products by competitors, changes in medical practices and procedures, and regulatory changes can result in product obsolescence. In addition, private label and local manufacturers' products may increase competitive pressure.

**Contract Testing**

We also operate a microbiology contract testing laboratory division that provides consulting and laboratory services to medical companies that design and manufacture biomedical devices and drugs, as well as testing on our products and potential products. Our testing laboratory complies with U.S. Current Good Manufacturing Practices (CGMPs) and Quality Systems Regulations.

**Comparison of Three Months Ended December 31, 2013 and 2012**

***Revenues***

Total revenues were $3,293,000 for the three months ended December 31, 2013, as compared to revenues of $3,540,000 for the same period in the prior year. Product revenues were down 8% for the three months ended December 31, 2013 as compared to the same period in the prior year, with decreases in sales in the United States, Mexico and China, partially offset by increases in sales in Europe, Middle East and Singapore.

Product revenue in the United States for the three months ended December 31, 2013 was down 19% for the three months ended December 31, 2013, as compared to the same period in the prior year, with lower reported sales of animal healthcare and dermatology products, partially offset by increases in sales of wound care and human OTC products. We recorded revenue in the amount of $652,000 from our animal healthcare partner Innovacyn for the three months ended December 31, 2013, which represented a 26% decrease in revenue as compared to the same period in the prior year. The fluctuation of sales of our animal healthcare products makes it difficult to compare the sales as volumes vary quarter to quarter.

Revenue in Mexico for the three months ended December 31, 2013 decreased $119,000, or 9%, when compared to the same period in the prior year as a result of the lower sales of our gel product. Also, sales were higher for the same period in the prior year due to our entry into the August 2012 transaction with More Pharma. At that time, More Pharma was launching our products and the recognition of those sales was deferred prior to the close of the More Pharma transaction and recognized on the sell-through basis during the three months ended December 31, 2012. During the three months ended December 31, 2013 and 2012, we also recognized an amount of $379,000 related to the amortization of upfront license fees paid by More Pharma.

Revenue in Europe and "Rest of World" for the three months ended December 31, 2013 increased $163,000, or 47%, as compared to the same period in the prior year, with increases in sales in Europe, Middle East and Singapore, partially offset by a decrease in sales in China.

The following table shows our product revenues by geographic region:

| | Three Months Ended December 31, | | | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| United States | $ 1,331,000 | $ 1,653,000 | $ (322,000) | (19)% |
| Mexico | 1,237,000 | 1,356,000 | (119,000) | (9)% |
| Europe and Rest of World | 511,000 | 348,000 | 163,000 | 47% |
| Total | $ 3,079,000 | $ 3,357,000 | $ (278,000) | (8)% |

Licensing revenues were $629,000 and $702,000 for the three months ended December 31, 2013 and 2012, respectively. These amounts are included in our calculation of product revenues and are reflected in the table above under the respective geographic region where such licensing revenues were earned.

Service revenues increased $31,000 for the three months ended December 31, 2013 when compared to the same period in the prior year due to an increase in the number of tests provided by our services business.

***Gross Profit***

We reported gross profit related to our products of $2,056,000 or 67% of product revenues, during the three months ended December 31, 2013, compared to a gross profit of $2,451,000, or 73% of product revenues, for the same period in the prior year. Licensing revenues are included in our calculation of product revenues and gross profit for the quarters ended December 31, 2013 and 2012. Gross margins for the three months ended December 31, 2013 were down due to the decline of margins in Mexico which were caused by lower unit volume and deferred sales in 2012, partially offset by higher gross margins in Europe.

***Research and Development Expense***

Research and development increased $266,000 to $775,000 for the three months ended December 31, 2013, as compared to $509,000 for the same period in the prior year, due to $395,000 of expenses incurred by our wholly owned subsidiary, Ruthigen, for mostly preclinical studies costs.

We expect that our research and development expense will decrease over the next few quarters as we expect expenses related to Ruthigen to decrease.

***Selling, General and Administrative Expense***

Selling, general and administrative expense increased $238,000, or 9%, to $2,880,000 during the three months ended December 31, 2013, as compared to $2,642,000 for the same period in the prior year. The increase for the three months ended December 31, 2013 was primarily due to an increase in expenses related to Ruthigen of $263,000.

We expect selling, general and administrative expenses to decrease in the next period as we expect expenses related to Ruthigen to decrease.

***Interest Expense and Interest Income***

Interest expense increased $343,000 during the three months ended December 31, 2013 to $618,000, as compared to $275,000 for the same period in the prior year. The cash and non-cash interest is primarily related to borrowings from Venture Lending & Leasing V, LLC and Venture Lending & Leasing VI, LLC (collectively referred to as “VLL”). As of December 16, 2013, the outstanding debt and future interest payments due to VLL were settled in full as a result of VLL liquidating common stock issued pursuant to the terms of a stock purchase agreement we entered into with the entities on October 30, 2012. Non-cash interest increased $411,000 for the three months ended December 31, 2013 due to the settlement of $94,000 of future interest payments and the recognition of $475,000 of non-cash interest related to the amortization of the discount on notes payable. Cash-related interest decreased $68,000 for the three months ended December 31, 2013, primarily due to the reduction of our overall debt balance. Interest income for the three months ended December 31, 2013 showed no material change as compared to the same period in the prior year.

***Other Expense, Net***

Other expense, net increased $4,000 to $14,000 for the three months ended December 31, 2013, as compared to other expense, net of $10,000 for the same period in the prior year. The change in other expense, net for the three months ended December 31, 2013 was primarily related to foreign exchange gains and losses.

***Fair Value of Common Stock Issued with Stock Purchase Agreement***

During the three months ended December 31, 2013, we recorded a gain of $1,567,000 on the fair value of common stock issued pursuant to the terms of a stock purchase agreement we entered into with VLL on October 30, 2012 for the issuance to the entities of shares of our common stock having an initial aggregate fair value equal to $3,500,000. This gain was attributed to an increase in our stock price from September 30, 2013 to the value on the closing of the sale of the shares of common stock by VLL on December 4, 2013.

***Net Loss***

Net loss for the three months ended December 31, 2013 was $611,000, a decrease of $1,301,000, as compared to net loss of $1,912,000 for the same period in the prior year.

**Comparison of Nine Months Ended December 31, 2013 and 2012**

***Revenues***

Total revenues were $10,754,000 for the nine months ended December 31, 2013, as compared to revenues of $12,117,000 for the same period in the prior year. Product revenues were down 12% for the nine months ended December 31, 2013 as compared to the same period in the prior year, with decreases in sales in the United States, Mexico and China, partially offset by increases in sales in Europe, Middle East, India and Singapore.

Product revenue in the United States for the nine months ended December 31, 2013 decreased $1,032,000, or 18%, as compared to the same period in the prior year due to a decline in sales of animal healthcare products and other markets. We recorded revenue from our animal healthcare partner Innovacyn in the amounts of $2,682,000 and $3,248,000 for the nine months ended December 31, 2013 and 2012, respectively. The decline in revenue for the nine months ended December 31, 2013 attributed to other product sales was partially due to the discontinuation of our partnerships with Union Springs and Onset Pharmaceuticals and the related loss of sales.

Revenue in Mexico for the nine months ended December 31, 2013 decreased $583,000, or 13%, when compared to the same period in the prior year. The decrease for the nine months ended December 31, 2013 was a result of our August 2012 transaction with More Pharma. The impact of the transaction resulted in increased sales for the nine months ended December 31, 2012 to existing customers prior to the close of the transaction, as well as sales to More Pharma and such sales were not replicated in the nine months ended December 31, 2013. For the nine months ended December 31, 2012, the higher unit volume growth of 13% and the recognition of $1,131,000 related to the amortization of upfront fees paid by More Pharma was more than offset by about a 37% reduction in the average overall sales price per unit. Also, due to the transfer of the sales function in Mexico to More Pharma, our related operating expenses in Mexico for the nine months ended December 31, 2013 were $1,015,000 lower than we incurred for the same period in the prior year.

Revenue in Europe and “Rest of World” for the nine months ended December 31, 2013 increased $264,000, or 21%, as compared to the same period in the prior year, with increases in sales in Europe, Middle East, India, and Singapore, partially offset by a decrease in sales in China.

The following table shows our product revenues by geographic region:

| | Nine Months Ended December 31, 2013 | 2012 | $ Change | % Change |
|---|---|---|---|---|
| United States | $ 4,552,000 | $ 5,584,000 | $ (1,032,000) | (18)% |
| Mexico | 4,013,000 | 4,596,000 | (583,000) | (13)% |
| Europe and Rest of World | 1,521,000 | 1,257,000 | 264,000 | 21% |
| Total | $ 10,086,000 | $ 11,437,000 | $ (1,351,000) | (12)% |

Licensing revenues were $1,459,000 and $1,125,000 for the nine months ended December 31, 2013 and 2012, respectively. These amounts are included in our calculation of product revenues and are reflected in the table above under the respective geographic region where such licensing revenues were earned.

Service revenues decreased $12,000 for the nine months ended December 31, 2013 when compared to the same period in the prior year due to a decrease in the number of tests provided by our services business.

***Gross Profit***

We reported gross profit related to our Microcyn® products of $6,839,000 or 68% of product revenues, during the nine months ended December 31, 2013, as compared to a gross profit of $8,451,000, or 74% of product revenues, for the same period in the prior year. Licensing revenues are included in our calculation of product revenues and gross profit for the nine months ended December 31, 2013 and 2012. Gross margins for the nine months ended December 31, 2013 were down due to the decline of margins in Mexico related to the More Pharma transaction, partially offset by higher gross margins in the United States and Europe.

***Research and Development Expense***

Research and development increased $611,000 to $2,165,000 for the nine months ended December 31, 2013, as compared to $1,554,000 for the same period in the prior year, with $1,064,000 of expenses incurred by our wholly owned subsidiary, Ruthigen.

We expect that our research and development expense will decrease over the next few quarters as we expect expenses related to Ruthigen to decrease.

***Selling, General and Administrative Expense***

Selling, general and administrative expense decreased $201,000, or 2%, to $8,792,000 during the nine months ended December 31, 2013, as compared to $8,993,000 for the same period in the prior year. The decrease for the nine months ended December 31, 2013 was primarily due to a reduction in selling expenses in Mexico of $1,042,000 and $200,000 in stock compensation charges, partially offset by higher costs of $1,064,000 incurred related to Ruthigen.

We expect selling, general and administrative expenses to decrease in the next period as we expect expenses related to Ruthigen to decrease.

***Interest Expense and Interest Income***

Interest expense increased $213,000 during the nine months ended December 31, 2013 to $1,056,000, as compared to $843,000 for the same period in the prior year. The cash and non-cash interest is primarily related to borrowings from VLL. As of December 16, 2013, the outstanding debt and future interest payments due to VLL was settled in full as a result of VLL liquidating common stock issued pursuant to the terms of a stock purchase agreement we entered into with the entities on October 30, 2012. Non-cash interest increased $402,000 due to the settlement of $94,000 of future interest payments and the recognition of $475,000 of non-cash interest related to the amortization of the discount on notes payable offset by lower non-cash interest recorded during the nine months ended December 31, 2013 due to the maturity of two of the VLL notes during the period. Cash-related interest decreased $189,000 for the nine months ended December 31, 2013, primarily due to the maturity of two of the VLL notes during the period. Interest income for the nine months ended December 31, 2013 showed no material change as compared to the same period in the prior year.

***Other Expense, Net***

Other income, net increased $25,000 to $81,000 for the nine months ended December 31, 2013, as compared to other expense, net of $56,000 for the same period in the prior year. The change in other expense, net for the nine months ended December 31, 2013 was primarily due to foreign exchange gains and losses and tax expenses.

***Fair Value of Common Stock Issued with Stock Purchase Agreement***

During the nine months ended December 31, 2013, we recorded a gain of $1,357,000 on the fair value of common stock issued pursuant to the terms of a stock purchase agreement we entered into with VLL on October 30, 2012 for the issuance to the entities of shares of our common stock having an initial aggregate fair market value equal to $3,500,000. This gain was attributed to an increase in our stock price from March 31, 2013 to the value on the closing of the sale of the shares of common stock by VLL on December 4, 2013.

***Net Loss***

Net loss for the nine months ended December 31, 2013 was $3,722,000, as compared to net loss of $2,986,000 for the same period in the prior year.

**Liquidity and Capital Resources**

We reported a net loss of $3,722,000 for the nine months ended December 31, 2013. At December 31, 2013, our accumulated deficit amounted to $141,467,000. We had working capital of $2,573,000 as of December 31, 2013. We expect the need to raise additional capital from external sources in order to continue the longer term efforts contemplated under our business plan. We expect to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue our product development initiatives, to penetrate markets for the sale of our products and continue as a going concern. We cannot provide any assurances that we will be able to raise additional capital. Our management believes that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means, if needed; however, we have not secured any commitment for new financing at this time, nor can we provide any assurance that the Ruthigen initial public offering will be completed or that other new financings will be available on commercially acceptable terms, if needed.

**Sources of Liquidity**

As of December 31, 2013, we had cash and cash equivalents of $3,437,000. Since our inception, substantially all of our operations have been financed through sales of equity securities. Other sources of financing that we have used to date include our revenues, as well as various loans.

Since January 1, 2012, substantially all of our operations have been financed through the following transactions:

- proceeds of $195,000 received from the exercise of common stock purchase warrants and options;
- proceeds of $2,500,000 received from the issuance of a debt instrument in the year ended March 31, 2012;
- net proceeds of $1,894,000 received from a registered direct offering on December 28, 2011;
- net proceeds of $2,797,000 received from a registered direct offering on April 22, 2012;
- net proceeds of $3,052,000 received from an underwritten offering on March 12, 2013; and
- net proceeds of $2,002,000 received from a registered direct offering on December 9, 2013.

**Cash Flows**

As of December 31, 2013, we had cash and cash equivalents of $3,437,000, compared to $7,900,000 at March 31, 2013.

Net cash used in operating activities during the nine months ended December 31, 2013 was $3,401,000, primarily due to our net loss of $3,722,000, offset by $835,000 in accounts payable and $908,000 in accounts receivable for the period. Additionally, we had non-cash transactions during the nine months ended December 31, 2013, including: $1,114,000 of stock-based compensation expenses; a $1,357,000 gain on the fair value adjustment of common stock issued to VLL in connection with the stock purchase agreement dated October 30, 2012; and non-cash interest of $863,000.

Net cash provided by operating activities during the nine months ended December 31, 2012 was $2,194,000 primarily due to the receipt of a $5,100,000 upfront payment from More Pharma offset by our net loss of $2,986,000 for the period. Additionally, we had non-cash transactions during the nine months ended December 31, 2012, including: $1,397,000 of stock-based compensation expenses; a $766,000 gain on the fair value adjustment of our derivative liabilities; an $864,000 loss on the fair value adjustment of common stock issued in connection with the stock purchase agreement dated October 30, 2012; and non-cash interest of $461,000.

Net cash used in investing activities was $428,000 for the nine months ended December 31, 2013, primarily due to $470,000 related to equipment purchases.

Net cash used in investing activities was $254,000 for the nine months ended December 31, 2012, consisting of $128,000 related to equipment purchases and $126,000 related to long-term deposits.

Net cash used in financing activities was $605,000 for the nine months ended December 31, 2013, consisting of net proceeds received from our December 2013 registered direct offering offset by principal payments on debt in the amount of $1,524,000 and $1,116,000 of deferred offering costs related to the intended initial public offering of our subsidiary, Ruthigen, Inc.

Net cash provided by financing activities was $1,305,000 for the nine months ended December 31, 2012. During the period ended December 31, 2012, we received net proceeds from our April 2012 registered direct offering of common and preferred stock of $2,797,000. The offering proceeds were offset by principal payments on the debt in the amount of $1,508,000. We also received $16,000 in connection with the exercise of stock options.

**Operating Capital and Capital Expenditure Requirements**

We reported a net loss of $3,722,000 for the nine months ended December 31, 2013. At December 31, 2013, our accumulated deficit amounted to $141,467,000, and at March 31, 2013, our accumulated deficit amounted to $137,745,000. At December 31, 2013, our working capital amounted to $2,573,000.

We expect the need to raise additional capital from external sources in order to continue the longer term efforts contemplated under our business plan. We expect to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue our product development initiatives and to penetrate markets for the sale of our products. If the closing of the intended initial public offering by our subsidiary, Ruthigen, Inc. occurs, we will be repaid for certain costs incurred and advanced related to Ruthigen's intended initial public offering and certain other agreed-upon expenses, pursuant to the terms of the funding agreement we entered into with Ruthigen. At December 31, 2013, these costs amounted to $1,347,000, of which $1,160,000 is reported as deferred offering costs in the accompanying condensed consolidated balance sheet and $187,000 was reported as selling, general and administrative expense.

In order for us to potentially commercialize Microcyn® as a drug product in the United States, we must conduct clinical trials, which can be costly. Therefore, commencement of such pivotal clinical trials will be delayed until we find a strategic partner to assist with funding. Without a strategic partner or additional capital, our pivotal clinical trials will be delayed for a period of time that is currently indeterminate.

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.

**Use of Estimates**

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires our 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Significant estimates and assumptions include reserves and write-downs related to receivables and inventories, the recoverability of long-lived assets, the valuation allowance relating to our deferred taxes, the valuation of equity and derivative instruments, debt discounts and the estimated amortization periods of upfront licensing fees received from customers. Periodically, we evaluate and adjust estimates accordingly.

**Off-Balance Sheet Arrangements**

We currently have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information required by this Item.

## Item 4. Controls and Procedures

(a) ***Evaluation of Disclosure Controls and Procedures***. We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Accordingly, our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective at the reasonable assurance level for the quarter ended December 31, 2013.

(b) ***Changes in Internal Controls.*** There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

In June 2006, we received a written communication from the grantor of a license to an earlier version of our technology indicating that such license was terminated due to an alleged breach of the license agreement by us. The license agreement extends to our use of the technology in Japan only. While we do 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, we cannot provide any assurance that the grantor will not take legal action to restrict our use of the technology in the licensed territory. While our 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 our consolidated financial position or results of comprehensive loss. We have not accrued a loss reserve for this matter.

On July 25, 2011, we received notice of a lawsuit filed in Mexico by Cesar Mangotich Pacheco and Prodinnv, S.A. de C.V. represented by Cesar Mangotich Pacheco. The lawsuit appears to allege conversion of assets, tortious interference and defamation, among other claims. We are currently evaluating the lawsuit, conferring with local counsel and translating the documents we have received. Our preliminary assessment is that the lawsuit is completely without merit and intend to vigorously defend our position. We have not accrued a loss reserve for this matter.

Our Company, on occasion, may be involved in legal matters arising in the ordinary course of our business including matters involving proprietary technology. While management believes that such matters are currently insignificant, matters arising in the ordinary course of business for which we are or could become involved in litigation may have a material adverse effect on our business, financial condition or results of operations.

### Item 1A. Risk Factors

There have been no material changes from risk factors previously disclosed in our annual report on Form 10-K for the fiscal year ended March 31, 2013, as filed with the SEC on June 25, 2013, except as follows:

***If we are unable to maintain compliance with the continued listing standards as set forth in the Nasdaq Listing Rules, our common stock could be delisted from The Nasdaq Capital Market, and if this were to occur, then the price and liquidity of our common stock, and our ability to raise additional capital may be adversely affected.***

Our common stock is currently listed on The Nasdaq Capital Market. Continued listing of a security on The Nasdaq Capital Market is conditioned upon compliance with certain continued listing requirements and continued listing standards set forth in the Nasdaq Listing Rules for Nasdaq Capital Market companies. There can be no assurance we will continue to satisfy the requirements for maintaining a Nasdaq Capital Market listing.

As previously announced, on November 22, 2013, we received a letter from the Listing Qualifications staff of The Nasdaq Stock Market LLC ("Nasdaq"), notifying us that we were not in compliance with Nasdaq Listing Rule 5550(b)(1), which requires us to maintain a minimum of $2,500,000 in stockholders' equity for continued listing on the Nasdaq Capital Market. As of September 30, 2013, we had stockholders' equity of $1,550,000, as reported in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, filed by us with the Securities and Exchange Commission on November 19, 2013. The letter also noted that, as of November 21, 2013, we did not meet the compliance alternative requirement of market value of listed securities under Listing Rule 5550(b)(2), or the compliance alternative requirement of net income from continuing operations under Listing Rule 5550(b)(3).

On December 9, 2013, we announced two transactions that increased our stockholders' equity. We closed on a registered direct offering of 550,000 shares of common stock at $4.00 per share, with no warrant coverage, yielding gross proceeds of $2.2 million. This transaction resulted in an increase to our stockholders' equity of $2 million.

The second transaction involved the sale of 617,285 shares of our common stock by our lenders, Venture Lending and Leasing V, LLC and Venture Lending and Leasing VI, LLC (collectively with Venture Lending and Leasing V, LLC, "VLL"). On October 30, 2012, we entered into a stock purchase agreement with VLL for the issuance of shares of common stock having an aggregate fair market value equal to $3,500,000 and subsequently issued an aggregate of 617,285 shares to VLL. The use of proceeds from the sale of the shares pursuant to the stock purchase agreement was intended to be used to eliminate our put warrants liabilities under certain warrants held by VLL and to eliminate or reduce outstanding debt payments owed by us under certain loans outstanding with VLL. As of December 16, 2013, VLL sold all of its shares of our stock acquired in the October 2012 transaction at an average price of about $5.35 per share. The net proceeds of the shares will be applied to the put warrant liabilities of those certain warrants held by VLL, and will also prepay the remaining balance of principal and interest owed by us under those certain loan agreements with VLL. The net result of this transaction is intended to increase our stockholders' equity by $1 million.

As of December 31, 2013, we had stockholders' equity of $3,397,000, as reported in this Quarterly Report.

If we are not able to maintain compliance with the continued listing standards as set forth in the Nasdaq Listing Rules for Nasdaq Capital Market companies, our common stock will be delisted from The Nasdaq Capital Market and an associated decrease in liquidity in the market for our common stock may occur. In addition, the delisting of our common stock could materially adversely affect our access to the capital markets, and any limitation on liquidity or reduction in the price of our common stock could materially adversely affect our ability to raise capital on terms acceptable to us or at all. Delisting from The Nasdaq Capital Market could also result in the potential loss of confidence by our business partners and suppliers, the loss of institutional investor interest and fewer business development opportunities.

***If the intended initial public offering by our subsidiary, Ruthigen, Inc. is not successful, then we will not be repaid certain deferred offerings costs advanced to Ruthigen, which may be substantial.***

Pursuant to the terms of the funding agreement we entered into with our subsidiary, Ruthigen, Inc., upon the closing of the intended initial public offering by Ruthigen, we will be repaid for certain costs incurred and advanced related to Ruthigen's initial public offering and certain other agreed-upon expenses. At December 31, 2013, these costs, which we expect to be repaid, amounted to $1,347,000, of which $1,160,000 is reported as deferred offering costs in our accompanying condensed consolidated balance sheet and $187,000 is reported as selling, general and administrative expense. Ruthigen's intended initial public offering may be delayed or may not occur at all. In such case, we may not be reimbursed for such costs and expenses. In the event such reimbursement is delayed or never occurs, we will not receive cash that might have otherwise been deployed to grow our business.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On November 22, 2013, we issued 10,000 shares of common stock to Worldwide Financial Marketing, Inc. as compensation for services provided, and such shares were valued at $23,000.

On December 16, 2013, we issued 27,173 shares of common stock to Advocos, LLC as compensation for services provided, and such shares were valued at $74,000.

We relied on the Section 4(a)(2) exemption from securities registration under the federal securities laws for transactions not involving any public offering. No advertising or general solicitation was employed in offering the securities. The securities were issued to accredited investors. The securities were offered for investment purposes only and not for the purpose of resale or distribution, and the transfers thereof was appropriately restricted by us.

**Item 3. Default Upon Senior Securities**

We did not default upon any senior securities during the quarter ended December 31, 2013.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

*Guarantee of Severance for Hojabr Alimi*

On March 21, 2013, our subsidiary, Ruthigen, Inc., entered into an employment agreement with an effective date of February 4, 2013 (the "Employment Agreement") with Hojabr Alimi to reflect his new role and responsibilities as Chief Executive Officer of Ruthigen, Inc. Mr. Alimi is our former Chief Executive Officer.

On January 31, 2014, we approved the guarantee of certain severance payments to be made to Mr. Alimi. Pursuant to the terms of the guarantee of severance, if (i) the proposed Ruthigen initial public offering does not occur, (ii) Mr. Alimi ceases to be employed by Ruthigen because Ruthigen is bankrupt or otherwise insolvent, and (iii) Ruthigen severance benefits are due to Mr. Alimi under the Employment Agreement but Ruthigen lacks the financial resources to pay same, then we have agreed to pay Mr. Alimi a lump sum payment of $385,000; provided that such severance payment obligation is expressly subject to the same terms and conditions as apply to Ruthigen's payment thereof as set forth in the Employment Agreement.

All other terms of Mr. Alimi's employment will continue as described in the Employment Agreement.

**Item 6. Exhibits**

**Exhibit Index**

| Exhibit No. | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc. (included as Exhibit 3.1(i) of the Company's Annual Report on Form 10-K filed June 20, 2007, and incorporated herein by reference). |
| 3.2 | Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc. (included as Exhibit A in the Company's Definitive Proxy Statement on Schedule 14A filed July 21, 2008, and incorporated herein by reference). |
| 3.3 | Amended and Restated Bylaws, as Amended of Oculus Innovative Sciences, Inc., effective November 3, 2010 (included as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed November 4, 2010, and incorporated herein by reference). |
| 3.4 | Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed March 22, 2013, and incorporated herein by reference). |
| 4.1 | Specimen Common Stock Certificate (included as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 4.2 | Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.4 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 4.3 | Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.5 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 4.4 | Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.11 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 4.5 | Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.12 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 4.6 | Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed August 13, 2007, and incorporated herein by reference). |
| 4.7 | Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 28, 2008, and incorporated herein by reference). |
| 4.8 | Form of Common Stock Purchase Warrant for April 2009 offering (included as Exhibit 4.15 to the Company's Registration Statement on Form S-1 (File No. 333-158539) filed on April 10, 2009 and declared effective on July 24, 2009, and incorporated herein by reference). |
| 4.9 | Warrant issued to Dayl Crow, dated March 4, 2009 (included as Exhibit 4.16 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference). |
| 4.10 | Form of Common Stock Purchase Warrant for July 2009 offering (included as Exhibit 4.15 to the Company's Registration Statement on Form S-1 (File No. 333-158539), filed on July 9, 2009 and declared effective on July 24, 2009, and incorporated herein by reference) |

| | |
|---|---|
| 4.11 | Form of Common Stock Purchase Warrant for April 2012 offering (included as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed April 25, 2012, and incorporated herein by reference). |
| 4.12 | Certificate of Designation of Preferences, Rights and Limitations of Series A 0% Convertible Preferred Stock, filed with the Delaware Secretary of State on April 24, 2012 (included as Exhibit 4.2 to the Company's Current Report on Form 8-K filed April 25, 2012, and incorporated herein by reference). |
| 4.13 | Form of Underwriters Warrant to be issued to the Underwriters in connection with the March 2013 Offering (included as Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 7, 2013, and incorporated herein by reference). |
| 4.14* | Warrant issued to Dawson James Securities, Inc., dated December 9, 2013. |
| 10.1 | Form of Indemnification Agreement between Oculus Innovative Sciences, Inc. and its officers and directors (included as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.2 | Amended and Restated Oculus Innovative Sciences, Inc. 2006 Stock Incentive Plan (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 2, 2007, and incorporated herein by reference). |
| 10.3 | Office Lease Agreement, dated October 26, 1999, between Oculus Innovative Sciences, Inc. and RNM Lakeville, L.P. (included as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.4 | Amendment No. 1 to Office Lease Agreement, dated September 15, 2000, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.5 | Amendment No. 2 to Office Lease Agreement, dated July 29, 2005, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.6 | Amendment No. 3 to Office Lease Agreement, dated August 23, 2006, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.7 | Amendment No. 4 to Office Lease Agreement, dated September 13, 2007, by and between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.43 to the Company's Annual Report on Form 10-K filed June 13, 2008, and incorporated herein by reference). |
| 10.8 | Office Lease Agreement, dated May 18, 2006, between Oculus Technologies of Mexico, S.A. de C.V. and Antonio Sergio Arturo Fernandez Valenzuela (translated from Spanish) (included as Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.9 | Office Lease Agreement, dated July 2003, between Oculus Innovative Sciences, B.V. and Artikona Holding B.V. (translated from Dutch) (included as Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.10 | Amendment to Office Lease Agreement, effective February 15, 2008, by and between Oculus Innovative Sciences Netherlands B.V. and Artikona Holding B.V. (translated from Dutch) (included as Exhibit 10.44 to the Company's Annual Report on Form 10-K filed June 13, 2008, and incorporated herein by reference). |
| 10.11 | Form of Director Agreement (included as Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.12 | Framework Agreement, dated June 16, 2005, by and among Javier Orozco Gutierrez, Quimica Pasteur, S de R.L., Jorge Paulino Hermosillo Martin, Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V. (included as Exhibit 10.25 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.13 | Mercantile Consignment Agreement, dated June 16, 2005, between Oculus Technologies de Mexico, S.A. de C.V., Quimica Pasteur, S de R.L. and Francisco Javier Orozco Gutierrez (included as Exhibit 10.26 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.14 | Partnership Interest Purchase Option Agreement, dated June 16, 2005, by and between Oculus Innovative Sciences, Inc. and Javier Orozco Gutierrez (included as Exhibit 10.27 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.15 | Termination of Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V.'s Agreements with |

Quimica Pasteur, S de R.L. by Jorge Paulino Hermosillo Martin (translated from Spanish) (included as Exhibit 10.28 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).

| | |
|---|---|
| 10.16 | Termination of Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V.'s Agreements with Quimica Pasteur, S de R.L. by Francisco Javier Orozco Gutierrez (translated from Spanish) (included as Exhibit 10.29 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.17 | Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Robert Burlingame, dated January 26, 2009 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 29, 2009, and incorporated herein by reference). |
| 10.18 | Revenue Sharing Distribution Agreement by and between Oculus Innovative Sciences, Inc. and VetCure, Inc., dated January 26, 2009 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 29, 2009, and incorporated herein by reference). |
| 10.19 | Purchase Agreement by and between Oculus Innovative Sciences, Inc. and accredited investors, dated February 6, 2009 (refiled as Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q filed November 4, 2010, and incorporated herein by reference). |
| 10.20 | Purchase Agreement by and between Oculus Innovative Sciences, Inc., Robert Burlingame and Seamus Burlingame, dated February 24, 2009 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed February 27, 2009, and incorporated herein by reference). |
| 10.21 | Amendment No. 1 to Revenue Sharing Distribution Agreement by and between Oculus Innovative Sciences, Inc. and VetCure, Inc., dated February 24, 2009 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K filed February 27, 2009, and incorporated herein by reference). |
| 10.22 | Microcyn U.S. Commercial Launch Agreement by and between Oculus Innovative Sciences, Inc. and Advocos, dated April 24, 2009 (included as Exhibit 10.53 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference). |
| 10.23 | Amendment No. 5 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and RNM Lakeville, LLC, dated May 18, 2009 (included as Exhibit 10.54 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference). |
| 10.24 | Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated May 1, 2010 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 6, 2010, and incorporated herein by reference). |
| 10.25 | Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc., and Venture Lending & Leasing V, Inc., dated May 1, 2010 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 6, 2010, and incorporated herein by reference). |
| 10.26† | Amendment No. 2 to Revenue Sharing, Partnership and Distribution Agreement between Oculus Innovative Sciences, Inc. and Vetericyn, Inc., dated July 24, 2009 (refiled as Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended December 31, 2010 filed April 29, 2011, and incorporated herein by reference). |
| 10.27† | Amendment No. 3 to Revenue Sharing, Partnership and Distribution Agreement between Oculus Innovative Sciences, Inc. and Vetericyn, Inc., dated June 1, 2010 (refiled as Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2010 filed April 29, 2011, and incorporated herein by reference). |
| 10.28† | Amendment No. 1 to Exhibit A to the Revenue Sharing Distribution Agreement and to the Revenue Sharing, Partnership and Distribution Agreement as Revised and Amended, June 1, 2010, dated September 1, 2010 (included as Exhibit 10.46 to the Company's Quarterly Report on Form 10-Q filed November 4, 2010, and incorporated herein by reference). |
| 10.29† | Distribution Agreement between Oculus Innovative Sciences, Inc. and Tianjin Ascent Import and Export Company, Ltd., dated January 28, 2011 (included as Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q filed February 4, 2011, and incorporated herein by reference). |
| 10.30† | Exclusive Sales and Distribution Agreement between Oculus Innovative Sciences, Inc. and Quinnova Pharmaceuticals, Inc., dated February 14, 2011 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference). |
| 10.31† | Exclusive Co-Promotion Agreement between Oculus Innovative Sciences, Inc. and Quinnova Pharmaceuticals, Inc., dated February 14, 2011 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference). |
| 10.32 | Product Option Agreement between Oculus Innovative Sciences, Inc. and AmDerma Pharmaceuticals, LLC, dated February 14, 2011 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference). |
| 10.33 | Amendment No. 6 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and RNM Lakeville, L.P., |

| | |
|---|---|
| | dated April 26, 2011 (included as Exhibit 10.52 to the Company's Annual Report on Form 10-K filed June 3, 2011, and incorporated herein by reference). |
| 10.34 | Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference). |
| 10.35 | Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference). |
| 10.36 | Amendment No. 1 to the Loan and Security Agreement and Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated June 29, 2011 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference). |

| | |
|---|---|
| 10.37 | Intellectual Property Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference). |
| 10.38† | Distribution Agreement between Oculus Innovative Sciences, Inc. and Shanghai Sunvic Technology Co. Ltd., dated June 26, 2011 (included as Exhibit 10.58 to the Company's Quarterly Report on Form 10-Q filed August 4, 2011 and incorporated herein by reference). |
| 10.39 | Oculus Innovative Sciences, Inc. 2011 Stock Incentive Plan (included as Exhibit A in the Company's Definitive Proxy Statement on Schedule 14A filed July 29, 2011, and incorporated herein by reference). |
| 10.40 | Securities Purchase Agreement by and between Oculus Innovative Sciences, Inc. and the Purchasers, dated April 22, 2012 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 25, 2012, and incorporated herein by reference). |
| 10.41† | Patent License Agreement-Exclusive between Oculus Innovative Sciences, Inc. and agencies of the United States Public Health Service within the Department of Health and Human Services, dated August 22, 2011 (included as Exhibit 10.60 to the Company's Quarterly Report on Form 10-Q filed November 3, 2011, and incorporated herein by reference). |
| 10.42† | Collaboration Agreement between Oculus Innovative Sciences, Inc. and AmDerma Pharmaceuticals, LLC, dated June 21, 2012 (included as Exhibit 10.53 to the Company's Quarterly Report on Form 10-Q filed August 3, 2012 and incorporated herein by reference). |
| 10.43† | License, Exclusive Distribution and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Oculus Technologies of Mexico, S.A. de C.V., and, More Pharma Corporation, S. de R.L. de C.V., dated August 9, 2012 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 15, 2012, and incorporated herein by reference). |
| 10.44† | Exclusive Distribution and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Oculus Technologies of Mexico, S.A. de C.V., and, More Pharma Corporation, S. de R.L. de C.V., dated August 9, 2012 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 15, 2012, and incorporated herein by reference). |
| 10.45 | Lease by and between Oculus Innovative Sciences, Inc. and KCKMC Properties, LLP for the property located at 3045 65th Street, Suite 13, Sacramento, CA 95820, dated October 31, 2011 (included as Exhibit 10.56 to the Company's Quarterly Report on Form 10-Q filed November 8, 2012, and incorporated herein by reference). |
| 10.46 | Amendment to Lease dated August 30, 2012 by and between Oculus Innovative Sciences, Inc. and KCKMC Properties, LLC for the property located at 3045 65th Street, Suite 13, Sacramento, CA 95820, dated September 6, 2012 (included as Exhibit 10.57 to the Company's Quarterly Report on Form 10-Q filed November 8, 2012, and incorporated herein by reference). |
| 10.47 | Amendment No. 7 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and 1125-1137 North McDowell, LLC, dated October 10, 2012 (included as Exhibit 10.58 to the Company's Quarterly Report on Form 10-Q filed November 8, 2012, and incorporated herein by reference). |
| 10.48 | Stock Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, LLC and Venture Lending & Leasing VI, LLC, dated October 30, 2012 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 1, 2012, and incorporated herein by reference). |
| 10.49 | Letter Agreement by and between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated October 30, 2012 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed November 1, 2012, and incorporated herein by reference). |
| 10.50 | Letter Agreement by and between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated October 30, 2012 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed November 1, 2012, and incorporated herein by reference). |
| 10.51 | Offer of Employment Letter between Oculus Innovative Sciences, Inc. and Sameer Harish, effective as of February 1, 2013 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 4, 2013, and incorporated herein by reference). |
| 10.52 | Employment Agreement by and between Ruthigen, Inc. and Hojabr Alimi, dated March 21, 2013 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 22, 2013, and incorporated herein by reference). |
| 10.53†† | License and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated May 23, 2013 (refiled as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed September 24, 2013, and incorporated herein by reference). |
| 10.54 | Shared Services Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated May 23, 2013 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 7, 2013, and incorporated herein by reference). |

| | |
|---|---|
| 10.55 | Amendment to Offer of Employment Letter between Oculus Innovative Sciences, Inc. and Sameer Harish, dated May 23, 2013 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 7, 2013, and incorporated herein by reference). |
| 10.56 | Employment Agreement by and between Oculus Innovative Sciences, Inc. and Hojabr Alimi, dated January 1, 2004 (included as Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.57 | Employment Agreement by and between Oculus Innovative Sciences, Inc. and Jim Schutz, dated January 1, 2004 (included as Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |
| 10.58 | Employment Agreement by and between Oculus Innovative Sciences, Inc. and Robert Miller, dated June 1, 2004 (included as Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference). |

| | |
|---|---|
| 10.59 | Employment Agreement by and between Oculus Innovative Sciences, Inc. and Jim Schutz, dated June 20, 2013 (included as Exhibit 10.68 to the Company's Annual Report on Form 10-K filed June 25, 2013, and incorporated herein by reference). |
| 10.60 | Employment Agreement by and between Oculus Innovative Sciences, Inc. and Robert Miller, dated June 20, 2013 (included as Exhibit 10.69 to the Company's Annual Report on Form 10-K filed June 25, 2013, and incorporated herein by reference). |
| 10.61 | Separation Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated August 2, 2013 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 8, 2013, and incorporated herein by reference). |
| 10.62 | Amendment No. 1 to License and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated October 9, 2013 (included as Exhibit 10.64 to the Company's Quarterly Report on Form 10-Q filed November 19, 2013 and incorporated herein by reference). |
| 10.63 | Amendment No. 2 to License and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated November 6, 2013 (included as Exhibit 10.65 to the Company's Quarterly Report on Form 10-Q filed November 19, 2013 and incorporated herein by reference). |
| 10.64 | Letter Agreement by and between Oculus Innovative Sciences, Inc., Venture Lending & Leasing V, Inc., and Venture Lending & Leasing VI, Inc., dated November 6, 2013 (included as Exhibit 10.66 to the Company's Quarterly Report on Form 10-Q filed November 19, 2013 and incorporated herein by reference). |
| 10.65 | Form of Securities Purchase Agreement by and between Oculus Innovative Sciences, Inc. and the Purchasers, dated December 4, 2013 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed December 6, 2013, and incorporated herein by reference). |
| 10.66 | Funding Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated January 31, 2014 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed February 6, 2014, and incorporated herein by reference). |
| 10.67 | Amended Separation Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated January 31, 2014 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed February 6, 2014, and incorporated herein by reference). |
| 10.68 | Amendment No. 3 to License and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated January 31, 2014 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed February 6, 2014, and incorporated herein by reference). |
| 10.69 | Amendment No. 1 to Shared Services Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated January 31, 2014 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed February 6, 2014, and incorporated herein by reference). |
| 10.70 | Letter Agreement by and between Oculus Innovative Sciences, Inc. and Hojabr Alimi, dated January 31, 2014 (included as Exhibit 10.6 to the Company's Current Report on Form 8-K, filed February 6, 2014, and incorporated herein by reference). |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS*# | XBRL Instance Document. |
| 101.SCH*# | XBRL Taxonomy Extension Schema. |
| 101.CAL*# | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF*# | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB*# | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE*# | XBRL Taxonomy Extension Presentation Linkbase. |

* Filed herewith.

† Confidential treatment has been granted with respect to certain portions of this agreement.

†† Confidential treatment has been requested with respect to certain portions of this agreement.

# Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**OCULUS INNOVATIVE SCIENCES, INC.**

Date: February 14, 2014

By: /s/ Jim Schutz
Jim Schutz
Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2014

By: /s/ Robert Miller
Robert Miller
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COMPANY COUNSEL TO THE TRANSFER AGENT TO SUCH EFFECT.

**COMMON STOCK PURCHASE WARRANT**

**OCULUS INNOVATIVE SCIENCES, INC.**

No. 854
Warrant Shares: 16,500

Initial Exercise Date: December 9, 2013
Issue Date: December 9, 2013

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, Dawson James Securities, Inc. or its assigns (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after December 9, 2013 (the "Initial Exercise Date") and on or prior to the close of business on May 3, 2016 (the "Termination Date") but not thereafter, to subscribe for and purchase from Oculus Innovative Sciences, Inc., a Delaware corporation (the "Company"), up to 16,500 shares (as subject to adjustment hereunder, the "Warrant Shares") of Common Stock. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b). This Warrant is issued by the Company as of the date hereof pursuant to Section A.2 of the Engagement Letter entered into by and between the Company and Dawson James Securities, Inc., dated as of December 4, 2013.

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "Purchase Agreement"), dated December 4, 2013, among the Company and the purchasers signatory thereto.

Section 2. Exercise.

a) Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed copy of the Notice of Exercise Form annexed hereto sent by facsimile or as a scanned e-mail attachment to the e-mail address provided by the Company to the Holder and no notarization, medallion stamp guarantee, guarantee or other requirement shall be required of the Holder to effect exercises of the Warrant hereunder. Within three (3) Trading Days following the date of exercise as aforesaid, the Holder shall deliver the aggregate Exercise Price for the shares specified in the applicable Notice of Exercise by wire transfer or cashier's check drawn on a United States bank unless the cashless exercise procedure specified in Section 2(c) below is specified in the applicable Notice of Exercise. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within one (1) Business Day of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be **$5.00**, subject to adjustment hereunder (the "Exercise Price").

c) Cashless Exercise. If at the time of exercise hereof there is no effective registration statement registering, or the prospectus contained therein is not available for the issuance of the Warrant Shares to the Holder, then this Warrant may only be exercised, in whole or in part, at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP on the Trading Day immediately preceding the date on which Holder elects to exercise this Warrant by means of a "cashless exercise," as set forth in the applicable Notice of Exercise;

(B) = the Exercise Price of this Warrant, as adjusted hereunder; and

(X) = the number of Warrant Shares that would be issuable upon exercise of this Warrant in accordance with the terms of this Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

"VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if the OTC Bulletin Board is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board, (c) if the Common Stock is not then listed or quoted for trading on the OTC Bulletin Board and if prices for the Common Stock are then reported in the "Pink Sheets" published by Pink OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported, or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holders of a majority in interest of the Warrant Shares then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

d) Mechanics of Exercise.

i. Delivery of Warrant Shares Upon Exercise. The Company shall use best efforts to cause the Warrant Shares purchased hereunder to be transmitted by the Transfer Agent to the Holder by crediting the account of the Holder's prime broker with The Depository Trust Company through its Deposit or Withdrawal at Custodian system ("DWAC") if the Company is then a participant in such system and either (A) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by Holder or (B) this Warrant is being exercised via cashless exercise, and otherwise the Warrant Shares purchased hereunder shall be transmitted by physical delivery to the address specified by the Holder in the Notice of Exercise by the date that is three (3) Trading Days after the latest of (A) the delivery to the Company of the Notice of Exercise, (B) surrender of this Warrant (if required) and (C) payment of the aggregate Exercise Price as set forth above (including by cashless exercise, if permitted) (such date, the "Warrant Share Delivery Date"). The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised, with payment to the Company of the Exercise Price (or by cashless exercise, if permitted) and all taxes required to be paid by the Holder, if any, pursuant to Section 2(d)(vi) prior to the issuance of such shares, having been paid. If the Company fails for any reason to deliver to the Holder the Warrant Shares subject to a Notice of Exercise by the second Trading Day following the Warrant Share Delivery Date, the Company shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each $1,000 of Warrant Shares subject to such exercise (based on the VWAP of the Common Stock on the date of the applicable Notice of Exercise), $10 per Trading Day (increasing to $20 per Trading Day on the fifth Trading Day after such liquidated damages begin to accrue) for each Trading Day after such second Trading Day following the Warrant Share Delivery Date until such Warrant Shares are delivered or Holder rescinds such exercise.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. Rescission Rights. If the Company fails to cause the Transfer Agent to transmit to the Holder the Warrant Shares pursuant to Section 2(d)(i) by the second Trading Day following the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

iv. Compensation for Buy-In on Failure to Timely Deliver Warrant Shares Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause the Transfer Agent to transmit to the Holder the Warrant Shares pursuant to an exercise on or before the second Trading Day following the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount, if any, by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored (in which case such exercise shall be deemed rescinded) or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

v. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

vi. Charges, Taxes and Expenses. Issuance of Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such Warrant Shares, all of which taxes and expenses shall be paid by the Company, and such Warrant Shares shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto. The Company shall pay all Transfer Agent fees required for same-day processing of any Notice of Exercise.

vii. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

e) Holder's Exercise Limitations. The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (i) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (ii) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Common Stock Equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(e), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(e) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(e), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (A) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company or the Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Holder, upon not less than 61 days' prior notice to the Company, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 2(e), provided that the Beneficial Ownership Limitation in no event exceeds 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant held by the Holder and the provisions of this Section 2(e) shall continue to apply. Any such increase or decrease will not be effective until the 61$^{st}$ day after such notice is delivered to the Company. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(e) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

Section 3. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) [Reserved].

c) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 3(a) above, if at any time the Company grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights (provided, however, to the extent that the Holder's right to participate in any such Purchase Right would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Purchase Right to such extent (or beneficial ownership of such shares of Common Stock as a result of such Purchase Right to such extent) and such Purchase Right to such extent shall be held in abeyance for the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation).

d) Pro Rata Distributions. During such time as this Warrant is outstanding, if the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Warrant, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution (provided, however, to the extent that the Holder's right to participate in any such Distribution would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Distribution to such extent (or in the beneficial ownership of any shares of Common Stock as a result of such Distribution to such extent) and the portion of such Distribution shall be held in abeyance for the benefit of the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation). To the extent that this Warrant has not been partially or completed exercised at the time of such Distribution, such portion of the Distribution shall be held in abeyance for the benefit of the Holder until the Holder has exercised this Warrant.

e) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person or group of Persons whereby such other Person or group acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) or (vi) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by issued and outstanding Common Shares (each a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder (without regard to any limitation in Section 2(e) on the exercise of this Warrant), the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction (without regard to any limitation in Section 2(e) on the exercise of this Warrant). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. Notwithstanding anything to the contrary, in the event of a Fundamental Transaction that is (1) an all cash transaction, (2) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the Exchange Act, or (3) a Fundamental Transaction involving a person or entity not traded on a national securities exchange, including, but not limited to, the Nasdaq Global Select Market, the Nasdaq Global Market, or the Nasdaq Capital Market, the Company or any Successor Entity (as defined below) shall, at the Holder's option, exercisable at any time concurrently with, or within 30 days after, the consummation of the Fundamental Transaction, purchase this Warrant from the Holder by paying to the Holder an amount of cash equal to the Black Scholes Value of the remaining unexercised portion of this Warrant on the date of the consummation of such Fundamental Transaction. "Black Scholes Value" means the value of this Warrant based on the Black and Scholes Option Pricing Model obtained from the "OV" function on Bloomberg, L.P. ("Bloomberg") determined as of the day of consummation of the applicable Fundamental Transaction for pricing purposes and reflecting (A) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the time between the date of the public announcement of the applicable Fundamental Transaction and the Termination Date, (B) an expected volatility equal to the greater of 100% and the 100 day volatility obtained from the HVT function on Bloomberg as of the Trading Day immediately following the public announcement of the applicable Fundamental Transaction, (C) the underlying price per share used in such calculation shall be the sum of the price per share being offered in cash, if any, plus the value of any non-cash consideration, if any, being offered in such Fundamental Transaction and (D) a remaining option time equal to the time between the date of the public announcement of the applicable Fundamental Transaction and the Termination Date. The Company shall cause any successor entity in a Fundamental Transaction in which the Company is not the survivor (the "Successor Entity") to assume in writing all of the obligations of the Company under this Warrant and the other Transaction Documents in accordance with the provisions of this Section 3(e) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the Holder, deliver to the Holder in exchange for this Warrant a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant which is exercisable for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and with an exercise price which applies the exercise price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such exercise price being for the purpose of protecting the economic value of this Warrant immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant and the other Transaction Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant and the other Transaction Documents with the same effect as if such Successor Entity had been named as the Company herein.

f) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

g) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 10 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any of the Subsidiaries, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 4. Transfer of Warrant.

a) Transferability. Neither this Warrant nor any Warrant Shares issued upon exercise of this Warrant shall be sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the date of effectiveness or commencement of sales of the offering pursuant to which this Warrant is being issued, except the transfer of any security:

i. by operation of law or by reason of reorganization of the Company;

ii. to any FINRA member firm participating in the offering and the officers or partners thereof, if all securities so transferred remain subject to the lock-up restriction in this Section 4(a) for the remainder of the time period;

iii. if the aggregate amount of securities of the Company held by the Holder or related person do not exceed 1% of the securities being offered;

iv. that is beneficially owned on a pro-rata basis by all equity owners of an investment fund, provided that no participating member manages or otherwise directs investments by the fund, and participating members in the aggregate do not own more than 10% of the equity in the fund; or

v. the exercise or conversion of any security, if all securities received remain subject to the lock-up restriction in this Section 4(a) for the remainder of the time period.

Subject to the foregoing restriction, any applicable securities laws and the conditions set forth in Section 4(d), this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the initial issuance date of this Warrant and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant or the sale of Warrant Shares, the transfer of this Warrant or the Warrant Shares, as applicable, shall not be either (i) registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws or (ii) eligible for resale without volume or manner-of-sale restrictions or current public information requirements pursuant to Rule 144, the Company may require, as a condition of allowing such transfer or sale, that the Holder provide to the Company an opinion of counsel selected by the Holder and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer or sale does not require registration of such transferred security under the Securities Act.

e) Representations by the Holder. The Holder, by the acceptance hereof, represents and warrants that (a) it is acquiring this Warrant and, upon any exercise hereof, will acquire the Warrant Shares issuable upon such exercise, for its own account and not with a view to or for distributing or reselling such Warrant Shares or any part thereof in violation of the Securities Act or any applicable state securities law, except pursuant to sales registered or exempted under the Securities Act and (b) at the time the Holder was offered this Warrant, it was, and as of the date hereof it is, and on each date on which it exercises this Warrants, it will either be an "accredited investor" as defined in Rule 501(a) under the Securities Act or a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act.

Section 5. Miscellaneous.

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2(d)(i), except as expressly set forth in Section 3.

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (i) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (ii) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and (iii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies. Without limiting any other provision of this Warrant or the Purchase Agreement, if the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, actual and reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

**********

*(Signature Page Follows)*

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

**OCULUS INNOVATIVE SCIENCES, INC.**

By: /s/ Robert Miller
Name: Robert Miller
Title: Chief Financial Officer

**NOTICE OF EXERCISE**

TO: OCULUS INNOVATIVE SCIENCES, INC.

PORTION OF WARRANT BEING EXERCISED: (check applicable box or fill in number of Warrant Shares):

Entire Warrant ☐

____ Warrant Shares

ISSUE TO: _____
(Name)

_____
(Address, including Zip Code)

_____
(Social Security or Tax Identification Number)

DELIVER TO: _____
(Name)

_____
(Address, including Zip Code)

In payment of the purchase price with respect to this Warrant exercised, the undersigned hereby (*check applicable box*) (A) ☐ tenders payment of $_____ by (i) certified or bank cashier's check payable to the order of the Company; or (ii) ☐ a wire transfer of such funds to an account designated by the Company or (B) ☐ hereby provides notice to the Company that the undersigned is exercising this Warrant pursuant to the cashless exercise as set forth in Section 2(c) of the Warrant.

If the number of Warrant Shares hereby exercised is fewer than all the Warrant Shares represented by this Warrant, the undersigned requests that a new Warrant representing the number of full Warrant Shares not exercised to be issued and delivered as set forth below:

Name of Holder or Assignee: _____
(Please Print)

Address, including Zip Code: _____

_____

The Warrant Shares shall be delivered to the following DWAC Account Number:

_____
_____
_____

Name of Holder: _____
*Signature of Authorized Signatory of Holder*: _____
Name of Authorized Signatory: _____
Title of Authorized Signatory: _____
Date: _____

**ASSIGNMENT FORM**

(To assign the foregoing Warrant, execute this form and supply required information.
Do not use this form to exercise the Warrant.)

FOR VALUE RECEIVED, [____] all of or [_____] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

_____

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

_____

Signature Guaranteed: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)**

I, Jim Schutz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oculus Innovative Sciences, Inc. for the quarter ended December 31, 2013;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Jim Schutz

Date: February 14, 2014

Jim Schutz
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)**

I, Robert Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oculus Innovative Sciences, Inc. for the quarter ended December 31, 2013;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Robert Miller

Date: February 14, 2014

Robert Miller
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**
**(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officers of Oculus Innovative Sciences, Inc., a Delaware corporation (the "Company"), do hereby certify, to such officers' knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended December 31, 2013 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2014

By: /s/ Jim Schutz
Jim Schutz
Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2014

By: /s/ Robert Miller
Robert Miller
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)