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

**Amendment No. 2
to the
FORM S-1**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

OCULUS INNOVATIVE SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Delaware

3841

68-0423298

(State or other jurisdiction of incorporation
or organization)

(Primary Standard Industrial
Classification Code Number)

(I.R.S. Employer Identification Number)

**Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
(707) 283-0550**

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive
offices)

**Jim Schutz
Chief Executive Officer
Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
(707) 283-0550**

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

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Approximate date of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

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

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

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

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

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. (Check one):

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price(1)	Amount of registration fee
Common stock, no par value (2)	\$9,200,000	\$1,069.04
Warrants to purchase common stock (2)(4)	(5)	(6)
Shares of common stock underlying warrants (2)(3)		
Underwriters' warrants (4)	\$460,000	\$53.45
Shares of common stock underlying underwriters' warrants (3)(4)		
Total	\$9,660,000	\$1,122.49*

* Previously paid.

- (1) Estimated solely for the purpose of calculating the registration fee under Rule 457(o) of the Securities Act of 1933, as amended ("Securities Act").
- (2) Includes additional shares of common stock and/or warrants which may be issued upon exercise of a 45-day option granted to the underwriters to cover over-allotments, if any, up to 15%.
- (3) Pursuant to Rule 416 under the Securities Act, the securities being registered hereunder include such indeterminate number of additional shares of common stock as may be issued after the date hereof as a result of stock splits, stock dividends or similar transactions.
- (4) Assumes the underwriters' over-allotment is fully exercised.
- (5) The warrants to be issued to investors hereunder are included in the price of the common stock above.
- (6) No separate registration fee is required pursuant to Rule 457(g) promulgated under the Securities Act.

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

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

SUBJECT TO COMPLETION, THE DATE OF THIS PROSPECTUS IS JANUARY 13, 2015.

PROSPECTUS

\$ ____



OCULUS INNOVATIVE SCIENCES, INC.

**____ Shares of Common Stock and
Warrants to Purchase ____ of Common Stock**

We are offering ____ shares of our common stock, \$0.0001 par value per share, together with warrants to purchase ____ shares of our common stock. One share of common stock is being sold together with a warrant. Each warrant is exercisable for ____ of a share of common stock at an initial exercise price of \$____ per full share commencing upon consummation of this offering and terminating on the fifth anniversary of the date of issuance.

All costs associated with this registration will be borne by us. Our common stock is traded on The NASDAQ Capital Market under the trading symbol "OCLS."

We applied for listing of the warrants offered in this offering on The NASDAQ Capital Market on December 29, 2014, and we intend for them to begin trading immediately upon approval by NASDAQ. No assurance can be given that our application will be approved.

None of our other warrants are listed or traded on a national securities exchange or market. On January 8, 2015, the last reported sale price of our common stock on The NASDAQ Capital Market was \$1.47 per share.

	<u>Per Share</u>	<u>Per Warrant (1)</u>	<u>Total</u>
Public offering price	\$	\$	\$
Underwriter discounts and commissions (2)	\$	\$	\$
Proceeds, before expenses, to us (3)	\$	\$	\$

(1) One share of common stock is being sold together with a warrant, with each warrant being exercisable for the purchase of ____ of a share of common stock.

(2) We have agreed to issue warrants to the underwriters and to reimburse the underwriters for certain expenses. See "Underwriting" on page 86 of this prospectus for a description of these arrangements.

(3) We estimate the total expenses of this offering will be approximately \$ ____.

The underwriters expect to deliver our securities, against payment, on or about ____, 2015.

We have granted the underwriters a 45-day option to purchase up to ____ additional shares of common stock and/or additional warrants to purchase up to ____ additional shares of common stock from us at the offering price for each security, less underwriting discounts and commissions, to cover over-allotments, if any.

**THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE
SECURITIES ONLY IF YOU CAN AFFORD A COMPLETE LOSS.**

SEE "RISK FACTORS" BEGINNING ON PAGE 4.

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

Sole Book-Running Manager

Maxim Group LLC

Co-Manager

Dawson James Securities, Inc.

Subject to Completion, the date of this prospectus is January 13, 2015

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OCULUS INNOVATIVE SCIENCES, INC.

PROSPECTUS SUMMARY

The following information is a summary of the prospectus and it does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus carefully, including the financial statements and the notes relating to the financial statements.

OUR BUSINESS

We are a specialty pharmaceutical company that develops and markets solutions for the treatment of dermatological conditions and advanced tissue care. We believe that our products, which are sold throughout the United States and internationally, have improved outcomes for more than five million patients globally by reducing infections, itch, pain, scarring, odor and harmful inflammatory responses.

We initially built our business by developing and promoting these products via partnerships. Over the last 12 months, we added new members to our Board of Directors, thus enhancing our expertise in sales, marketing and business strategy in dermatology, and we hired new managers with years of experience in dermatology. Our new management team commenced a strategic realignment of our business, commencing with the IPO of our surgical business, Ruthigen, Inc., in March 2014, with a sharp focus on dermatology markets. Our decision to enhance our focus on dermatology was based on the attractive characteristics of this market, our already strong presence in this segment and the ability of our core hypochlorous acid-based technology, Microcyn®, to address other dermatological indications, including acne, atopic dermatitis, anti-itch and scar management.

Building upon our commercialization experience selling our Microcyn® Technology-based products, we believe we can significantly increase our revenue growth by focusing on our own dermatology efforts. Key aspects of our dermatology growth strategy are set forth below:

Expand our Internal U.S. Sales Force: We recently hired and intend to continue to hire an additional experienced dermatology management team and sales force, most of who are seasoned sales veterans that have established relationships with dermatologists in their respective territories.

Develop and Launch New Dermatology Products: In October 2014, we launched two prescription dermatology products in the United States, an antipruritic gel and a dermal spray. We also have a strong product pipeline, including our new product for treatment of scars that we intend to launch over the next 12 months. We have licensed several proprietary dermatology products from two European dermatology companies that we believe we can bring to market in the near term.

Create a Competitive Pricing Strategy: We have and intend to continue to develop a unique product pricing strategy, which we believe addresses many of the challenges associated with the prescription dermatology market's current pricing and rebate programs.

Develop a Pharmaceutical Line: We plan to acquire or develop new pharmaceutical products with cost-efficient clinical trials to increase our market presence and create innovator patent protection.

Generate International Growth: In Europe, we launched four new dermatology products in November 2014 for acne, atopic dermatitis, scar reduction and post-laser procedures via experienced, country-specific dermatology distributors.

Our plan is to evolve into a leading dermatology and advanced tissue care company, providing innovative and cost-effective solutions to patients, while generating strong, consistent revenue growth and maximizing long-term shareholder value.

We incorporated under the laws of the State of California in April 1999 as Micromed Laboratories, Inc. In August 2001, we changed our name to Oculus Innovative Sciences, Inc. and reincorporated under the laws of the State of Delaware in December 2006. We have significant operating subsidiaries in Europe and Mexico, and references to our Company contained in this prospectus include our subsidiaries, Oculus Technologies of Mexico, S.A. de C.V., and Oculus Innovative Sciences Netherlands, B.V., except where the context otherwise requires. Our principal executive offices are located at 1129 North McDowell Boulevard, Petaluma, California 94954. Our telephone number is (707) 283-0550. Our fiscal year end is March 31. Our website is www.oculusis.com. Information contained on our website does not constitute part of this prospectus.

THE OFFERING

Common stock outstanding as of January 8, 2015 (1)	8,660,580 shares
Common Stock offered	____ shares
Warrants offered	____ warrants to purchase an aggregate of ____ shares
Description of Warrants	Each warrant will entitle the holder to purchase ____ of a share of common stock at a purchase price equal to \$____ per full share, at any time commencing upon consummation of this offering and terminating on the fifth anniversary of the date of issuance. See “Description of Securities – Warrants.”
Common Stock outstanding after this offering assuming all shares are sold and no warrants are exercised (1)	____ shares
Underwriters’ Over Allotment Option	The underwriting agreement provides that we will grant to the underwriters an option, exercisable within 45 days after the closing of this offering, to acquire up to an additional 15% of the total number of shares of common stock and/or warrants to be offered by us pursuant to this offering, solely for the purpose of covering over-allotments.
Use of Proceeds	We intend to use the proceeds from the sale of the shares and from the exercise of warrants, if any, to increase our direct sales force, to develop and launch new products and for general working capital. See “Use of Proceeds.”
Stock Symbol	OCLS
Proposed Stock Symbol for the Warrants	OCLSW
Risk Factors	Investing in our securities involves substantial risks. You should carefully review and consider the “Risk Factors” section of this prospectus beginning on page 4 and the other information in this prospectus for a discussion of the factors you should consider before you decide to invest in this offering.

Except as otherwise indicated herein, all information in this prospectus assumes the underwriters do not exercise the over-allotment option and the warrants offered hereby are not exercised.

(1) Excludes shares of common stock issuable upon exercise of 2,801,667 outstanding options and 2,031,665 warrants as of January 8, 2015.

SUMMARY FINANCIAL INFORMATION

Because this is only a summary of our financial information, it does not contain all of the financial information that may be important to you. Therefore, you should carefully read all of the information in this prospectus and any prospectus supplement, including the financial statements and their explanatory notes and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” before making a decision to invest in our common stock. The information contained in the following summary is derived from our financial statements for the quarters ended September 30, 2014 and 2013, and the fiscal years ended March 31, 2014 and 2013 (In thousands, except share and per share amounts).

	Six Months Ended September 30,		Year ended March 31,	
	2014 (unaudited)	2013 (unaudited)	2014	2013
Total revenues	\$ 6,656	\$ 7,461	\$ 13,668	\$ 15,452
Total cost of revenues	3,018	2,556	5,271	4,709
Gross profit	3,638	4,905	8,397	10,743
Operating expenses				
Research and development	792	1,390	2,887	2,223
Selling, general and administrative	5,904	5,912	11,561	11,894
Total operating expenses	6,696	7,302	14,448	14,117
Loss from operations	(3,058)	(2,397)	(6,051)	(3,374)
Net (loss) income	\$ (788)	\$ (3,111)	\$ 3,735	\$ (5,431)
(Loss) earnings per common share: basic and diluted	\$ (0.09)	\$ (0.47)	\$ 0.54	\$ (1.30)

	September 30, 2014	
	Actual	Pro Forma
	(in thousands) (unaudited)	
Balance Sheet Data:		
Cash and cash equivalents	\$ 3,549	\$
Working capital	2,830	
Total assets	18,394	
Accumulated deficit	(134,798)	
Total stockholders’ equity	\$ 13,370	\$

The pro forma as adjusted column reflects (i) the sale by us of _____ shares of common stock in this offering at the offering price of \$ _____ per share after deducting underwriting discounts and commissions and offering expenses payable by us, and (ii) capitalization of \$ _____ of deferred offering costs into additional paid-in capital.

RISK FACTORS

Investing in our securities involves a high degree of risk. This prospectus contains a discussion of risks applicable to an investment in the securities offered. Prior to making a decision about investing in our securities, you should carefully consider the specific factors discussed below together with all of the other information contained in this prospectus or appearing or incorporated by reference in this prospectus.

Risks Related to Our Business

We have a history of losses, we expect to continue to incur losses and we may never achieve profitability and our September 30, 2014 condensed consolidated financial statements included disclosure that casts substantial doubt regarding our ability to continue as a going concern.

We reported a net loss of \$788,000 and a loss from operations of \$3,058,000 for the six months ended September 30, 2014. We reported net income of \$3,735,000 and a loss from operations of \$6,051,000 for the year ended March 31, 2014. At September 30, 2014 and March 31, 2014, our accumulated deficit amounted to \$134,798,000 and \$134,010,000, respectively. We had working capital of \$2,830,000 and \$1,970,000 as of September 30, 2014 and March 31, 2014, respectively. During the six months ended September 30, 2014, net cash used in operating activities amounted to \$3,009,000. We expect to continue incurring losses for the foreseeable future and may never achieve or sustain profitability. We must raise additional capital to pursue our product development initiatives, penetrate markets for the sale of our products and continue as a going concern. We cannot provide any assurance that we will raise additional capital. We believe that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means. We may not raise enough capital in this offering to meet our needs and we may have to raise additional capital in the future. If we are unable to secure additional capital, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash in amounts sufficient to sustain operations and meet our obligations. These measures could cause significant delays in our efforts to further commercialize our products, which are critical to the realization of our business plan and to our future operations. These matters raise substantial doubt about our ability to continue as a going concern or become profitable.

We have historically derived a substantial portion of our revenue from our partnership with Innovacyn and based on Innovacyn's transition to a new partner, we may lose some or all of that revenue, unless we adequately replace Innovacyn with new partners.

For the fiscal year ended March 31, 2014, approximately 23% of our total revenues were derived from our sales agreement with Innovacyn, Inc., our animal health care partner, and for the six months ended September 30, 2014, approximately 15% of our total revenues were derived from our agreement with Innovacyn. During the three months ended September 30, 2014 and 2013, we recorded revenue related to these agreements in the amounts of \$459,000 and \$1,289,000, respectively. During the six months ended September 30, 2014 and 2013, we recorded revenue related to these agreements in the amounts of \$987,000 and \$2,030,000, respectively. During the years ended March 31, 2014 and 2013, we recorded revenue related to these agreements in the amounts of \$3,100,000 and \$3,906,000, respectively. In April of 2014, Innovacyn notified us that over the next twelve months Innovacyn intends to transition to a new supplier of animal care products. Most of their animal care product has been transitioned to the new supplier. We are actively seeking new distribution channels, including locating a new animal health care partner. We have identified two potential partners and are working on negotiating agreements. We can give no assurances that we and these potential partners will be able to agree on terms acceptable to us, if at all. Even if we are able to finalize agreements with these potential partners, these partnerships may not replace our revenues to the same levels as we had with Innovacyn. Our animal health revenues have been adversely impacted and will continue to be until we have secured a new animal health partner. If we are unable to locate new distribution channels or a new animal health care partner, our results of operations and financial condition may be adversely affected.

Our strategy to separate our businesses into two publicly traded companies may have a negative impact on our business operations, operating results and assets.

On March 26, 2014, our formerly wholly-owned subsidiary, Ruthigen, consummated its initial public offering. As a result, we now own a minority interest for which we have agreed to vote the common shares we own with the majority shareholders in Ruthigen. There are various uncertainties and risks relating to this separation that could have, and in some cases have had, a negative impact on our business operations, operating results or assets, including: (i) the distraction of management and disruption of operations; (ii) perceived uncertainties as to our future direction may result in increased difficulties in recruiting and retaining employees, particularly highly qualified employees; (iii) perceived uncertainties as to our future direction may have a negative impact on our relationships with our customers, suppliers, vendors and partners and may result in the loss of business opportunities; (iv) the process of completing the separation may be time consuming and expensive and may result in the loss of business opportunities; and (v) we may not be able to successfully achieve the benefits of any strategic alternative we undertake.

The value of the shares we hold in Ruthigen may fluctuate dramatically, which may affect the value of our assets and could negatively affect our stock price.

Our former wholly-owned subsidiary, Ruthigen, consummated its IPO on March 26, 2014. Through January 8, 2015, we continued to own two million shares of Ruthigen common stock. On January 8, 2015, we entered into a securities purchase agreement pursuant to which we agreed to sell our shares in Ruthigen to two accredited investors for an aggregate purchase price of \$5.5 million upon the occurrence of a trigger event during a standstill period of 60 calendar days. Such triggering event is defined in the securities purchase agreement as the closing of any merger or consolidation of Ruthigen with or into another company, corporation or similar entity or the merger or consolidation of another company, corporation, or assets of a corporation or company into Ruthigen, or in the case of any sale or conveyance to another corporation or the assets or other property of Ruthigen, for which Ruthigen enters into a definitive agreement. Such definitive agreement could be subject to or pending customary closing conditions, regulatory approvals and/or shareholder approval and still be considered definitive for purposes of the securities purchase agreement. As of the filing date of the amended registration statement, of which this prospectus forms part, no triggering event has occurred nor can there be any assurance that one will occur. If we consummate the sale of the Ruthigen shares, we would no longer own any shareholder interest in Ruthigen. However, if the sale of the Ruthigen shares is not completed, we will continue to own the Ruthigen shares, subject to significant existing voting and resale restrictions.

In connection with entering into the securities purchase agreement at a fixed price of \$2.75 per share, we have determined that the carrying value of the two million shares held in Ruthigen is impaired. As a result, during the three months ended December 31, 2014, we will record an impairment loss in the amount of \$4,650,000 which represents the difference between cost and aggregate purchase price. Our interest in Ruthigen is currently reported as a long-term asset on our financial statements rather than a consolidated subsidiary. Because we own shares in a public company, the value of this asset may further fluctuate and the value stated in our financial reports may change substantially over time. Given that we no longer control Ruthigen, we have very little means to control the value of the asset. If the value of our holdings in Ruthigen decreases or fluctuates further, it may adversely affect the value of our stock price.

The shares we own in Ruthigen are not liquid and we may never be able to realize cash for the value stated in our financials.

According to the terms of our Separation Agreement with Ruthigen entered into in the overall context of Ruthigen's separation from us, or the Separation, we are unable to transfer any of the Ruthigen shares we own for one year following the IPO of Ruthigen without the written consent of both the Ruthigen's board of directors and the underwriter who assisted in the IPO. After the one-year lock up expires, we have agreed to additional transfer restrictions that may make it difficult to sell the shares we own in Ruthigen in a timely manner, if at all. Therefore, we may be unable to realize the value of this asset even after the lock up period expires. On January 8, 2015, we agreed to sell our shares in Ruthigen to two investors for an aggregate purchase price of \$5.5 million upon the occurrence of a trigger event during a standstill period of 60 calendar days. Such trigger event is defined in the securities purchase agreement as the closing of any merger or consolidation of Ruthigen with or into another company, corporation or similar entity or the merger or consolidation of another company, corporation, or assets of a corporation or company into Ruthigen, or in the case of any sale or conveyance to another corporation or the assets or other property of Ruthigen, for which Ruthigen enters into a definitive agreement. Such definitive agreement could be subject to or pending customary closing conditions, regulatory approvals and/or shareholder approval and still be considered definitive for purposes of the securities purchase agreement. We received the written consent of Ruthigen's board of directors and the underwriter who assisted in the IPO for this transaction. As of the filing date of the amended registration statement, of which this prospectus forms part, no triggering event has occurred nor can there be any assurance that one will occur. If we consummate the sale of the Ruthigen shares, we would no longer own any shareholder interest in Ruthigen. However, if the sale of the Ruthigen shares is not completed, we will continue to own the Ruthigen shares, subject to the lock-up. Furthermore, we can give no assurance that a liquid trading market for Ruthigen shares will develop and be sustained in the future and we may be unable to sell the shares we own in Ruthigen for the amount at which they are valued, if at all. In addition, Ruthigen's stock price and liquidity may be adversely affected by our minority interest in Ruthigen.

Our Company and Ruthigen may be unable to achieve some or all of the benefits that we expect to achieve through the Separation.

We have entered into Ancillary Agreements with our formerly wholly-owned subsidiary, Ruthigen that govern our relationship with Ruthigen following the completion of Ruthigen's initial public offering. Each of these agreements was entered into in the overall context of Ruthigen's separation from us. The effective date for the Ancillary Agreements was March 26, 2014, the closing date of Ruthigen's initial public offering.

The strategic, operating and financial benefits expected to result from the Separation may be delayed or may never be realized at all. For instance, there can be no assurance that by separating the businesses that either we or Ruthigen will be better positioned to capitalize on future market opportunities or that either company will be able to increase their respective shareholder value. Additionally, Ruthigen may never achieve the milestones established in the License and Supply Agreement or have the funds available to make the milestone payments and thus, we may never receive the milestone payments.

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

Our common stock is currently listed on The NASDAQ Capital Market and we anticipate listing the warrants issued in this offering upon consummation of the offering. 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.

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 and warrants will likely be delisted from The NASDAQ Capital Market and an associated decrease in liquidity in the market for our common stock and warrants may occur. In addition, the delisting of our common stock and warrants could materially adversely affect our access to the capital markets, and any limitation on liquidity or reduction in the price of our common stock and warrants 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.

Our inability to raise additional capital on acceptable terms in the future may cause us to curtail certain operational activities, including regulatory trials, sales and marketing, and international operations, in order to reduce costs and sustain the business, and such inability would have a material adverse effect on our business and financial condition.

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

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

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

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

If we raise additional funds by issuing equity securities, dilution to our stockholders will result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. If we raise additional funds by issuing debt securities, these debt securities would have rights, preferences and privileges senior to those of holders of our common stock, and the terms of the debt securities issued could impose significant restrictions on our operations. If we raise additional funds through collaborations or licensing arrangements, we might be required to relinquish significant rights to our technologies or products, or grant licenses on terms that are not favorable to us. A failure to obtain adequate funds may cause us to curtail certain operational activities, including regulatory trials, sales and marketing, and international operations, in order to reduce costs and sustain our business, and would have a material adverse effect on our business and financial condition.

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

We have obtained ten 510(k) clearances in the United States that permit us to sell Microcyn®-based products as medical devices. However, before we are permitted to sell Microcyn® as a drug in the United States, we must, among other things, successfully complete additional preclinical studies and well-controlled clinical trials, submit a new drug application to the FDA and obtain FDA approval.

The FDA approval process is expensive and uncertain, requires detailed and comprehensive scientific and other data and generally takes several years. Despite the time and expense exerted, approval is never guaranteed. Even if we obtain FDA approval to sell Microcyn® as a drug, we may not be able to successfully commercialize Microcyn® as a drug in the United States and may never recover the substantial costs we have invested in the development of our Microcyn®-based products.

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

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

- insufficient funds to continue our clinical trials;
- changes in the FDA requirements for approval, including requirements for testing efficacy and safety;
- delay in obtaining or failure to obtain FDA or other regulatory authority approval of a clinical trial protocol;
- patients not enrolling in clinical trials at the rate we expect;
- delays in reaching agreement on acceptable clinical trial agreement terms with prospective sites;
- delays in obtaining institutional review board approval to conduct a study at a prospective site;
- third party clinical investigators not performing our clinical trials on our anticipated schedule or performance is not consistent with the clinical trial protocol and good clinical practices, or the third party organizations not performing data collection and analysis in a timely or accurate manner; and
- changes in governmental regulations or administrative actions.

We do not know whether future clinical trials will demonstrate safety and efficacy sufficiently to result in additional FDA approvals. While a number of physicians have conducted clinical studies assessing the safety and efficacy of Microcyn® for various indications, the data from these studies are not sufficient to support approval of Microcyn® as a drug in the United States.

Clinical trials involve a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results.

The results of preclinical studies and early clinical trials of new drugs do not necessarily predict the results of later-stage clinical trials. The design of our clinical trials is based on many assumptions about the expected effects of our product candidates, and if those assumptions are incorrect, the trials may not produce statistically significant results. Preliminary results may not be confirmed upon full analysis of the detailed results of an early clinical trial. Product candidates in later stages of clinical trials may fail to show safety and efficacy sufficient to support intended use claims despite having progressed through initial clinical testing. The data collected from clinical trials of our product candidates may not be sufficient to obtain regulatory approval in the United States or elsewhere. Because of the uncertainties associated with drug development and regulatory approval, we cannot determine if or when we will have an approved product for commercialization or achieve sales or profits.

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

The developing, testing, manufacturing, marketing and selling of medical technology products is subject to extensive regulation by numerous governmental authorities in the United States and other countries. The process of obtaining regulatory clearance and approval of medical technology products is costly and time consuming. Even though their underlying product formulations may be the same or similar, our products are subject to different regulations and approval processes depending upon their intended use.

To obtain regulatory approval of our products as drugs in the United States, we must first show that our products are safe and effective for target indications through preclinical studies consisting of laboratory and animal testing and clinical trials consisting of human testing. The FDA generally clears marketing of a medical device through the 510(k) pre-market clearance process if it is demonstrated the new product has the same intended use and the same or similar technological characteristics as another legally marketed Class II device, such as a device already cleared by the FDA through the 510(k) premarket notification process, and otherwise meets the FDA's requirements. Product modifications, including labeling the product for a new intended use, may require the submission of a new 510(k) clearance and FDA approval before the modified product can be marketed.

The outcomes of clinical trials are inherently uncertain. In addition, we do not know whether the necessary approvals or clearances will be granted or delayed for future products. The FDA could request additional information, changes to product formulation(s) or clinical testing that could adversely affect the time to market and sale of products as drugs. If we do not obtain the requisite regulatory clearances and approvals, we will be unable to commercialize our products as drugs or devices and may never recover any of the substantial costs we have invested in the development of Microcyn®.

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

If our products do not gain market acceptance, our business will suffer because we might not be able to fund future operations.

A number of factors may affect the market acceptance of our products or any other products we develop or acquire, including, among others:

- the price of our products relative to other products for the same or similar treatments;
- the perception by patients, physicians and other members of the healthcare community of the effectiveness and safety of our products for their indicated applications and treatments;
- changes in practice guidelines and the standard of care for the targeted indication;
- our ability to fund our sales and marketing efforts; and
- the effectiveness of our sales and marketing efforts or our partners' sales and marketing efforts.

Our ability to effectively promote and sell any approved products will also depend on pricing and cost-effectiveness, including our ability to produce a product at a competitive price and our ability to obtain sufficient third-party coverage or reimbursement, if any. In addition, our efforts to educate the medical community on the benefits of our product candidates may require significant resources, may be constrained by FDA rules and policies on product promotion, and may never be successful. If our products do not gain market acceptance, we may not be able to fund future operations, including developing, testing and obtaining regulatory approval for new product candidates and expanding our sales and marketing efforts for our approved products, which would cause our business to suffer.

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

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

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

Our business strategy and our short- and long-term operating results depend in part on our ability to execute on existing strategic collaborations and to license or partner with new strategic partners. We believe collaborations allow us to leverage our resources and technologies and to access markets that are compatible with our own core areas of expertise while avoiding the cost of establishing or maintaining a direct sales force in each market. We may incur significant costs in the use of third parties to identify and assist in establishing relationships with potential collaborators. We currently have a small direct sales force, which sells our products in the tissue care, dermatology, and women's health markets, and we intend to slowly expand the geographical coverage of our direct sales force.

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

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

We currently use a direct sales force to sell our products in the tissue care, dermatology, and women's health markets, while we have established partnerships to commercialize our products in the animal healthcare and dermatology markets. Expanding our sales force is expensive and time consuming, and the lack of qualified sales personnel could delay or limit the success of our product launch in the United States. Our domestic sales force competes with the sales operations of our competitors, which are better funded and more experienced. We may not be able to develop domestic sales capacity on a timely basis, or at all.

Our dependence on a commission-based sales force and distributors for sales could limit or prevent us from selling our products in certain markets.

We currently depend on a commission-based sales force and distributors to sell Microcyn® in the United States, Europe and other countries, and intend to continue to sell our products primarily through a commission-based sales force and distributors in Europe and the United States for the foreseeable future. If we are unable to expand our direct sales force, we will continue to rely on a commission-based sales force and distributors to sell Microcyn®. Our existing commission-based sales force and distribution agreements are generally short-term in duration, and we may need to pursue alternate partners if the other parties to these agreements terminate or elect not to renew their agreements. If we are unable to retain our current commission-based sales force and distributors for any reason, we must replace them with alternate salespeople and distributors experienced in supplying the tissue care market, which could be time-consuming and divert management's attention from other operational matters. In addition, we will need to attract additional distributors to expand the geographic areas in which we sell Microcyn®. Distributors may not commit the necessary resources to market and sell our products to the level of our expectations, which could harm our ability to generate revenues. In addition, some of our distributors may also sell products that compete with ours. In some countries, regulatory licenses must be held by residents of the country. For example, the regulatory approval for one of our products in India is owned and held by our Indian distributor. If the licenses are not in our name or under our control, we might not have the power to ensure their ongoing effectiveness and use by us. If current or future distributors do not perform adequately, or we are unable to locate distributors in particular geographic areas, we may not realize long-term revenue growth in certain markets.

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

Regulatory approvals or clearances that we currently have and that we may receive in the future are subject to limitations on the indicated uses for which the products may be marketed, and any future approvals could contain requirements for potentially costly post-marketing follow-up studies. If the FDA determines that our promotional materials or activities constitute promotion of an unapproved use or we otherwise fail to comply with FDA regulations, we may be subject to regulatory enforcement actions, including warning letters, injunctions, seizures, civil fines or criminal penalties. In addition, the manufacturing, labeling, packaging, adverse event reporting, storing, advertising, promoting, distributing and record-keeping for approved products are subject to extensive regulation. We are subject to continued supervision by European regulatory agencies relating to our CE markings and are required to report any serious adverse incidents to the appropriate authorities. Our manufacturing facilities, processes and specifications are subject to periodic inspection by the FDA, Mexican and other regulatory authorities and from time to time, we may receive notices of deficiencies from these agencies as a result of such inspections. Our failure to continue to meet regulatory standards or to remedy any deficiencies could result in restrictions being imposed on our products or manufacturing processes, fines, suspension or loss of regulatory approvals or clearances, product recalls, termination of distribution, product seizures or the need to invest substantial resources to comply with various existing and new requirements. In the more egregious cases, criminal sanctions, civil penalties, disgorgement of profits or closure of our manufacturing facilities are possible. The subsequent discovery of previously unknown problems with Microcyn®, including adverse events of unanticipated severity or frequency, may result in restrictions on the marketing of our products, and could include voluntary or mandatory recall or withdrawal of products from the market.

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

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

The machines used to manufacture our Microcyn®-based products are complex, use complicated software and must be monitored by highly trained engineers. Slight deviations anywhere in our manufacturing process, including quality control, labeling and packaging, could lead to a failure to meet the specifications required by the FDA, the Environmental Protection Agency, European notified bodies, Mexican regulatory agencies and other foreign regulatory bodies, which may result in lot failures or product recalls. If we are unable to obtain quality internal and external components, mechanical and electrical parts, if our software contains defects or is corrupted, or if we are unable to attract and retain qualified technicians to manufacture our products, our manufacturing output of Microcyn®, or any other product candidate based on our platform that we may develop, could fail to meet required standards, our regulatory approvals could be delayed, denied or revoked, and commercialization of one or more of our Microcyn®-based products may be delayed or foregone. Manufacturing processes that are used to produce the smaller quantities of Microcyn® needed for clinical tests and current commercial sales may not be successfully scaled up to allow production of significant commercial quantities. Any failure to manufacture our products to required standards on a commercial scale could result in reduced revenues, delays in generating revenue and increased costs.

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

Our ability to compete and to achieve and maintain profitability depends on our ability to protect our intellectual property and proprietary technologies. We currently rely on a combination of patents, patent applications, trademarks, trade secret laws, confidentiality agreements, license agreements and invention assignment agreements to protect our intellectual property rights. We also rely upon unpatented know-how and continuing technological innovation to develop and maintain our competitive position. These measures may not be adequate to safeguard our Microcyn® Technology. If we do not protect our rights adequately, third parties could use our technology, and our ability to compete in the market would be reduced.

We also have agreed to certain prohibitions on our intellectual property. Pursuant to the License and Supply Agreement we entered into with our formerly wholly-owned subsidiary, Ruthigen, we agreed to exclusively license certain of our proprietary technology to Ruthigen to enable Ruthigen's research and development and commercialization of RUT58-60, and any improvements to it, in the United States, Canada, European Union and Japan for certain invasive procedures in human treatment as defined in the License and Supply Agreement. Under the terms of the agreement, we are also prohibited from using the licensed proprietary technology to sell products that compete with Ruthigen's products within the defined territory.

Although we have filed several U.S. and foreign patent applications related to our Microcyn®-based products, the manufacturing technology for making the products, and their uses, only eight U.S. patents have been issued from these applications to date.

Our pending patent applications and any patent applications we may file in the future may not result in issued patents, and we do not know whether any of our in-licensed patents or any additional patents that might ultimately be issued by the U.S. Patent and Trademark Office or foreign regulatory body will protect our Microcyn® Technology. Any claims that are issued may not be sufficiently broad to prevent third parties from producing competing substitutes and may be infringed, designed around, or invalidated by third parties. Even issued patents may later be found to be invalid, or may be modified or revoked in proceedings instituted by third parties before various patent offices or in courts. For example, our European patent that was initially issued on May 30, 2007 was revoked by the Opposition Division of the European Patent Office in December 2009 following opposition proceedings instituted by a competitor.

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

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

The policies we use to protect our trade secrets may not be effective in preventing misappropriation of our trade secrets by others. In addition, confidentiality and invention assignment agreements executed by our employees, consultants and advisors may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosures.

We operate in the State of California. The laws of California prevent us from imposing a delay before an employee who may have access to trade secret and propriety know-how can commence employment with a competing company. Although we may be able to pursue legal action against competitive companies improperly using our proprietary information, we may not be aware of any use of our trade secrets and proprietary know-how until after significant damages has been done to our Company.

We cannot be certain that the steps we have taken will prevent the misappropriation and use of our intellectual property in the United States, or in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

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

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

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

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

There is significant uncertainty concerning third-party coverage and reimbursement of newly approved medical products and drugs. Third-party payors are increasingly challenging the prices charged for medical products and services. Also, the trend toward managed healthcare in the United States and the concurrent growth of organizations such as HMOs, as well as the recently enacted “Affordable Care Act,” may result in lower prices for or rejection of our products. The cost containment measures that health care payors and providers are instituting and the effect of any healthcare reform could materially and adversely affect our ability to generate revenues.

In both the United States and some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the health care system in ways that could affect our ability to sell our products profitably. In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also called the Medicare Modernization Act, or MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. As a result of this legislation and the expansion of federal coverage of drug products, we expect that there will be additional pressure to contain and reduce costs. These cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products and could seriously harm our business. While the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policies and payment limitations in setting their own reimbursement rates, and therefore any reduction in reimbursement that results from the MMA may result in a similar reduction in payments from private payors.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively, the PPACA, became law in the United States. The goal of PPACA is to reduce the cost of health care and substantially change the way health care is financed by both governmental and private insurers. While we cannot predict what impact on federal reimbursement policies this legislation will have in general or on our business specifically, the PPACA may result in downward pressure on pharmaceutical reimbursement, which could negatively affect market acceptance of our Microcyn® products.

We expect to experience pricing pressures in connection with the sale of our Microcyn® products, due to the trend toward managed health care, the increasing influence of health maintenance organizations and additional legislative proposals. If we fail to successfully secure and maintain reimbursement coverage for our products or are significantly delayed in doing so, we will have difficulty achieving market acceptance of our products and our business will be harmed.

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

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

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

We have material international operations in Mexico and Europe. During the six months ended September 30, 2014 and the year ended March 31, 2014, approximately 68% and 58% of our total revenues respectively were generated from sales outside of the United States. Our business is highly regulated for the use, marketing and manufacturing of our Microcyn®-based products both domestically and internationally. Our international operations are subject to risks, including:

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

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

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

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

A substantial portion of our revenues are derived from outside the United States; primarily from Mexico and Europe. We anticipate that revenues from international customers will continue to represent a substantial portion of our revenues for the foreseeable future. Because we generate revenues in foreign currencies, we are subject to the effects of exchange rate fluctuations. The functional currency of our Mexican subsidiary is the Mexican Peso and the functional currency of our Netherlands subsidiary is the Euro. For the preparation of our consolidated financial statements, the financial results of our foreign subsidiaries are translated into U.S. dollars using average exchange rates during the applicable period. If the U.S. dollar appreciates against the Mexican Peso or the Euro, as applicable, the revenues we recognize from sales by our subsidiaries will be adversely impacted. Foreign exchange gains or losses as a result of exchange rate fluctuations in any given period could harm our operating results and negatively impact our revenues. Additionally, if the effective price of our products were to increase as a result of fluctuations in foreign currency exchange rates, demand for our products could decline and adversely affect our results of operations and financial condition.

We rely on a number of key customers who may not consistently purchase our products in the future and if we lose any one of these customers, our revenues may decline.

Although we have a significant number of customers in each of the geographic markets that we operate in, we rely on certain key customers for a significant portion of our revenues. During the six months ended September 30, 2014, MorePharma represented 45%, Innovacyn represented 15%, and Quinnova represented 8% of net revenues. During the year ended March 31, 2014, MorePharma represented 38%, and Innovacyn represented 23% of net revenues. During the year ended March 31, 2013, Innovacyn represented 25%, and MorePharma represented 13% of net revenues. In the future, a small number of customers may continue to represent a significant portion of our total revenues in any given period. These customers may not consistently purchase our products at a particular rate over any subsequent period. The loss of any of these customers could adversely affect our revenues. Quinnova was recently acquired by Everett Laboratories, Inc., now named Exeltis USA, Inc., a part of Chemo Group, together Exeltis. On November 13, 2014, we received a letter from Exeltis claiming we are in breach of our Exclusive Sales and Distribution Agreement, as further disclosed in the section Legal Proceedings elsewhere in this prospectus. We intend to defend this matter vigorously and do not believe an accrual for a potential loss relating to this matter is necessary at this time. We intend to allow Quinnova/Exeltis to continue to sell the Alevicyn gel at this time while we are building our own direct sales force to sell into the dermatology markets with new products, different than those products sold by Quinnova/Exeltis, including a prescription scar product approved by the FDA but not yet commercialized. While we believe this claim is without merit, there can be no assurances provided by us that the outcome of this matter will be favorable to us or will not have a negative impact on our consolidated financial position or results from operations. In addition, Innovacyn notified us in April 2014 that over the next 12 months it would transition to a new supplier for its animal care products. Because of Innovacyn's failure to perform under the arrangements, we terminated the agreements on December 15, 2014. We are actively seeking new distribution channels and new animal health care partners. We have identified two potential partners and are working on negotiating agreements. We can give no assurances that we and these potential partners will be able to agree on terms acceptable to us, if at all. Even if we are able to finalize agreements with these potential partners, these partnerships may not replace our revenues to the same levels as we had with Innovacyn. Our revenues in animal healthcare have been and will continue to be adversely impacted during this transition and possibly beyond if we cannot secure a new animal health partner.

Negative economic conditions increase the risk that we could suffer unrecoverable losses on our customers' accounts receivable which would adversely affect our financial results.

We grant credit to our business customers, which are primarily located in Mexico, Europe and the United States. Collateral is generally not required for trade receivables. We maintain allowances for potential credit losses. At September 30, 2014, MorePharma represented 56% and Quinnova represented 11% of the net accounts receivable balance. At March 31, 2014, MorePharma represented 44%, Quinnova represented 15%, and Innovacyn represented 12% of the net accounts receivable balance. At March 31, 2013, MorePharma represented 34%, Quinnova represented 26%, and Innovacyn represented 15% of the net accounts receivable balance. While we believe we have a varied customer base and have experienced strong collections in the past, if current economic conditions disproportionately impact any one of our key customers, including reductions in their purchasing commitments to us or their ability to pay their obligations, it could have a material adverse effect on our revenues and liquidity. We have not purchased insurance on our accounts receivable balances.

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

Our success depends largely on the skills, experience and performance of key members of our executive management team, including Jim Schutz, our Chief Executive Officer and Robert Northey, our Vice President of Research and Development. The efforts of these people will be critical to us as we continue to develop our products and attempt to commercialize products in the tissue and dermatology markets. If we were to lose one or more of these individuals, we might experience difficulties in competing effectively, developing our technologies and implementing our business strategies.

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

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

Our success depends, in part, upon our ability to stay at the forefront of technological change and maintain a competitive position. We compete with large healthcare, pharmaceutical and biotechnology companies, along with smaller or early-stage companies that have collaborative arrangements with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, pre-clinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Our competitors may:

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

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

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

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

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

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

We are subject to various federal and state laws pertaining to healthcare fraud and abuse, which include, among other things, “anti-kickback” laws that prohibit payments to induce the referral of products and services, and “false claims” statutes that prohibit the fraudulent billing of federal healthcare programs. Our operations are subject to the Federal Anti-Kickback Statute, a criminal statute that, subject to certain statutory exceptions, prohibits any person from knowingly and willfully offering, paying, soliciting or receiving remuneration, directly or indirectly, to induce or reward a person either (i) for referring an individual for the furnishing of items or services for which payment may be made in whole or in part by a government healthcare program such as Medicare or Medicaid, or (ii) for purchasing, leasing, ordering or arranging for or recommending the purchasing, leasing or ordering of an item or service for which payment may be made under a government healthcare program. Because of the breadth of the Federal Anti-Kickback Statute, the Office of Inspector General of the U.S. Department of Health and Human Services, was authorized to adopt regulations setting forth additional exceptions to the prohibitions of the statute commonly known as “safe harbors.” If all of the elements of an applicable safe harbor are fully satisfied, an arrangement will not be subject to prosecution under the Federal Anti-Kickback Statute.

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

Healthcare fraud and abuse laws are complex, and even minor, inadvertent irregularities can potentially give rise to claims that a statute or regulation has been violated. The frequency of suits to enforce these laws has increased significantly in recent years and has increased the risk that a healthcare company will have to defend a false claim action, pay fines or be excluded from the Medicare, Medicaid or other federal and state healthcare programs as a result of an investigation arising out of such action. We cannot assure you that we will not become subject to such litigation. Any violations of these laws, or any action against us for violation of these laws, even if we successfully defend against it, could harm our reputation, be costly to defend and divert management’s attention from other aspects of our business. Similarly, if the physicians or other providers or entities with which we do business are found to have violated abuse laws, they may be subject to sanctions, which could also have a negative impact on us.

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

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

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

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

If any of our third-party contractors fail to perform their responsibilities to comply with FDA rules and regulations, the manufacture, marketing and sales of our products could be delayed, which could decrease our revenues.

Supplying the market with our Microcyn® Technology products requires us to manage relationships with an increasing number of collaborative partners, suppliers and third-party contractors. As a result, our success depends partially on the success of these third parties in performing their responsibilities to comply with FDA rules and regulations. Although we pre-qualify our contractors and we believe that they are fully capable of performing their contractual obligations, we cannot directly control the adequacy and timeliness of the resources and expertise that they apply to these activities. For example, we and our suppliers are required to comply with the FDA's quality system regulations, which cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, storage and shipping of our products. The FDA enforces the quality system regulation through inspections.

If any of our partners or contractors fail to perform their obligations in an adequate and timely manner, or fail to comply with the FDA's rules and regulations, including failure to comply with quality systems regulations or a corrective action submitted to the FDA after notification by the FDA of a deficiency is deemed insufficient, then the manufacture, marketing and sales of our products could be delayed. Our products could be detained or seized, the FDA could order a recall, or require our partner to replace or offer refunds for our products. The FDA could also require our partner, and, depending on our agreement with our partner, us, to notify health professionals and others that the products present unreasonable risks of substantial harm to the public health. If any of these events occur, the manufacture, marketing and sales of our products could be delayed which could decrease our revenues.

If we fail to comply with the FDA's rules and regulations and are subject to an FDA recall as part of an FDA enforcement action, the associated costs could have a material adverse effect on our business, financial position, results of operations and cash flows.

Our Company, our products, the manufacturing facilities for our products, the distribution of our products, and our promotion and marketing materials are subject to strict and continual review and periodic inspection by the FDA and other regulatory agencies for compliance with pre-approval and post-approval regulatory requirements.

If we fail to comply with the FDA's rules and regulations, we could be subject to an enforcement action by the FDA. The FDA could undertake regulatory actions, including seeking a consent decree, recalling or seizing our products, ordering a total or partial shutdown of production, delaying future marketing clearances or approvals, and withdrawing or suspending certain of our current products from the market. A product recall, restriction, or withdrawal could result in substantial and unexpected expenditures, destruction of product inventory, and lost revenues due to the unavailability of one or more of our products for a period of time, which could reduce profitability and cash flow. In addition, a product recall or withdrawal could divert significant management attention and financial resources. If any of our products are subject to an FDA recall, we could incur significant costs and suffer economic losses. Production of our products could be suspended and we could be required to establish inventory reserves to cover estimated inventory losses for all work-in-process and finished goods related to products we, or our third-party contractors, manufacture. A recall of a material amount of our products could have a significant, unfavorable impact on our future gross margins.

If our products fail to comply with FDA and other governmental regulations, or our products are deemed defective, we may be required to recall our products and we could suffer adverse public relations that could adversely impact our sales, operating results, and reputation which would adversely affect our business operations.

We may be exposed to product recalls, including voluntary recalls or withdrawals, and adverse public relations if our products are alleged to cause injury or illness, or if we are alleged to have mislabeled or misbranded our products or otherwise violated governmental regulations. Governmental authorities can also require product recalls or impose restrictions for product design, manufacturing, labeling, clearance, or other issues. For the same reasons, we may also voluntarily elect to recall, restrict the use of a product or withdraw products that we consider below our standards, whether for quality, packaging, appearance or otherwise, in order to protect our brand reputation.

Product recalls, product liability claims, even if unmerited or unsuccessful, or any other events that cause consumers to no longer associate our brand with high quality and safe products may also result in adverse publicity, hurt the value of our brand, harm our reputation among our customers and other healthcare professionals who use or recommend the products, lead to a decline in consumer confidence in and demand for our products, and lead to increased scrutiny by federal and state regulatory agencies of our operations, any of which could have a material adverse effect on our brand, business, performance, prospects, value, results of operations and financial condition.

Risks Related to Our Common Stock

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

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

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

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

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

Anti-takeover provisions in our certificate of incorporation and bylaws and under Delaware law may make it more difficult for stockholders to change our management and may also make a takeover difficult.

Our corporate documents and Delaware law contain provisions that limit the ability of stockholders to change our management and may also enable our management to resist a takeover. These provisions include:

- the ability of our Board of Directors to issue and designate, without stockholder approval, the rights of up to 714,286 shares of convertible preferred stock, which rights could be senior to those of common stock;
- limitations on persons authorized to call a special meeting of stockholders; and
- advance notice procedures required for stockholders to make nominations of candidates for election as directors or to bring matters before meetings of stockholders.

We are subject to Section 203 of the Delaware General Corporation Law, which, subject to certain exceptions, prohibits “business combinations” between a publicly-held Delaware corporation and an “interested stockholder,” which is generally defined as a stockholder who became a beneficial owner of 15% or more of a Delaware corporation’s voting stock for a three-year period following the date that such stockholder became an interested stockholder.

These provisions might discourage, delay or prevent a change of control in our management. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and cause us to take other corporate actions. In addition, the existence of these provisions, together with Delaware law, might hinder or delay an attempted takeover other than through negotiations with our Board of Directors.

We currently have significant “equity overhang” and, upon the completion of this offering, we will have additional “equity overhang” which could adversely affect the market price of our common stock and impair our ability to raise additional capital through the sale of equity securities. in the future

We currently have significant “equity overhang” and, upon completion of this offering, _____ shares of our common stock will be issuable upon exercise of the warrants issued to investors and the representative of the underwriters in this offering (assuming full exercise of the underwriters’ over-allotment option). The possibility that substantial amounts of our common stock may be issued to and then sold by investors, or the perception that such issuances and sales could occur, often called “equity overhang,” could adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities in the future. The consummation of the exercise of warrants for common stock would significantly increase the number of issued and outstanding shares of our common stock.

Our stockholders may experience substantial dilution in the value of their investment if we issue additional shares of our capital stock or other securities convertible into common stock.

Our Restated Certificate of Incorporation, as amended, allows us to issue up to 30,000,000 shares of our common stock and to issue and designate, without stockholder approval, the rights of up to 714,286 shares of preferred stock. In the event we issue additional shares of our capital stock, dilution to our stockholders could result. In addition, if we issue and designate a class of convertible preferred stock, these securities may provide for rights, preferences or privileges senior to those of holders of our common stock. Additionally, if we issue preferred stock, it may convert into common stock at a ratio of 1:1 or greater because our Restated Certificate of Incorporation, as amended, allows us to designate a conversion ratio without limitations.

Risks Related to this Offering

If an active, liquid trading market for our warrants does not develop, you may not be able to sell your warrants quickly or at or above the price you paid for it.

There is no established trading market for the warrants offered in this offering, and the market for the warrants may be highly volatile or may decline regardless of our operating performance. We applied for listing of the warrants offered in this offering on The NASDAQ Capital Market on December 29, 2014, and we intend for them to begin trading immediately upon approval by NASDAQ. No assurance can be given that our application will be approved. After listing of the warrants, an active public market for our warrants may not develop or be sustained. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market in our warrants or how liquid that market might become. If a market does not develop or is not sustained, it may be difficult for you to sell your warrants at the time you wish to sell them, at a price that is attractive to you, or at all.

We will have broad discretion in how we use the proceeds, and we may use the proceeds in ways in which you and other stockholders may disagree.

We intend to use the net proceeds from this offering to increase our direct sales force, to develop and launch new products and for general working capital. Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. The failure by management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business or cause the price of our common stock to decline.

The market price of our common stock may be volatile, and the value of your investment could decline significantly.

The trading price for our common stock has been, and we expect it to continue to be, volatile. The price at which our common stock trades depends upon a number of factors, including our historical and anticipated operating results, our financial situation, announcements of new products by us or our competitors, our ability or inability to raise the additional capital we may need and the terms on which we raise it, and general market and economic conditions. Some of these factors are beyond our control. Broad market fluctuations may lower the market price of our common stock and affect the volume of trading in our stock, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure you that the market price of our shares of common stock will not fall in the future.

Our stockholders will experience dilution in the value of their investment as a result of this offering and may experience additional dilution in the future.

Our stockholders will incur immediate and substantial dilution as a result of this offering. After giving effect to the sale by us of ___ shares of common stock and warrants to purchase ___ shares of common stock, offered in this offering at an assumed public offering price of \$___ per share and \$___ per warrant, and after deducting underwriter commissions and estimated offering expenses payable by us, stockholders can expect an immediate dilution of \$___ per share, or ___%, at the public offering price, assuming no exercise of the warrants. In the event investors exercise some or all of the warrants issued in this offering, stockholders will experience further dilution, however, we cannot predict if or when the warrants will be exercised. See “Dilution” section. In addition, upon the exercise of any of our outstanding options or warrants, stockholders will incur further dilution.

Shares issuable upon the conversion of warrants or the exercise of outstanding options may substantially increase the number of shares available for sale in the public market and depress the price of our common stock.

As of September 30, 2014, we had outstanding warrants exercisable for an aggregate of 2,034,086 shares of our common stock at a weighted average exercise price of approximately \$5.94 per share. In addition, as of September 30, 2014, options to purchase an aggregate of 2,754,154 shares of our common stock were outstanding at a weighted average exercise price of approximately \$7.21 per share and a weighted average contractual term of 8.24 years. In addition, 1,579,000 shares of our common stock were available on September 30, 2014 for future option grants under our Amended and Restated 2006 Stock Incentive Plan, our 2011 Stock Incentive Plan, our Non-Employee Director Compensation Plan, and our 2015 Bonus Plan. To the extent any of these warrants or options are exercised and any additional options are granted and exercised, there will be further dilution to stockholders and investors. Until the options and warrants expire, these holders will have an opportunity to profit from any increase in the market price of our common stock without assuming the risks of ownership. Holders of options and warrants may convert or exercise these securities at a time when we could obtain additional capital on terms more favorable than those provided by the options or warrants. The exercise of the options and warrants will dilute the voting interest of the owners of presently outstanding shares by adding a substantial number of additional shares of our common stock.

The following table summarizes warrant information as of September 30, 2014:

	<u>Warrants</u>	<u>Remaining Contract Term in Years</u>	<u>Exercise Price</u>	<u>Exercisable</u>
Warrant				
Placement Agent Warrants	16,500	1.59	\$ 5.00	16,500
Investor - Series A Warrants	1,000	0.90	\$ 3.00	1,000
Investor - Series B Warrants	1,400,000	0.90	\$ 3.63	1,400,000
Placement Agent Warrants	69,037	1.59	\$ 3.00	69,037

We have filed several registration statements with the SEC, so that substantially all of the shares of our common stock which are issuable upon the exercise of outstanding warrants and options may be sold in the public market. The sale of our common stock issued or issuable upon the exercise of the warrants and options described above, or the perception that such sales could occur, may adversely affect the market price of our common stock.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

When used in this prospectus, the words “expects,” “believes,” “anticipates,” “estimates,” “may,” “could,” “intends,” and similar expressions are intended to identify forward-looking statements. These statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those projected or otherwise implied by the forward-looking statements. These forward-looking statements speak only as of the date of this prospectus. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. We have discussed many of these risks and uncertainties in greater detail under the heading “Risk Factors.” Additional cautionary statements or discussions of risks and uncertainties that could affect our results or the achievement of the expectations described in forward-looking statements may also be contained elsewhere in this prospectus.

These forward-looking statements speak only as of the date of this prospectus. 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.

USE OF PROCEEDS

We estimate that we will receive up to \$ ___ in net proceeds from the sale of shares and warrants in this offering, based on an assumed public offering price of \$ ___ per share and warrant and after deducting estimated placement agent fees and estimated offering expenses paid by us. If a warrant holder exercises their warrants for cash, we will also receive proceeds from such exercise at the time of such exercise. We cannot predict when or if the warrants will be exercised. It is possible that the warrants may expire and may never be exercised, in which case we will not receive any additional proceeds. We intend to use the net proceeds received from this offering to increase our direct sales force, to develop and launch new products and for general working capital.

DILUTION

If you purchase securities in this offering, your interest will be diluted immediately to the extent of the difference between an assumed public offering price of \$ ___ per share and the as adjusted net tangible book value per share of our common stock immediately following this offering.

Our net tangible book value as of September 30, 2014 was approximately \$13,370,000, or approximately \$1.56 per share. Net tangible book value per share represents our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding as of September 30, 2014.

Net tangible book value dilution per share of common stock to new investors represents the difference between the amount per share paid by purchasers in this offering and the as adjusted net tangible book value per share of common stock immediately after completion of this offering (assuming that no value is attributed to the warrants). After giving effect to our sale of ___ shares and warrants in this offering at an assumed public offering price of \$ ___ per share and warrant, and after deducting the underwriter commissions and estimated offering expenses, our as adjusted net tangible book value as of September 30, 2014 would have been \$ ___, or \$ ___ per share. This represents an immediate decrease in net tangible book value of \$ ___ per share to purchasers of shares in this offering and an immediate dilution in net tangible book value of \$ ___ per share to purchasers, as illustrated in the following table:

Assumed Public offering price per share		
Net tangible book value per share as of September 30, 2014	\$	1.56
Increase in net tangible book value per share attributable to new investors		
Adjusted net tangible book value per share as of September 30, 2014, after giving effect to the offering		
Dilution per share to purchasers in this offering		

The above discussion and tables do not include the following:

- 2,754,154 shares of common stock issuable upon exercise of outstanding stock options, at a weighted average exercise price of \$7.21 per share, under our equity incentive plans;
- 1,579,000 additional shares of common stock reserved for future issuance under our equity incentive plans;
- 2,034,086 shares of common stock issuable upon exercise of outstanding warrants, with current exercise prices ranging from \$3.00 per share to \$126.00 per share.
- _____ shares of common stock issuable upon exercise of the warrants issued in connection with this offering; and
- Assuming the over-allotment option is fully exercised, _____ shares of common stock issuable upon exercise of the warrants to be received by the underwriters in connection with this offering.

PRICE RANGE OF OUR COMMON STOCK

Market Information

Our common stock is quoted on The NASDAQ Capital Market under the symbol "OCLS." and has been trading since our initial public offering on January 25, 2007. The following table sets forth the high and low sales prices for our common stock for each quarter during the last two fiscal years and the current fiscal year as reported on Bloomberg. The prices have been adjusted to reflect a 1-for-7 reverse split, effective April 1, 2013.

	<u>High</u>	<u>Low</u>
<u>For the Fiscal Year Ending March 31, 2015</u>		
Fourth Quarter ending March 31, 2015*	\$ 1.57	\$ 1.40
Third Quarter ended December 31, 2014	\$ 2.32	\$ 1.34
Second Quarter ended September 30, 2014	\$ 2.98	\$ 2.12
First Quarter ended June 30, 2014	\$ 4.14	\$ 2.90
<u>For the Fiscal Year Ended March 31, 2014</u>		
Fourth Quarter ended March 31, 2014	\$ 5.84	\$ 3.03
Third Quarter ended December 31, 2013	\$ 4.74	\$ 2.31
Second Quarter ended September 30, 2013	\$ 3.07	\$ 2.31
First Quarter ended June 30, 2013	\$ 6.00	\$ 2.49
<u>For the Fiscal Year Ended March 31, 2013</u>		
Fourth Quarter ended March 31, 2013	\$ 5.74	\$ 2.81
Third Quarter ended December 31, 2012	\$ 6.30	\$ 3.64
Second Quarter ended September 30, 2012	\$ 7.00	\$ 4.44
First Quarter ended June 30, 2012	\$ 9.31	\$ 4.89

*Through January 8, 2015.

We applied for listing of the warrants offered in this offering on The NASDAQ Capital Market on December 29, 2014, and we intend for them to begin trading immediately upon approval by NASDAQ. No assurance can be given that our application will be approved.

Holders

As of December 30, 2014, we had 376 holders of record of our common stock. Holders of record include nominees who may hold shares on behalf of multiple owners.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for the operation of our business and we do not currently intend to pay any cash dividends on our common stock in the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2014:

- on an actual basis; and
- on a pro forma basis, based upon an assumed public offering price of \$ ____ per share of common stock and warrant to purchase ____ of common stock, to give effect to the sale of ____ shares of common stock and ____ warrants in this offering, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Based on the assumed public offering price of \$ ____ per share of common stock and one warrant to purchase ____ shares of common stock, we allocated the \$ ____ aggregate consideration to common stock (assuming no value to the warrants). The pro forma information below is for illustrative purposes and our capitalization following the completion of this offering will be adjusted based on the actual offering price and other terms of this offering determined at pricing. You should read this table in conjunction with “Use of Proceeds” above as well as our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and financial statements and the related notes appearing elsewhere in this prospectus.

	September 30, 2014	
	Actual	Pro Forma
	(in thousands) (unaudited)	
Total assets	\$ 18,394	\$
Current portion of long-term debt		8
Stockholders’ equity:		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized, none issued and outstanding actual		–
Common stock, \$0.0001 par value; 14,285,715 shares authorized, 8,585,382 shares issued and outstanding actual; and ____ shares issued and outstanding pro forma		1
Additional paid-in capital	151,338	
Accumulated other comprehensive loss	(3,171)	
Accumulated deficit	(134,798)	
Total stockholders’ equity	\$ 13,370	\$

The above discussion and table does not include the following:

- 2,754,154 shares of common stock issuable upon exercise of outstanding stock options, at a weighted average exercise price of \$7.21 per share, under our equity incentive plans;
- 1,579,000 additional shares of common stock reserved for future issuance under our equity incentive plans;
- 2,034,086 shares of common stock issuable upon exercise of outstanding warrants, with current exercise prices ranging from \$3.00 per share to \$126.00 per share.
- ____ shares of common stock issuable upon exercise of the warrants issued in connection with this offering; and
- Assuming the over-allotment option is fully exercised, ____ shares of common stock issuable upon exercise of the warrants to be received by the underwriters in connection with this offering.

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

The following discussion and analysis of financial condition and results of operations should be read together with the audited consolidated financial statements for the years ended March 31, 2014 and 2013 and the unaudited condensed consolidated financial statements for the quarterly periods ended September 30, 2014 and 2013 appearing elsewhere in this prospectus.

All warrant, option, share and per share information in this prospectus gives retroactive effect to a 1-for-7 reverse stock split, effective April 1, 2013.

Business Overview

We are a specialty device and pharmaceutical company that develops and markets solutions for the treatment of dermatological conditions and advanced tissue care. We believe that our products, which are sold throughout the United States and internationally, have improved patient outcomes for more than five million patients globally by reducing infections, itch, pain, scarring, odor and harmful inflammatory responses.

Our key proprietary technology, Microcyn®, is based on electrically charged oxychlorine small molecules designed to target a wide range of pathogens that cause disease. These pathogens include viruses, fungi, spores and bacteria, including antibiotic-resistant strains 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 advanced tissue care products are designed to treat infections and enhance healing while reducing the need for antibiotics.

To date, we have obtained ten 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 for Section 510(k) of the Federal Food, Drug and Cosmetic Act in the United States. However, we do not have the necessary regulatory approvals to market Microcyn® as a drug.

Our clinical trials from around the world suggest that our Microcyn® Technology helps reduce a wide range of pathogens while curing or improving infection. Our clinical studies suggest that our Microcyn® Technology is safe, easy to use and complementary to many existing treatment methods in dermatology and advanced tissue care. These clinical studies and usage of our products in the United States also 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.

Outside of the United States, we sell our products for dermatological and advanced tissue care with a European Conformity marking (known as Conformité Européenne or CE) covering ten of our products, ten approvals from the Mexican Ministry of Health, and various approvals in Central America, China, Southeast Asia, and the Middle East.

Over the last 12 months, we added new members to our Board of Directors, thus enhancing our expertise in sales, marketing, strategy and dermatology, and we hired new managers to complement our executive team. Our new team commenced a strategic realignment of our business with a sharp focus on dermatology markets. Our decision to focus on dermatology was based on our already strong presence in this market and the ability of our core hypochlorous acid-based technology, Microcyn®, to address other dermatological indications including acne, atopic dermatitis, anti-itch and scar management.

Our plan is to evolve into a leading dermatology and advanced tissue care company, providing innovative and cost-effective solutions to patients, while generating strong, consistent revenue growth and maximizing long-term shareholder value.

Summary of Significant Accounting Policies

Our management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. 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 tax assets, valuation of equity and derivative instruments, debt discounts, valuation of investments, and the estimated amortization periods of upfront product licensing fees received from customers. Periodically, we evaluate and adjust estimates accordingly.

We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and disclosure of commitments and contingencies at the date of the consolidated financial statements.

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

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

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

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

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 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 tax assets, valuation of equity and derivative instruments, debt discounts, valuation of investments, and the estimated amortization periods of upfront product licensing fees received from customers. Periodically, we evaluate and adjust estimates accordingly.

Net Loss per Share

We compute 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 excluding 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 and diluted loss per share for the three and six months ended September 30, 2014 and 2013 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	September 30,	
	2014 (unaudited)	2013 (unaudited)
Options to purchase common stock	2,754,000	1,229,000
Warrants to purchase common stock	2,034,000	1,318,000
	<u>4,788,000</u>	<u>2,547,000</u>

Common Stock Purchase Warrants and Other Derivative Financial Instruments

We classify 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 us a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). We classify 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 our control), (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. We assess classification of our freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. We determined that our freestanding derivatives, which principally consist of warrants to purchase common stock, satisfied the criteria for classification as equity instruments, other than certain warrants that contained reset provisions and certain warrants that required net-cash settlement that the Company classified as derivative liabilities as more fully described below.

Revenue Recognition and Accounts Receivable

We generate revenue from sales of our products to hospitals, medical centers, doctors, pharmacies, and distributors. We sell our products directly to third parties and to distributors through various cancelable distribution agreements. We also entered into agreements to license our technology and products.

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

We record revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectability of the sale is reasonably assured.

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

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

The selling prices of all goods are fixed, and agreed to with the customer, prior to shipment. Selling prices are generally based on established list prices. We do not customarily permit our customers to return any products for monetary refunds or credit against completed or future sales. We may, from time to time, replace expired goods on a discretionary basis. We record these types of adjustments, when made, as a reduction of revenue. Sales adjustments were insignificant during the six months ended September 30, 2014 and 2013 and the years ended March 31, 2014 and 2013.

We evaluate the creditworthiness of new customers and monitor the creditworthiness of our existing customers to determine whether events or changes in their financial circumstances would raise doubt as to the collectability of a sale at the time in which a sale is made. Payment terms on sales made in the United States are generally 30 days and internationally, generally range from 30 days to 90 days.

In the event a sale is made to a customer under circumstances in which collectability is not reasonably assured, we either requires the customer to remit payment prior to shipment or defer recognition of the revenue until payment is received. We maintain a reserve for amounts which may not be collectible due to risk of credit losses.

Additionally, we defer recognition of revenue related to distributors' that are unable to provide inventory or product sell-through reports on a timely basis, until payment is received. We believe the receipt of payment is the best indication of product sell-through.

We have entered into distribution agreements in Europe, Mexico, and certain other countries. Recognition of revenue and related cost of revenue from product sales is deferred until the product is sold from the distributors to their customers.

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

Product license revenue is generated through agreements with strategic partners for the commercialization of Microcyn® products. The terms of the agreements sometimes include non-refundable upfront fees. We analyze multiple element arrangements to determine whether the elements can be separated. Analysis is performed at the inception of the arrangement and as each product is delivered. If a product or service is not separable, the combined deliverables are accounted for as a single unit of accounting and recognized over the performance obligation period.

Assuming the elements meet the criteria for separation and all other revenue requirements for recognition, the revenue recognition methodology prescribed for each unit of accounting is summarized below:

- When appropriate, we defer recognition of non-refundable upfront fees. If we have continuing performance obligations then such up-front fees are deferred and recognized over the period of continuing involvement.
- We recognize royalty revenues from licensed products upon the sale of the related products.
- Revenue from consulting contracts is recognized as services are provided. Revenue from testing contracts is recognized as tests are completed and a final report is sent to the customer.

Inventory

Inventories are stated at the lower of cost, cost being determined on a standard cost basis (which approximates actual cost on a first-in, first-out basis), or market. Due to changing market conditions, estimated future requirements, age of the inventories on hand and production of new products, we regularly review inventory quantities on hand and record a provision to write down excess and obsolete inventory to its estimated net realizable value.

Income Taxes

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

Fair Value of Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The carrying amounts of long-term investments include the investment held in Ruthigen and are carried at cost, which management believes approximates fair value. 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. We measure 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. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. We use 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; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

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:

	Fair Value Measurements at September 30, 2014 (unaudited) Using			
	Total September 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Liabilities:				
Derivative liabilities – warrants	\$ 856,000	–	–	\$ 856,000

	Fair Value Measurements at March 31, 2014 Using			
	Total March 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Liabilities:				
Derivative liabilities – warrants	\$ 3,175,000	–	–	\$ 3,175,000

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, our accounting and finance department, who report to the Chief Financial Officer, determine our 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 our accounting and finance department and are approved by the Chief Financial Officer.

As of September 30, 2014, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

Impairment of Long-Lived Assets

We periodically review the carrying values of our long-lived assets when events or changes in circumstances would indicate that it is more likely than not that their carrying values may exceed their realizable values, and records impairment charges when considered necessary. Specific potential indicators of impairment include, but are not necessarily limited to:

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

When circumstances indicate that an impairment may have occurred, we test such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. In estimating these future cash flows, assets and liabilities are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other such groups. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, will be recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable. During the six months ended September 30, 2014, we have noted no indicators of impairment.

Long-Term Investments

Our long-term investments consist of the 2,000,000 shares we own in Ruthigen at September 30, 2014 and March 31, 2014. We have accounted for the 2,000,000 shares of common stock we own in Ruthigen at cost in accordance with ASC 325-20 as a result of (a) the restrictions on voting the shares held as disclosed above, (b) us having no representation on the Ruthigen board of directors, (c) our inability to set policy at Ruthigen (d) us having no further commitments for funding the operations of Ruthigen and (e) the restrictions on transferability of the shares which extend beyond a one-year period. On January 8, 2015, we entered into a securities purchase agreement with two accredited investors, under which we agreed not to market, offer or sell our 2 million shares of common stock we hold in Ruthigen to any person other than the investors for a period of 60 calendar days from the date of the securities purchase agreement and under which the investors irrevocably agree to purchase all of the Ruthigen shares upon the occurrence of a triggering event. The purchase price for the Ruthigen shares to be purchased by the investors shall be \$2.75 per share, or an aggregate of \$5,500,000 for all of the Ruthigen shares. Such triggering event is defined in the securities purchase agreement as the closing of any merger or consolidation of Ruthigen with or into another company, corporation or similar entity or the merger or consolidation of another company, corporation, or assets of a corporation or company into Ruthigen, or in the case of any sale or conveyance to another corporation or the assets or other property of Ruthigen, for which Ruthigen enters into a definitive agreement. Such definitive agreement could be subject to or pending customary closing conditions, regulatory approvals and/or shareholder approval and still be considered definitive for purposes of the securities purchase agreement. Ruthigen and Dawson James Securities, Inc., as the managing underwriter of the Ruthigen IPO approved the transaction in accordance with the provisions of the Separation Agreement between Ruthigen and the Company, dated August 2, 2013, as amended, subject to certain conditions set forth in the securities purchase agreement. As of the filing date of the amended registration statement, of which this prospectus forms part, no triggering event has occurred nor can there be any assurance provided that one will occur.

In connection with entering into the securities purchase agreement to sell the Ruthigen shares at a fixed price of \$2.75 per share, we have determined that the carrying value of the Ruthigen shares is impaired. As a result, during the three months ended December 31, 2014, we will record an impairment loss in the amount of \$4,650,000 which represents the difference between cost and aggregate purchase price.

Additionally, we agreed to pay Dawson James Securities, Inc. a finder's fee in the amount of \$200,000 upon the closing of the actual sale of the Ruthigen shares.

Stock-based Compensation

We account for share-based awards exchanged for employee services based on the estimated fair value of the award on the grant date. We estimate the fair value of employee stock awards using the Black-Scholes option pricing model. We amortize 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.

We account for equity instruments issued to non-employees based on the estimated fair value of the instrument on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instrument vests or becomes non-forfeitable. Non-employee stock-based compensation charges are amortized over the vesting period or as earned.

Deconsolidation of Ruthigen, Inc.

On March 26, 2014, we deconsolidated our formerly wholly-owned subsidiary, Ruthigen in connection with the completion of Ruthigen's initial public offering of its common stock. As a result of the initial public offering, our ownership interest in Ruthigen decreased to approximately 43%. Ruthigen's results of operations and cash flows through March 26, 2014 have been included in our consolidated

financial statements.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) has issued Accounting Standards Update (“ASU”) No. 2014-12, *Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s condensed consolidated financial position and results of operations.

The FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is currently evaluating the impact of the adoption of this standard on its condensed consolidated financial position and results of operations.

The FASB has issued ASU No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. The guidance, which is effective for annual reporting periods ending after December 15, 2016, extends the responsibility for performing the going-concern assessment to management and contains guidance on how to perform a going-concern assessment and when going-concern disclosures would be required under U.S. GAAP. The Company has elected to early adopt the provisions of ASU 2014-15 in connection with the issuance of these unaudited condensed consolidated financial statements. Management’s evaluations of events and conditions that raise substantial doubt regarding the Company’s ability to continue as a going concern have been disclosed in Note 2 to the September 30, 2014 condensed consolidated financial statements included elsewhere in this prospectus.

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.

Comparison of Three Months Ended September 30, 2014 and 2013

Revenues

Total revenues were \$3,264,000 for the three months ended September 30, 2014, as compared to \$4,089,000 in the quarter ended September 30, 2013. Product revenues were down 20% from the same period last year, with decreases in revenue in the United States, the Middle East and China, which were offset by increases in revenue in Europe and Mexico.

Total product revenues in the United States were \$978,000 for the three months ended September 30, 2014, as compared to \$1,898,000 in the quarter ended September 30, 2013. Product revenues were down 48% from the same period last year primarily related to lower sales in animal healthcare and from our current dermatology partner, partially offset by increased sales of tissue care products sold by our direct salesforce. We recorded revenue in the amounts of \$459,000 and \$1,289,000, for the three months ended September 30, 2014 and 2013, respectively, from Innovacyn. The decrease in revenue was caused by a reduction in the unit volume associated with Innovacyn’s transition to a new supplier. We expect revenues related to Innovacyn to continue to decline significantly as the transition to their new supplier continues.

Revenue in Mexico for the three months ended September 30, 2014 increased \$189,000, or 14%, when compared to the same period in the prior year with an increase of 34% in units sold. The increases were due to strong growth in the sales of hydrogel and 120ml liquid products. Additionally, for the three months ended September 30, 2014 and 2013, \$378,000 was recognized related to the amortization of the upfront license fees paid by More Pharma.

Revenue in Europe and Rest of the World for the three months ended September 30, 2014 decreased \$49,000, or 8%, as compared to the same period in the prior year, with decreases in the Middle East and China, partially offset by a 26% sales increase in Europe. The increase in the European revenue is largely the result of the introduction of multiple new advanced tissue care product line extensions including a gel product, as well as the addition of new European distributors. The sales decline in the Middle East relates to the timing of periodic orders for that region.

The following table shows our product revenues combined with our license revenues by geographic region:

	Three Months Ended September 30,		\$ Change	% Change
	2014	2013		
United States	\$ 978,000	\$ 1,898,000	\$ (920,000)	(48)%
Mexico	1,541,000	1,352,000	189,000	14%
Europe and Rest of the World	554,000	603,000	(49,000)	(8)%
Total	\$ 3,073,000	\$ 3,853,000	\$ (780,000)	(20)%

Licensing revenues were \$378,000 and \$397,000 for the three months ended September 30, 2014 and 2013, respectively. These amounts are reflected in the table above under the respective geographic region.

Service revenues were \$191,000 and \$236,000 for the three months ended September 30, 2014 and 2013, respectively, due to a decrease in the number of tests provided by our services business.

Gross Profit

We reported gross profit related to our products of \$1,705,000 or 55% of product revenues, during the three months ended September 30, 2014, compared to a gross profit of \$2,650,000, or 69% 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 September 30, 2014 and 2013. Gross margins declined primarily as a result of the decline in U.S. sales related to our animal healthcare products.

Research and Development Expense

Research and development expense of \$353,000 for the three months ended September 30, 2014, decreased \$530,000, or 60%, when compared to the same period in the prior year. The decrease is largely due to \$495,000 related to expenses incurred during the three months ended September 30, 2013 by our formerly wholly-owned subsidiary Ruthigen, partially offset by an increase of \$38,000 incurred during the three months ended September 30, 2014 related to our stock compensation expense.

We expect research and development expenses will decrease in total over the next few quarters, due to the deconsolidation of Ruthigen and elimination of spending on Ruthigen projects in the prior fiscal year. However, we expect to incur increased spending on product development related to tissue care and dermatology products.

Selling, General and Administrative Expense

Selling, general and administrative expense of \$2,923,000 for the three months ended September 30, 2014, decreased \$170,000, or 5%, when compared to \$3,093,000 for the same period in the prior year. The decrease for the three months ended September 30, 2014 was primarily due to a decrease of \$499,000 related to administrative expenses incurred by our formerly wholly-owned subsidiary Ruthigen in the prior period, partially offset by higher sales and marketing expenses by us in the United States and Europe, as we prepared to launch additional dermatology products in those regions.

We expect selling, general and administrative expenses to increase over the next several periods, as we intend to increase our direct sales force.

Interest Expense and Interest Income

Interest expense decreased \$187,000 to \$1,000 for the three months ended September 30, 2014, when compared to the same period in the prior year. The decrease for the three months ended September 30, 2014 was related to decreases of \$127,000 of non-cash interest expense and \$61,000 of cash interest expense incurred, when compared to the same period in the prior year. The cash and non-cash interest during the three months ended September 30, 2013 was primarily related to borrowings from Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. (collectively "VLL"). As of December 16, 2013, the outstanding debt and all interest payments due to VLL were settled in full. Interest income for the three months ended September 30, 2014 showed no material change as compared to the same period in the prior year.

Other Expense, Net

Other expense, net decreased \$25,000, to other expense, net of \$14,000, for the three months ended September 30, 2014, when compared to the same period in the prior year. The decrease in other expense, net for the three months ended September 30, 2014 was primarily related to foreign exchange gains and losses and tax expenses.

Gain due to Change in Fair Value of Derivative Liabilities

In connection with our December 9, 2013 and February 26, 2014 registered direct offerings we issued a series of common stock purchase warrants, which contain cash settlement provisions. During the three months ended September 30, 2014, we recorded an unrealized gain due to the decrease in the fair value of our derivative liabilities of \$841,000, primarily due to a decrease in our common stock price.

Net Loss

Net loss for the three months ended September 30, 2014 was \$718,000, a decrease of \$681,000, as compared to net loss of \$1,399,000 for the same period in the prior year.

Comparison of Six Months Ended September 30, 2014 and 2013

Revenues

Total revenues were \$6,656,000 for the six months ended September 30, 2014, as compared to \$7,461,000 for the six months ended September 30, 2013. Product revenues were down 11% from the same period last year, with decreases in sales in the United States and China, which were partially offset by increases in Europe, Mexico, the Middle East and Singapore.

Total product revenues in the United States were \$2,006,000 for the six months ended September 30, 2014, as compared to \$3,221,000 in the six months ended September 30, 2013. Product revenues were down 38% from the same period last year primarily related to lower sales in animal healthcare and from our current and former dermatology partners, partially offset by increased sales of tissue care products sold by our direct salesforce. We recorded revenue in the amounts of \$987,000 and \$2,030,000, for the six months ended September 30, 2014 and 2013, respectively, from Innovacyn. The decrease in revenue was caused by a reduction in the unit volume related to Innovacyn's transition to a new supplier. We expect revenues related to Innovacyn to continue to decline significantly as the transition to their new supplier continues.

Revenue in Mexico for the six months ended September 30, 2014 increased \$235,000, or 8%, when compared to the same period in the prior year with an increase of 21% in units sold. The increases are due to strong growth in the sales of 120ml liquid products. Additionally, for the six months ended September 30, 2014 and 2013, \$752,000 was recognized related to the amortization of upfront license fees paid by More Pharma.

Revenue in Europe and the Rest of the World for the six months ended September 30, 2014 increased \$216,000, or 21%, as compared to the same period in the prior year, with increases in Europe, Middle East, Singapore and India, partially offset by a sales decrease in China. The increase in Europe is largely the result of the introduction of multiple new advanced tissue care product line extensions including a gel product, as well as the addition of new European distributors.

The following table shows our product revenues combined with our license revenues by geographic region:

	Six Months Ended September 30,		\$ Change	% Change
	2014	2013		
United States	\$ 2,006,000	\$ 3,221,000	\$ (1,215,000)	(38)%
Mexico	3,011,000	2,776,000	235,000	8%
Europe and Rest of the World	1,226,000	1,010,000	216,000	21%
Total	\$ 6,243,000	\$ 7,007,000	\$ (764,000)	(11)%

Licensing revenues were \$752,000 and \$830,000 for the six months ended September 30, 2014 and 2013, respectively. These amounts are reflected in the table above under the respective geographic region.

Service revenues were \$413,000 and \$454,000 for the six months ended September 30, 2014 and 2013, respectively, due to a decrease in the number of tests provided by our services business.

Gross Profit

We reported gross profit related to our products of \$3,553,000 or 57% of product revenues, during the six months ended September 30, 2014, compared to a gross profit of \$4,783,000, or 68% 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 six months ended September 30, 2014 and 2013. Gross margins declined as a result of the decline in U.S. sales related to our animal healthcare products.

Research and Development Expense

Research and development of \$792,000 for the six months ended September 30, 2014, decreased \$598,000, or 43%, when compared to the same period in the prior year. The decrease is largely due to \$670,000 related to expenses incurred during the six months ended September 30, 2013 by our formerly wholly-owned subsidiary Ruthigen, partially offset by an increase of \$100,000 incurred during the six months ended September 30, 2014 related to our stock compensation expense.

We expect research and development expenses will decrease in total over the next few quarters, due to the deconsolidation of Ruthigen and elimination of spending on Ruthigen projects in the prior fiscal year. However, we expect to incur increased spending on product development related to tissue care and dermatology products.

Selling, General and Administrative Expense

Selling, general and administrative expense of \$5,904,000 for the six months ended September 30, 2014, decreased \$8,000, when compared to \$5,912,000 for the same period in the prior year. The decrease for the six months ended September 30, 2014 was primarily due to a decrease of \$801,000 related to expenses incurred by our formerly wholly-owned subsidiary Ruthigen in the prior period, almost entirely offset by higher sales and marketing expenses in the United States, Mexico and Europe, as we prepared to launch additional dermatology and wound tissue products into those regions.

We expect selling, general and administrative expenses to increase over the next several periods, as we intend to increase our direct sales force.

Interest Expense and Interest Income

Interest expense decreased \$434,000 to \$4,000 for the six months ended September 30, 2014, when compared to the same period in the prior year. The decrease for the six months ended September 30, 2014 was related to decreases of \$294,000 of non-cash interest expense and \$140,000 of cash interest expense incurred, when compared to the same period in the prior year. The cash and non-cash interest during the three months ended September 30, 2013 was primarily related to borrowings from VLL. As of December 16, 2013, the outstanding debt and all interest payments due to VLL were settled in full. Interest income for the three months ended September 30, 2014 showed no material change as compared to the same period in the prior year.

Other Expense, Net

Other expense, net of \$45,000, for the six months ended September 30, 2014, decreased \$22,000, when compared to the same period in the prior year. The decrease in other expense, net for the six months ended September 30, 2014 was primarily related to foreign exchange gains and losses and tax expenses.

Gain due to Change in Fair Value of Derivative Liabilities

In connection with our December 9, 2013 and February 26, 2014 registered direct offerings we issued a series of common stock purchase warrants, which contain cash settlement provisions. During the six months ended September 30, 2014, we recorded a decrease in the fair value of our derivative liabilities of \$2,319,000, primarily due to a decrease in our common stock price.

Net Loss

Net loss for the six months ended September 30, 2014 was \$788,000, a decrease of \$2,323,000, as compared to net loss of \$3,111,000 for the same period in the prior year.

Comparison of Fiscal Year Ended March 31, 2014 and 2013

Revenues

Total revenues were \$13,668,000 for the fiscal year ended March 31, 2014 as compared to \$15,452,000 in the fiscal year ended March 31, 2013. This consisted of total product revenues, including product licensing fees received, of \$12,723,000 for the fiscal year ended March 31, 2014 compared to \$14,583,000 in the fiscal year ended March 31, 2013. Product revenues were down 13% from the same period last year with decreases in US, Mexico and China, which were partially offset by increases in Europe, the Middle East, India and Singapore.

Product revenue in the United States for the year ended March 31, 2014 decreased \$1,502,000, or 22%, due to a decline in sales in animal healthcare, dermatology and other markets. We recorded revenue from our partner Innovacyn in the amounts of \$3,100,000 and \$3,906,000 for the year ended March 31, 2014 and 2013, respectively. The decline in revenue attributed to other products was partially due to a decrease in sales related to the discontinuation of our partnerships with Union Springs and Onset Pharmaceuticals as well as a decline in sales to Quinnova.

Revenue in Mexico for the fiscal year ended March 31, 2014 decreased \$627,000, or 11%, when compared to the same period in the prior year as a result of the More Pharma transaction closing in August 2013. The impact of the transaction resulted in increased sales in the fiscal year ended March 31, 2013, to existing customers prior to the close of the transaction, as well as sales related to More Pharma. The higher unit volume growth of 12% and the recognition of \$1,501,000 related to the amortization of upfront fees paid by More Pharma was more than offset by about a 32% reduction in the average overall sales price per unit. As a result of the transfer of the sales function in Mexico to More Pharma, our related operating expenses in Mexico were \$1,001,000 lower than that in the same period last year.

Revenue in Europe and Rest of World for the fiscal year ended March 31, 2014 increased \$269,000, or 15%, as compared to the same period in the prior year, with increases in sales in Europe, the Middle East, India, and Singapore, which was partially offset by a decrease in China.

The following table shows our product revenues by geographic region:

	Fiscal year Ended March 31,		\$ Change	% Change
	2014	2013		
United States	\$ 5,340,000	\$ 6,842,000	\$ (1,502,000)	(22)%
Mexico	5,259,000	5,886,000	(627,000)	(11)%
Europe and Rest of World	2,124,000	1,855,000	269,000	15%
Total	\$ 12,723,000	\$ 14,583,000	\$ (1,860,000)	(13)%

Licensing revenues were \$1,829,000 and \$1,686,000 for the fiscal year ended March 31, 2014 and 2013, respectively. These amounts primarily relates to More Pharma and 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 \$76,000 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 Microcyn® products of \$8,213,000 or 65% of product revenues, during the fiscal year ended March 31, 2014, compared to a gross profit of \$10,607,000, 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 fiscal year ended March 31, 2014 and 2013. Gross margins were down mostly due to the decline of margins in Mexico related to the More Pharma transaction and in the U.S. due to lower revenue, partially offset by higher gross margins in Europe.

Research and Development Expense

Research and development increased \$664,000, or 30%, to \$2,887,000 for the fiscal year ended March 31, 2014, compared to \$2,223,000 for the same period in the prior year, with an expense increase of \$1,120,000 to \$1,378,000 incurred by Ruthigen. The increased expense related to Ruthigen was partially offset by a decrease in clinical related costs of \$227,000.

We expect that our research and development expense will decrease since we will not be spending any funds on Ruthigen.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased \$333,000, or 3%, to \$11,561,000 during the fiscal year ended March 31, 2014, as compared to \$11,894,000 for the same period in the prior year. The decrease for the fiscal year ended March 31, 2014 was primarily due to a reduction in selling expenses in Mexico of \$1,001,000, which was offset by higher costs related to Ruthigen.

We expect selling, general and administrative expenses to remain at the same level in the next year.

Other Expense, Net

Other expense, net, decreased \$44,000, or 35%, to \$81,000 for the fiscal year ended March 31, 2014, compared to other expense, net of \$125,000 for the same period in the prior year. The change in other expense, net for the fiscal year ended March 31, 2014 foreign exchange gains and losses and franchise tax expenses.

Interest Expense and Interest Income

Interest expense decreased \$49,000, or 4%, during the fiscal year ended March 31, 2014 to \$1,058,000, as compared to \$1,107,000 for the same period in the prior year. The cash and non-cash interest is primarily related to borrowings from Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. (collectively "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 \$288,000 for the fiscal year ended March 31, 2014, primarily due to the maturity of two of the VLL notes during the period. Interest income for the fiscal year ended March 31, 2014 showed no material change as compared to the same period in the prior year.

Derivative Liabilities

In connection with our February 26, 2014 registered direct offering we issued a series of common stock purchase warrants which contain cash settlement provisions. On the initial measurement date of February 26, 2014, we recorded the fair value of the common stock purchase warrants as derivative liabilities and due to an increase in the value of our common stock from the initial measurement date to March 31, 2014, we recorded the change in fair value of our derivative liabilities as a non-cash loss of \$1,566,000. As of March 31, 2014 we have derivative liabilities of \$3,175,000 as compared to \$0 for the previous year.

Fair Value of Common Stock Issued with Stock Purchase Agreement

During the fiscal year ended March 31, 2014 we recorded a gain of \$1,357,000, and during the fiscal year ended March 31, 2013 we recorded a loss of \$1,599,000, 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.

Accounting for our Investment in Ruthigen

On March 26, 2014, our formerly wholly-owned subsidiary, Ruthigen completed an initial public offering of its common stock. As a result, during the three months ended March 31, 2014, we recorded a gain in the amount of \$11,133,000 related to the accounting treatment of the deconsolidation of the former subsidiary which required us to record our investment in Ruthigen at cost.

Net Income (Loss)

Net income for the fiscal year ended March 31, 2014 was \$3,735,000, an increase of \$9,166,000, as compared to net loss of \$5,431,000 for the same period in the prior year. The increase is primarily related to the gain of \$11,133,000 related to the Ruthigen transaction previously described, which was partially offset by losses from operations of \$6,051,000.

Liquidity and Going Concern

We reported a loss of \$788,000 for the six months ended September 30, 2014. At September 30, 2014 and March 31, 2014, our accumulated deficit amounted to \$134,798,000 and \$134,010,000, respectively. We had working capital of \$2,830,000 and \$1,970,000 as of September 30, 2014 and March 31, 2014, respectively. We expect to continue incurring losses for the foreseeable future and must raise additional capital to pursue our product development initiatives, penetrate markets for the sale of its products and continue as a going concern. We cannot provide any assurance that we will raise additional capital. Management believes we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means; however, we have not secured any commitment for new financing at this time nor can we provide any assurance that new financing will be available on commercially acceptable terms, if at all. If we are unable to secure additional capital, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash in amounts sufficient to sustain operations and meet our obligations. These measures could cause significant delays in our efforts to commercialize products, which is critical to the realization of our business plan and our future operations. These matters raise substantial doubt about our ability to continue as a going concern.

Sources of Liquidity

As of September 30, 2014, we had cash and cash equivalents of \$3,549,000. Total revenues were \$3,264,000 for the three months ended September 30, 2014, as compared to \$4,089,000 in the quarter ended September 30, 2013. Total revenues were \$6,656,000 for the six months ended September 30, 2014, as compared to \$7,461,000 for the six months ended September 30, 2013. Total revenues were \$13,668,000 for the fiscal year ended March 31, 2014 as compared to \$15,452,000 in the fiscal year ended March 31, 2013. 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 October 1, 2012, substantially all of our operations have been financed through the following transactions:

- net proceeds of \$2,797,000 received from a registered direct offering on April 25, 2012;
- proceeds of \$1,323,000 received from the exercise of common stock purchase warrants and options;
- net proceeds of \$3,291,000 from sale of shares pursuant to October 2012 stock purchase agreement;
- net proceeds of \$3,052,000 received from an underwritten offering on March 12, 2013;
- net proceeds of \$2,002,000 received from a registered direct offering on December 9, 2013;
- net proceeds of \$1,187,000 received from a registered direct offering on February 26, 2014; and
- net proceeds of \$1,399,000 received from At-the-Market Issuances of common stock as of December 30, 2014.

April 2012 Registered Direct Offering

On April 25, 2012, we closed on agreements with institutional and accredited investors to issue up to: a) 337,143 shares of common stock b) 1,000 shares of Series A 0% convertible preferred stock (the "Series A Preferred Stock"); and c) warrants to purchase up to 495,873 shares of common stock, or the Warrants. We also offered up to 158,730 shares of common stock issuable upon conversion of the Series A Preferred Stock and 495,873 shares of common stock in the event the Warrants are exercised. The Warrants have an initial exercise price of \$8.26 per share, are not exercisable for six months from the date of issuance, and an exercise term of 2.5 years from the date of issuance. We received approximately \$3,124,000 in gross proceeds from the sale of these securities. Net proceeds after deducting the placement agent commissions, legal expenses and other offering expenses, and assuming no exercise of the Warrants, was \$2,797,000. We paid approximately \$219,000 in placement agent commissions. On May 4, 2012, one of the investors, and the sole holder of Series A Preferred Stock, converted 1,000 shares of the Series A Preferred Stock purchased in the transaction into 158,730 shares of common stock. No shares of Series A Preferred Stock are currently outstanding.

On October 29, 2012, we entered into a side letter agreement with Sabby Healthcare Volatility Master Fund, Ltd. and Sabby Volatility Warrant Master Fund, Ltd., (collectively, "Sabby") to amend the terms of the warrants issued to Sabby in conjunction with our April 22, 2012 registered direct offering. Pursuant to the amendment, Sabby agreed to waive certain net-cash settlement features contained in the warrants in exchange for our agreement to a two-year extension of the expiration date of the warrants. Accordingly, the expiration date of the warrants issued to Sabby in connection with the April 22, 2012 registered direct offering was extended from October 25, 2014 to October 25, 2016. No other terms, rights or provisions of the purchase agreement or warrants were modified by the terms of the side letter agreement.

March 2013 Underwritten Public Offering

On March 12, 2013, we closed an underwritten public offering of 1,232,143 shares of common stock at an offering price to the public of \$2.80 per share, including 160,714 shares of common stock to cover the underwriters' over-allotment. The gross proceeds from this offering were \$3,450,000, before deducting underwriting discounts and commissions and other offering expenses of \$398,000.

December 2013 Registered Direct Offering

On December 4, 2013, we 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. We paid \$154,000 in placement agent commissions. In addition to the payment of certain cash fees upon closing of the offering, we 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 offer closed on December 9, 2013.

February 2014 Registered Direct Offering

On February 21, 2014, we entered into agreements with institutional and accredited investors for the sale of \$1,352,000 in units, consisting of shares of our common stock and Series A and Series B warrants yielding net proceeds of \$1,187,000 after deducting placement agent commissions and other offering costs. Each unit was priced at \$3.00 and was comprised of one share of common stock, a Series A warrant and a certain number of Series B warrants. The Series A warrants will have an exercise price per share of \$3.00 and expire five years from the date of issuance. The Series B warrants will not be exercisable until six months following closing, will have an exercise price per share of \$3.63 and expire on the later of (a) one year from the earlier of (i) the effective date of an effective registration statement pursuant to which all the Series B warrant shares are registered for resale and (ii) the date that all Series B warrant shares may be sold pursuant to Rule 144 (without volume limitations and assuming cashless exercise) and (b) one year anniversary of the closing of the initial public offering of our formerly wholly-owned subsidiary, Ruthigen, Inc. We paid \$94,630 in placement agent commissions. The offering closed on February 26, 2014.

In addition to the payment of certain cash fees upon closing of the offering, we issued a warrant to Dawson James Securities, Inc. to purchase up to 69,037 shares of common stock. The warrants are exercisable at \$3.00 per share and will expire on May 3, 2016. The warrant issued to Dawson James Securities, Inc. has no registration rights, but does contain cashless exercise provisions.

At-the-Market Sales Issuances

On April 2, 2014, we entered into an At-the-Market Issuance Sales Agreement with MLV & Co. LLC under which we may issue and sell shares of our common stock having an aggregate offering price of up to \$9,159,000 from time to time through MLV acting as our sales agent. We pay MLV a commission rate equal to 3.0% of the gross proceeds from the sale of any shares of common stock sold through MLV as agent under the Sales Agreement. As of December 30, 2014, we sold 467,934 shares for total net proceeds of \$1,399,000. We agreed to suspend any sales under the At-the-Market Issuance Sales Agreement for a period of 3 months following the closing of this offering and to limit any sales to a sales price above the offering price for the shares obtained in this offering for an additional period of 3 months (for a combined 6 months following the closing of this offering).

Material Trends and Uncertainties

In April 2014, Innovacyn, Inc., one of our customers, notified us that over the next 12 months, Innovacyn intends to transition to a new supplier of product which is currently supplied by us both for animal health care and OTC wound care. Because of Innovacyn's failure to perform under the arrangements, we terminated the agreements on December 15, 2014. We are actively seeking new distribution channels and locating new animal health care partners. We have identified two potential partners and are working on negotiating agreements. We can give no assurances that we and these potential partners will be able to agree on under terms acceptable to us, if at all. Even if we are able to finalize agreements with these potential partners, these partnerships may not replace our revenues to the same levels as we had with Innovacyn. Our animal health revenues have been adversely impacted and will continue to be until we have secured a new animal health partner. If we are unable to locate new distribution channels or a new animal health care partner, our results of operations and financial condition may be adversely affected.

Long-Term Investment

As of September 30, 2014, we continued to hold 2,000,000 shares of common stock of our formerly wholly-owned subsidiary, Ruthigen at cost in accordance with ASC 325-20 as a result of (a) the restrictions in voting the shares held as discussed above, (b) our lack of representation on the Ruthigen Board of Directors, (c) our inability to set policy at Ruthigen, (d) our lack of further commitments to fund the operations of Ruthigen, and (e) the restrictions on transferability of the shares which extend beyond one-year.

On January 8, 2015, we entered into a securities purchase agreement pursuant to which we agreed to sell our shares in Ruthigen to two accredited investors for an aggregate purchase price of \$5,500,000 upon the occurrence of a triggering event during a standstill period of 60 calendar days. Such triggering event is defined in the securities purchase agreement as the closing of any merger or consolidation of Ruthigen with or into another company, corporation or similar entity or the merger or consolidation of another company, corporation, or assets of a corporation or company into Ruthigen, or in the case of any sale or conveyance to another corporation or the assets or other property of Ruthigen, for which Ruthigen enters into a definitive agreement. Such definitive agreement could be subject to or pending customary closing conditions, regulatory approvals and/or shareholder approval and still be considered definitive for purposes of the securities purchase agreement. As of the filing date of the amended registration statement, of which this prospectus forms part, no triggering event has occurred nor can there be any assurance provided that one will occur. If we consummate the sale of the Ruthigen shares, we would no longer own any shareholder interest in Ruthigen. However, if the sale of the Ruthigen shares is not completed, we will continue to own the Ruthigen shares, subject to the voting and resale restrictions.

In connection with entering into the securities purchase agreement to sell the two million shares of Ruthigen at a fixed price of \$2.75 per share, we have determined that the carrying value of the Ruthigen shares is impaired. As a result, during the three months ended December 31, 2014, we will record an impairment loss in the amount of \$4,650,000 which represents the difference between cost and aggregate purchase price.

Additionally, we agreed to pay Dawson James Securities, Inc. a finder's fee in the amount of \$200,000 upon the closing of the actual sale of the Ruthigen shares.

Cash Flows for September 30, 2014 and 2013

As of September 30, 2014, we had cash and cash equivalents of \$3,549,000, compared to \$5,480,000 as of March 31, 2014.

Net cash used in operating activities during the six months ended September 30, 2014 was \$3,009,000, primarily due to our net loss of \$788,000 for the period which was offset by a \$2,319,000 non-cash gain due to a change in fair value of our derivative liabilities. Additionally, we had \$907,000 of stock-based compensation expenses and we received \$537,000 from our affiliate and our formerly wholly-owned subsidiary, Ruthigen, pursuant to our agreement that required Ruthigen to reimburse us for certain expenses we paid on its behalf.

Net cash used in operating activities during the six months ended September 30, 2013 was \$2,454,000, primarily due to our net loss of \$3,111,000 for the period. Additionally, we had non-cash transactions during the six months ended September 30, 2013, including: \$666,000 of stock-based compensation expenses; a \$210,000 loss 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 \$294,000.

Net cash provided by investing activities was \$23,000 for the six months ended September 30, 2014, primarily related a decrease in our long-term deposits of \$39,000 offset by purchases of equipment.

Net cash used in investing activities was \$312,000 for the six months ended September 30, 2013, primarily due to \$338,000 related to equipment purchases.

Net cash provided by financing activities was \$1,074,000 for the six months ended September 30, 2014 was primarily related to \$1,213,000 of net proceeds received from At-the-Market Issuances of common stock which was offset by principal payments on debt in the amount of \$139,000.

Net cash used in financing activities was \$1,918,000 for the six months ended September 30, 2013, and consisted of principal payments on debt in the amount of \$1,138,000 and \$780,000 of deferred offering costs related to the intended initial public offering of our formerly wholly-owned subsidiary, Ruthigen.

Cash Flows for March 31, 2014 and 2013

As of March 31, 2014, we had cash and cash equivalents of \$5,480,000, compared to \$7,900,000 as of March 31, 2013.

Net cash used in operating activities during the year ended March 31, 2014 was \$4,890,000, primarily due to our net income of \$3,735,000, offset by non-cash transactions during the year ended March 31, 2014, including: \$11,133,000 of unrealized gain on the deconsolidation of Ruthigen; 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; a \$1,566,000 loss on the fair value adjustment of our derivative liabilities; \$1,451,000 of stock-based compensation expenses; and non-cash interest of \$863,000.

Net cash provided by operating activities during the year ended March 31, 2013 was \$1,150,000 primarily due to the receipt of a \$5,100,000 upfront payment from More Pharma offset by our net loss of \$5,431,000 for the period. Additionally, we had non-cash transactions during the year ended March 31, 2013, including: \$1,601,000 of stock-based compensation expenses; a \$767,000 gain on the fair value adjustment of our derivative liabilities; a \$1,599,000 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 \$624,000.

Net cash used in investing activities was \$445,000 for the year ended March 31, 2014, consisting of \$504,000 related to equipment purchases offset by \$59,000 related to changes in long-term assets.

Net cash used in investing activities was \$370,000 for the year ended March 31, 2013, consisting of \$257,000 related to equipment purchases and \$113,000 related to changes in long-term assets.

Net cash provided by financing activities was \$2,945,000 for the year ended March 31, 2014. During the period ended March 31, 2014, we received net proceeds from the December 9, 2013 registered direct offering of common and preferred stock of \$2,002,000 and net proceeds from the February 26, 2014 underwritten offering of common stock of \$1,186,000. The offering proceeds were offset by principal payments on the debt in the amount of \$1,615,000. We also received \$1,295,000 in connection with the exercise of common stock purchase warrants.

Net cash provided by financing activities was \$3,750,000 for the year ended March 31, 2013. During the period ended March 31, 2013, we received net proceeds from the April 22, 2012 registered direct offering of common and preferred stock of \$2,797,000 and net proceeds from the March 12, 2013 underwritten offering of common stock of \$3,052,000. The offering proceeds were offset by principal payments on the debt in the amount of \$2,083,000. We also received \$28,000 in connection with the exercise of stock options.

Contractual Obligations as of September 30, 2014

As of September 30, 2014, we had contractual obligations as follows (long-term debt amounts include principal payments only):

	Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	After 3 Years
Long-term debt	\$ 8,000	\$ 8,000	\$ –	\$ –
Operating leases	546,000	237,000	309,000	–
Total	\$ 554,000	\$ 245,000	\$ 309,000	\$ –

Operating Capital and Capital Expenditure Requirements

We incurred a net loss of \$788,000 for the six months ended September 30, 2014. At September 30, 2014 and March 31, 2014, our accumulated deficit amounted to \$134,798,000 and \$134,010,000, respectively. At September 30, 2014 and March 31, 2014, our working capital amounted to \$2,830,000 and \$1,970,000, respectively.

We expect to continue incurring losses for the foreseeable future and must raise additional capital to pursue our product development initiatives, penetrate markets for the sale of our products and continue as a going concern. We cannot provide any assurance that we will raise additional capital. Management believes we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means; however, we have not secured any commitment for new financing at this time nor can we provide any assurance that new financing will be available on commercially acceptable terms, if at all. If we are unable to secure additional capital, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash in amounts sufficient to sustain operations and meet our obligations. These measures could cause significant delays in our efforts to commercialize products, which is critical to the realization of our business plan and our future operations. These matters raise substantial doubt about our ability to continue as a going concern.

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.

Off-Balance Sheet Transactions

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.

Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements with our independent public accountant in regards to accounting and financial disclosure.

Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

OUR BUSINESS

Corporate Information

We incorporated under the laws of the State of California in April 1999 as Micromed Laboratories, Inc. In August 2001, we changed our name to Oculus Innovative Sciences, Inc. In December 2006, we reincorporated under the laws of the State of Delaware. Our principal executive offices are located at 1129 N. McDowell Blvd., Petaluma, California, 94954, and our telephone number is (707) 283-0550. We have two principal wholly-owned subsidiaries: Oculus Technologies of Mexico, S.A. de C.V., organized in Mexico; and Oculus Innovative Sciences Netherlands, B.V., organized in the Netherlands. Our formerly wholly-owned subsidiary, Ruthigen, was deconsolidated on March 26, 2014 in connection with the completion of its initial public offering.

Overview

We are a specialty device and pharmaceutical company that develops and markets solutions for the treatment of dermatological conditions and advanced tissue care. Our products, which are sold throughout the United States and internationally, have improved patient outcomes for more than five million patients globally by reducing infections, itch, pain, scarring, odor and harmful inflammatory responses.

We initially built our business by developing and promoting products via partnerships. Our key proprietary technology, Microcyn®, is based on electrically charged oxychlorine small molecules designed to target a wide range of pathogens that cause disease. These pathogens include viruses, fungi, spores and bacteria, including antibiotic-resistant strains 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 advanced tissue care products are designed to treat infections and enhance healing while reducing the need for antibiotics.

To date, we have obtained ten 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 for Section 510(k) of the Federal Food, Drug and Cosmetic Act in the United States. However, we do not have the necessary regulatory approvals to market Microcyn® as a drug.

Our clinical trials from around the world suggest that our Microcyn® Technology helps reduce a wide range of pathogens while curing or improving infection. Our clinical studies suggest that our Microcyn® Technology is safe, easy to use and complementary to many existing treatment methods in dermatology and advanced tissue care. These clinical studies and usage of our products in the United States also 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.

Outside of the United States, we sell products for dermatological and advanced tissue care with a European Conformity marking (known as Conformité Européenne or CE) covering ten of our products, ten approvals from the Mexican Ministry of Health, and various approvals in Central America, China, Southeast Asia, and the Middle East.

Over the last 12 months, we added new members to our Board of Directors, thus enhancing our expertise in sales, marketing, strategy and dermatology, and we hired new managers to complement our executive team. Our new team commenced a strategic realignment of our business with a sharp focus on dermatology markets. Our decision to focus on dermatology was based on our already strong presence in this market and the ability of our core hypochlorous acid-based technology, Microcyn®, to address other dermatological indications including acne, atopic dermatitis, anti-itch and scar management.

Building upon our commercialization experience selling our Microcyn® Technology-based products, we believe we can significantly increase our revenue growth by focusing on our own dermatology efforts. Key aspects of our dermatology growth strategy are set forth below:

Expand our Internal U.S. Sales Force: We recently hired and intend to hire an additional experienced dermatology management team and sales force, most of who are seasoned sales veterans that have established relationships with dermatologists in their territories.

Develop and Launch New Dermatology Products: In October 2014, we launched two prescription dermatology products in the United States, an antipruritic gel and dermal spray. We also have a strong product pipeline, including our new product for treatment of scars that we intend to launch over the next 12 months. We have licensed several proprietary dermatology products from two European dermatology companies that we believe we can bring to market in the near term.

Create a Competitive Pricing Strategy: We have and will continue to develop a unique product pricing strategy, which we believe solves many of the challenges associated with the prescription dermatology market's current pricing and rebate programs.

Develop a Pharmaceutical Line: We plan to acquire or develop pharmaceutical products with affordable clinical trials to increase our market presence and create innovator patent protection.

Generate International Growth: In Europe, we launched four new dermatology products in November 2014 for acne, atopic dermatitis, scar reduction and post-laser procedures via experienced, country-specific dermatology distributors.

Our plan is to evolve into a leading dermatology and advanced tissue care company, providing innovative and cost-effective solutions to patients, while generating strong, consistent revenue growth and maximizing long-term shareholder value.

Ruthigen

Our formerly 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 consummated its IPO on March 26, 2014. As a result of the IPO, we have a minority interest for which we have agreed to vote the common shares we own with the majority shareholders in Ruthigen. On January 8, 2015, we entered into a securities purchase agreement pursuant to which we agreed to sell our shares in Ruthigen to two accredited investors for an aggregate purchase price of \$5.5 million upon the occurrence of a trigger event during a standstill period of 60 calendar days. Such triggering event is defined in the securities purchase agreement as the closing of any merger or consolidation of Ruthigen with or into another company, corporation or similar entity or the merger or consolidation of another company, corporation, or assets of a corporation or company into Ruthigen, or in the case of any sale or conveyance to another corporation or the assets or other property of Ruthigen, for which Ruthigen enters into a definitive agreement. Such definitive agreement could be subject to or pending customary closing conditions, regulatory approvals and/or shareholder approval and still be considered definitive for purposes of the securities purchase agreement. As of the filing date of the amended Registration Statement, of which this prospectus forms part, no triggering event has occurred nor can there be any assurance that one will occur. If we consummate the sale of the Ruthigen shares, we would no longer own any shareholder interest in Ruthigen. However, if the sale of the Ruthigen shares is not completed, we will continue to own the Ruthigen shares, subject to the existing voting and resale restrictions.

On January 31, 2014, we amended certain agreements with Ruthigen. Each of these agreements, referred to as the Ancillary Agreements, was entered into in the overall context of Ruthigen's separation from us, referred to as the Separation. The effective date for each of the Ancillary Agreements was the closing date of Ruthigen's initial public offering, which was March 26, 2014. Below is a description of the Ancillary Agreements.

License and Supply Agreement

We entered into a license and supply agreement with Ruthigen on June 6, 2013, which was subsequently amended. Pursuant to the terms of the License and Supply Agreement, we agreed to an exclusive license of certain of our proprietary technology to Ruthigen in order 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 humans as defined in the License and Supply Agreement.

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 is required to make a total of \$8,000,000 in milestone payments to us for the first product only, as follows: \$1.5 million upon completion of last patient enrollment in Ruthigen's Phase 1/2 clinical study; \$1.5 million upon completion of the last patient enrollment in Ruthigen's first pivotal clinical study; \$3 million upon completion of Ruthigen's first meeting with the U.S. Food and Drug Administration following completion of Ruthigen's first pivotal clinical trial; and \$2 million upon the 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. We cannot assure you that Ruthigen will achieve any of these milestones or that if Ruthigen does achieve one or more milestones, that it will have sufficient funds for the required milestone payments.

Separation Agreement

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

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. The Separation Agreement terminates 8.5 years following the closing of Ruthigen's initial public offering, unless the parties mutually agree to terminate it earlier. However, 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.

Marketing and Transfer Restrictions – The Separation Agreement contains a series of restrictions on our ability to transfer the Ruthigen shares we own. We are restricted from transferring any of the Ruthigen shares we own during the one-year lock up period immediately following Ruthigen’s initial public offering without the express consent of both the Ruthigen’s board of directors and the underwriter who assisted in the IPO. 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.

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 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.

Standstill – We have agreed that, subject to the ownership threshold set forth under “Effectiveness and Term”, we will 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.

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

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 our common stock 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.

Directors’ and Officers’ Insurance – The Separation Agreement provides that, so long as we shall maintain a directors’ and officers’ insurance program covering our past and present officers and directors, the program shall be equal to the standard program 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 then existing directors and officers.

Microcyn® Technology Platform

Mechanism of Action

We believe Microcyn® Technology’s ability to reduce the need for antibiotics through prevention and treatment of infections, while promoting wound healing, is based on its uniquely engineered chemistry. As a result of our patented manufacturing process, Microcyn® is a proprietary solution of oxychlorine compounds that, among other things, interact with and inactivate surface proteins on cell walls and membranes of microorganisms. The functions of these proteins are varied and play significant roles in cell communication, nutrient and waste transport and other required functions for cell viability. Once Microcyn® surrounds single cell microorganisms, it damages these proteins, causing the cell membrane to rupture, leading to cell death, which we believe is caused by increased membrane permeability and induced osmotic pressure imbalance. We continue to study the exact mechanisms by which protein and structural components of the bacterial cell walls and membranes, and the protein shell that surrounds a virus, are affected by Microcyn®. This destruction of the cell appears to occur through a fundamentally different process than that which occurs as a result of contact with a bleach-based solution because experiments have demonstrated that Microcyn® kills bleach-resistant bacteria. However, we believe the solution remains non-irritating to human tissues because human cells have unique protective mechanisms, are interlocked, and prevent Microcyn® from targeting and surrounding single cells topically on the body. Laboratory tests suggest that our solution does not penetrate and kill multi-cellular organisms, and does not damage or affect human DNA.

In laboratory tests, Microcyn® has been shown to destroy certain biofilms. A biofilm is a complex cluster of microorganisms or bacteria marked by the formation of a protective shell, allowing the bacteria to collect and proliferate. It is estimated that over 65% of microbial infections in the body involve bacteria growing as a biofilm. Bacteria living in a biofilm typically have significantly different properties from free-floating bacteria of the same species. One result of this film environment is increased resistance to antibiotics and to the body's immune system. In chronic wounds, biofilms interfere with the normal healing process and halt or slow wound closure. Bacteria growing in biofilms can become up to 1000-fold more resistant to antibiotics and other biocides as compared to their planktonic, or free floating, counterparts. As a result, biofilm infections cannot be effectively treated with conventional antibiotic therapy. In our laboratory studies, Microcyn® was shown to destroy two common biofilms after five minutes of exposure.

In published studies, Microcyn® has been shown to significantly increase the dilation of capillaries in wounds as indicated by higher levels of oxygen at a wound site after the application of our product and also to reduce inflammation by inhibiting certain inflammatory responses from allergy-producing mast cells. It is widely accepted that reducing chronic inflammation surrounding an injury or wound is beneficial to wound healing. Our laboratory research suggests that Microcyn®'s interference with these cells is selective to only the inflammatory response and does not interfere with other functions of these cells. Microcyn® Technology has demonstrated antimicrobial activity against numerous bacterial, viral and fungal pathogens, including antibiotic-resistant strains, as evidenced by passing results in numerous standardized laboratory microbiology tests conducted on our 510(k) approved technology by a variety of certified independent testing laboratories.

Current Regulatory Approvals and Clearances

The following table summarizes our current regulatory approvals and clearances:

<u>Region</u>	<u>Approval or Clearance Type</u>	<u>Year of Approval or Clearance</u>	<u>Summary Indication</u>
United States	510(k)	2005	Moistening and lubricating absorbent wound dressings for traumatic wounds requiring a prescription.
	510(k)	2005	Moistening and debriding acute and chronic dermal lesions requiring a prescription.
	510(k)	2006	Moistening absorbent wound dressings and cleaning minor cuts as an over-the-counter product.
	510(k)	2009	Management of exuding wounds such as leg ulcers, pressure ulcers, diabetic ulcers and for the management of mechanical or surgical debridement of wounds in a gel form and required as a prescription.

	510(k)	2009	Debridement of wounds, such as stage I-IV pressure ulcers, diabetic foot ulcers, post-surgical wounds, first- and second-degree burns, grafted and donor sites as preservative, which can kill listed bacteria such as MRSA & VRE and required as a prescription.
	510(k)	2010	As a hydrogel, for management of dermal irritation, sores, injuries and ulcers of dermal tissue including itch and pain relief associated with dermal irritation, sores, injuries and ulcers of dermal tissue as a prescription. As an over-the-counter product, the hydrogel is intended to relieve itch and pain from minor skin irritations, lacerations, abrasions and minor burns. It is also indicated for management of irritation and pain from minor sunburn.
	510(k)	2011	As a hydrogel, for management and relief of burning, itching and pain experienced with various types of dermatoses, including atopic dermatitis and radiation dermatitis.
	510(k)	2013	As hydrogel for the management of old and new hypertrophic and keloid scarring resulting from burns, general surgical procedures and trauma wounds (Regenacyn).
	510(k)	2014	As hydrocleanse for cleaning, irrigation, moistening, debridement and removal of foreign material.
	510(k)	2014	As a root canal irrigation solution (Endocyn).
European Union	CE Marking	2013	Solutions, gel and hydrogel antiseptic, disinfecting and sterilizing of super oxidation. The certificate is valid for the following products: <ul style="list-style-type: none"> · Microdacyn₆₀® Wound Care · Microdacyn₆₀® Hydrogel · Microdacyn₆₀® Oral Care · Gramaderm® Solution · Gramaderm® Hydrogel · Electromicyn₆₀® · Microsafe® · Microdox₆₀® · Epicyn® · Pediacyn®
Mexico	Product Registration	2005	Antiseptic for disinfection (Electromicyn ₆₀).
	Product Registration	2006	Antiseptic for disinfection (Microsafe).
	Medical Device Approval	2010	Acne treatment solution (Gramaderm® Solution).
	Medical Device Approval	2012	Acne treatment hydrogel (Gramaderm® Hydrogel).
	Medical Device Approval	2012	Antiseptic solution for disinfection and sterilization (Microdacyn ₆₀ ®).

	Medical Device Approval	2013	Hydrogel for treatment of atopic dermatitis (Pediacyn®).
	Medical Device Approval	2013	Scar management hydrogel (Epicyn™).
	Medical Device Approval	2014	Antiseptic solution of super oxidation (Microdacyn ₆₀ ® Oral Care).
	Medical Device Approval	2014	Antiseptic solution for treatment of bladder and urinary tract infections (Microdox ₆₀ ®).
	Medical Device Approval	2014	Antiseptic hydrogel (Microdacyn ₆₀ ® Hydrogel).
Canada	Medical Device (Inactive)	2004	Moistening, irrigating, cleansing and debriding acute and chronic dermal lesions, diabetic ulcers and post-surgical wounds.
India	Medical Device	2012	Super oxidized solution for wound healing, cleaning and debriding.
China	Medical Device	2012	Acute and chronic derma wounds moistening, healing and repair and debridement (Microcyn® Hydrogel).
Kuwait	Medical Device	2010	Cleaning and debriding in wound management (Microsafe)
	Product	2013	Hydrogel for treatment of acne and various dermatoses (Face Cool™).
	Product	2013	Hydrogel for treatment of baby rash (Baby Cool™).
	Product	2013	Feminine hygiene wash (Lady Cool™).
United Arab Emirates	Medical Device	2011	Cleaning and debriding in wound management.
	Product	2013	Hydrogel for treatment of acne and various dermatoses (Face Cool™).
	Product	2013	Hydrogel for treatment of baby rash (Baby Cool™).
	Product	2013	Feminine hygiene wash (Lady Cool™).

Iraq	Medical Device	2011	Cleaning and debriding in wound management.
	Product	2013	Hydrogel for treatment of acne and various dermatoses (Face Cool™).
	Product	2013	Hydrogel for treatment of baby rash (Baby Cool™).
	Product	2013	Feminine hygiene wash (Lady Cool™).
Oman	Medical Device	2010	Antiseptic disinfectant solution (Microsafe).
Bahrain	Medical Device	2009	Acute and chronic derma wounds moistening, healing and repair and debridement (Microcyn).
Jordan	Medical Device	2007	Cleaning and debriding in wound management (Dermacyn Wound Care Microcyn).
Saudi Arabia	Medical Device	2010	Cleaning and debriding in wound management.
Panama	Drug	2012	Sterilizer and antiseptic.
	Product Approval	2014	Antiseptic solution (Microdacyn ₆₀ ®).
El Salvador	Medical Device	2013	Disinfecting in cleaning and debriding in wound management as well as sterilization of medical equipment.
	Product Approval	2013	Antiseptic solution (Microdacyn ₆₀ ®).
Honduras	Medical Device	2013	Disinfecting in cleaning and debriding in wound management as well as sterilization of medical equipment.
Guatemala	Medical Device	2013	Antiseptic solution (Microdacyn ₆₀ ®).
Honduras	Medical Device	2013	Antiseptic solution (Microdacyn ₆₀ ®).
Singapore	Medical Device	2010	Cleaning and debriding in wound management.
Malaysia	Medical Device	2008	Cleaning and debriding in wound management (Microcyn Super Oxidized solution).
Indonesia	Medical Device	2012	Hydrogel for wound and burn dressing (Microcyn Hydrogel).
	Medical Device	2012	Hydrogel for wound and burn dressing (Microcyn Skin and Wound Care with Preservatives).

Clinical Trials

We have completed a proof-of-concept Phase II trial in the United States, which demonstrated the effectiveness of Microcyn® Technology in mildly infected diabetic foot ulcers with the primary endpoint of clinical cure and improvement of infection. We used 15 clinical sites and enrolled 48 evaluable patients in three arms, using Microcyn® alone, Microcyn® plus an oral antibiotic and saline plus an oral antibiotic. We announced the results of our Phase II trial in March 2008. In the clinically evaluable population of the study, the clinical success rate at visit four, or test of cure, for Microcyn®-alone-treated patients was 93.3% compared to 56.3% for the oral antibiotic levofloxacin plus saline-treated patients. This study was not statistically powered, but the high clinical success rate (93.3%) and the p-value (0.033) suggest the difference is meaningfully positive for the Microcyn®-treated patients. Also, for this set of data, the 95.0% confidence interval for the Microcyn®-only arm ranged from 80.7% to 100% while the 95.0% confidence interval for the oral antibiotic levofloxacin and saline arm ranged from 31.9% to 80.6%; the confidence intervals do not overlap, indicating a favorable clinical success for Microcyn® compared to the oral antibiotic levofloxacin. At visit 3 (end of treatment), the clinical success rate for patients treated with Microcyn®-alone was 77.8% compared to 61.1% for the oral antibiotic levofloxacin plus saline-treated patients. We have not done any subsequent clinical trials.

Physician Clinical Studies

In addition to the Phase II trial mentioned above, several physicians and scientists have completed 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. We have sponsored many of the physicians performing these studies by supplying Microcyn®-based products, unrestricted research grants, paying expenses or providing honoraria. In some cases, the physicians who performed these studies also hold, or held at one time, equity in our Company. The studies were performed in the United States, Europe, India, Pakistan, China and Mexico, and used various endpoints, methods and controls, for example, saline, antiseptics and antibiotics. 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 in that they did not necessarily include blinding, randomization, predefined clinical endpoints, use of placebo and active control groups or U.S. Good Clinical Practice requirements.

In many cases the physicians who led these studies have published articles on their studies and results. The following table lists publications and presentations at peer-reviewed meetings from physicians who have completed studies on the use of Microcyn® Technology for tissue care and wound irrigation.

Leading Physician	Country	Number of Patients	Publication
David E. Allie, MD (1)	U.S.	40	Allie D. Super-Oxidized Dermacyn in Lower-Extremity Wounds. Wounds. 2006; 18(Suppl):3-6.
Tom Wolvos, MD (2)	U.S.	26	Wolvos TA. Advanced Wound Care with Stable, Super-Oxidized Water. A look at how combination therapy can optimize wound healing. Wounds. 2006; 18(Suppl):11-13.
Cheryl Bongiovanni, PhD (3)	U.S.	8	Bongiovanni CM. Superoxidized Water Improves Wound Care Outcomes in Diabetic Patients. Diabetic Microvascular Complications Today. 2006 May-Jun: 11-14.
		3	Bongiovanni CM. Nonsurgical Management of Chronic Wounds in Patients with Diabetes. Journal of Vascular Ultrasound. 2006; 30:215-218.

Luca Dalla Paola, MD (4)	Italy	218	Dalla Paola L, Brocco E, Senesi A, Merico M, De Vido D, Assaloni R, DaRos R. Super-Oxidized Solution (SOS) Therapy for Infected Diabetic Foot Ulcers. <i>Wounds</i> . 2006; 18: 262-270.
			Dalla Paola L. Treating diabetic foot ulcers with super-oxidized water. <i>Wounds</i> . 2006; 18(Suppl):14-16.
Alberto Piaggesi, MD (5)	Italy	33	Goretti C, Mazzurco S, Ambrosini Nobili L, Macchiarini S, Tedeschi A, Palumbo F, Scatena A, Rizzo L, Piaggesi A. Clinical Outcomes of Wide Postsurgical Lesions in the Infected Diabetic Foot Managed With 2 Different Local Treatment Tegimes Compared Using a Quasi-Experimental Study Design: A Preliminary Communication. <i>Int. J. Lower Extremity Wounds</i> . 2007; 6:22-27.
	Italy	40	Piaggesi A et al. A Randomized Controlled Trial to Examine the Efficacy and Safety of Microcyn® Technology on wide post-surgical lesions in the infected diabetic foot. <i>Int. J. Lower Extremity Wounds</i> . March 9, 2010.
Ariel Miranda, MD (5)	Mexico	64	Miranda-Altamirano A. Reducing Bacterial Infectious Complications from Burn Wounds. A look at the use of Oculus Microcyn60 to treat wounds in Mexico. <i>Wounds</i> . 2006; 18(Suppl):17-19.
Lenka Veverkova, MD (3)	Czech Republic	27	Veverkova L, Jedlicka V, Vesely M, Tejkalova R, Zabranska S, Capov I, Votava M. Methicilin-resistant Staphylococcus aureus — problem in health care. <i>J Wound Healing</i> . 2005; 2:201-202.
Elia Ricci, MD (6)	Italy	40	Ricci E, Astolfi S, Cassino R. Clinical results about an antimicrobial solution (Dermacyn Wound Care) in the treatment of infected chronic wounds. Poster presented at: 17th Conference of the European Wound Management Association (EWMA); 2007 May 2-4; Glasgow, UK.
Alfredo Barrera, MD (5)	Mexico	40	Barrera-Zavala A, Guillen-Rojas M, Escobedo-Anzures J, Rendon J, Ayala O, Gutiérrez AA. A pilot study on source control of peritonitis with a neutral pH — super oxidized solution. Poster presented at: 16th World Congress of the International Association of Surgeons and Gastroenterologists (IASG); 2006 25-27 May; Madrid, Spain.
D. Peterson, MD	U.S.	5	Peterson D, Hermann K, Niezgoda J. Dermacyn Effective in Treatment of Chronic Wounds with Extensive Bioburden While Reducing Local Pain Levels. Presented at: Symposium on Advanced Wound Care and Wound Healing Society; 2007 April 28-May 1; Tampa, FL.
P. Steenvoorde, MD; L.P. Van Doorn, MA; C.E. Jacobi, PhD; and J. Oskam, MD, PhD (3)	Netherlands	10	An unexpected effect of Dermacyn on infected leg ulcers. <i>J Wound Care</i> . 2007; 16:60-61.
Fermin Martinez, MD	Mexico	45	Martínez-De Jesús FR, Ramos-De la Medina A, Remes-Troche JM, Armstrong DG, Wu SC, Lázaro Martínez JL, Beneit-Montesinos JV. Efficacy and safety of neutral pH superoxidised solution in severe diabetic foot infections. <i>Int Wound J</i> . 2007; 4:353-362.

SF Hadi, MD (3)	Pakistan	100	Hadi SF, Khaliq T, Bilal N, Sikandar I, Saaq M, Zubair M, Aurangzeb S. Treating infected diabetic wounds with superoxidized water as anti-septic agent: a preliminary experience. <i>J Coll Physicians Surg Pak.</i> 2007; 17:740-743.
BT Monaghan, DPM (3)	Ireland	10	Monaghan BT, Cundell JH. Dermacyn as the Local Treatment for Infected Diabetic Foot Wounds. A case series. Presented at: 5th International Symposium on the Diabetic Foot. 2007 May 9-12; Noordwijkerhout, The Netherlands.
Fernando Uribe, MD (6)	Mexico	80	Uribe F. Effect of neutral pH Superoxidized solution in the healing of diabetic foot ulcers. Poster presented at: 47th Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC). Poster L-1144. 2007 Sept 17-20; Chicago, IL.
Ning Fanggang, MD (3)	China	20	Fanggang N, Guoan Z. The clinical efficacy of Dermacyn on deep partial thickness burn wounds.
Amar Pal Suri, DPM (6)	India	100	Suri AP. The Effectiveness of Stable Neutral Super-oxidized Solution for the Treatment of Infected Diabetic Foot Wounds. Presented at: Diabetic Foot Global Conference. 2008 March 13-15; Hollywood, CA.
Robert G. Frykberg, DPM, MPH (6)	U.S.	23	Frykberg RG, Tallis A, Tierney E. Wound Healing in Chronic Lower Extremity Wounds Comparing Super-Oxidized Solution (SOS) vs. Saline. Presented at: Diabetic Foot Global Conference. 2008 March 13-15; Hollywood, CA.
Matthew Regulski, DPM (5)	U.S.	18	Regulski M, Floros R, Petranto R, Migliori V, Alster H, Pfeiffer D. Efficacy and Compatibility of Combination Therapy with Super-Oxidized Solution and a Skin Substitute for Lower Extremity Wounds. Presented at: Symposium on Advanced Wound Care and Wound Healing Society. 2008 April 24-28; San Diego, CA.
Adam Landsman, DPM, PhD (5); Andres A. Gutierrez, MD, PhD(1); and Oculus Collaborative Group	U.S.	48	Landsman A, Blume P, Palladino M, Jordan D, Vayser DJ, Halperin G, Gutierrez AA and Oculus Collaborative Group. An Open Label, Three Arm Study of the Safety and Clinical Efficacy of Topical Wound Care vs. Oral Levofloxacin vs. Combined Therapy for Mild Diabetic Foot Infections. Presented at: Diabetic Foot Global Conference. 2008 March 13-15; Hollywood, CA.
Christopher J. Gauland, DPM. (3)	U.S.	5	Gauland C. Sickle Cell Disease. Presented at: Symposium on Advanced Wound Care and Wound Healing Society. 2008 April 24-28; San Diego, CA.
	U.S.	16	Gauland C. Comparison of Microcyn® and Amerigel in the Podiatric Clinical Setting.
R.K. Chittoria	India	20	Chittoria RK, Yootla M, Sampatrao LM, Raman SV. The role of super oxidized solution in the management of diabetic foot ulcer: our experience. <i>Nepal Med Coll J.</i> 2007; 9:125-128.

A.R. Anand	India	50	Anand AR. Comparative Efficacy and Tolerability of Oxum against Povidone Iodine Topical Application in the Post-caesarean Section Wound Management. Indian Medical Gazette. December 2007: 498-505.
S.B. Dharap	India	30	Dharap SB, Ghag GS, Kulkarni KP, Venkatesh V. Efficacy and safety of Oxum in the treatment of the venous ulcer. J Indian Med Assoc. 2008; 106:326-330.
H. Dhusia	India	41	Dhusia H, Comparative Efficacy and Tolerability of Microcyn® Superoxidized Solution (Oxum) against Povidone Iodine Application in Oro-dental Infections. Indian Medical Gazette. February 2008; 68-75.
M.G. Khairulasri	Malaysia	178	Khairulasri MG, Ramzisham ARM, Ooi JSM, Zamrin DM. Dermacyn irrigation in reducing sternotomy wound infection following coronary artery bypass graft surgery. Presented at: 11th Scientific Conference. 2008. Kota Bharu, Malaysia.
Andres Tirado-Sanchez and RosaMaria Ponce-Olivera			Tirado-Sanchez A, Ponce-Olivera R. Efficacy and tolerance of superoxidized solution in the treatment of mild to moderate inflammatory acne. A double-blinded, placebo-controlled, parallel-group, randomized, clinical trial. Journal of Dermatological Treatment. 2009; 20:289-292.

- (1) Indicates that the physician is, or at one time was, a stockholder of our Company. The physician was also a member of our Medical and Business Advisory Board, which we dissolved in April 2007, and served as a paid consultant and received research grants, expense payments, honorarium and Microcyn® to complete the study.
- (2) Indicates that the physician was a paid consultant, received expenses in connection with corporate development and licensing evaluations and is, or at one time was, a holder of warrants to purchase common stock of our Company.
- (3) Indicates that the physician received Microcyn® to complete the study.
- (4) Indicates that the physician was a paid consultant, was a member of our Medical and Business Advisory Board, which we dissolved in April 2007, and received expense payments and Microcyn® to complete the study.
- (5) Indicates that the physician received payments, expense payments and Microcyn® to complete the study.
- (6) Indicates that the physician received reimbursement of travel expenses and Microcyn® to complete the study.

In addition to the above articles and publications, several additional papers on the basic science of the technology and related clinical guidelines have been published or have been submitted for peer review and publication, including:

Researchers	Country	Publication
P. Kim, C. Attinger, J. Steinberg, K. Evans, B. Lehner, C. Willy, L. Lavery, T. Wolvos, D. Orgill, W. Ennis, J. Lantis, A. Gabriel, G. Schultz	U.S. & Europe	Negative-Pressure Wound Therapy with Instillation: International Consensus Guidelines <i>Plast Reconstr. Surg.</i> 2013; 132: 1569-1579
Landa-Solis C., González-Espinosa D., Guzman B., Snyder M., Reyes Terán G, Torres K., Gutiérrez AA (1)	Mexico	Microcyn™: a novel super-oxidized water with neutral pH and disinfectant activity. <i>J Hosp Infect (UK)</i> . 2005; 61: 291-299.

Gutiérrez AA (1)	U.S.	The science behind stable, super-oxidized water. Exploring the various applications of super-oxidized solutions. <i>Wounds</i> . 2006; 18(Suppl):7-10.
Dalla Paola L. (2), Faglia E.	Italy	Treatment of diabetic foot ulcer: an overview. <i>Strategies for clinical approach. Current Diabetes Reviews</i> . 2006; 2:431-447.
González-Espinosa D., Pérez-Romano L., Guzman Soriano B., Arias E., Bongiovanni, CM (3), Gutiérrez AA (1)	Mexico, U.S.	Effects of neutral super-oxidized water on human dermal fibroblasts in vitro. <i>Int Wound J</i> . 2007; 4:241-250.
Medina-Tamayo J., Balleza-Tapia H., López X., Cid ME, González-Espinosa D., Gutiérrez AA (1), González-Espinosa C.	Mexico, U.S.	Super-oxidized water inhibits IgE-antigen- induced degranulation and cytokine release in mast cells. <i>International Immunopharmacology</i> . 2007; 7:1013-1024.
Le Duc Q.	UK	A cytotoxic analysis of antiseptic medication on skin substitutes and autograft. <i>Br J Dermatology</i> . 2007; 157:33-40.
McCurdy B.	U.S.	Emerging Innovations in Treatment. <i>Podiatry Today</i> . 2006; 1940-48.
Zahumensky E.	Czech Republic	Infections and diabetic foot syndrome in field practice. <i>Vnitr Lek</i> . 2006; 52:411-416.
Rose R., Setlow B., Monroe A., Mallozzi M., Driks A., Setlow P. (5)	U.S.	Comparison of the properties of Bacillus subtilis spores made in liquid or on agar plates. Submitted 2008.
Paul M, Setlow B., Setlow P. (5)	U.S.	The killing of spores of Bacillus subtilis by Microcyn(TM), a stable superoxidized water. Submitted 2008.
Thatcher E. (4), Gutierrez AA (1)	U.S.	The Anti-Bacterial Efficacy of a New Super-Oxidized Solution. Paper presented at: 47th Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC). 2007 Sept 17-20; Chicago, IL.
Taketa-Graham M. (5), Gutierrez AA (1), Thatcher E. (4)	U.S.	The Anti-Viral Efficacy of a New Super-Oxidized Solution. Poster presented at: 47th Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC). Poster L-1144. 2007 Sept 17-20; Chicago, IL.
Dardine J., Martinez C., Thatcher E (4)	U.S.	Activity of a pH Neutral Super-Oxidized Solution Against Bacteria Selected for Sodium Hypochlorite Resistance. Poster presented at: 47th Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC). Poster L-1144. 2007 Sept 17-20; Chicago, IL.
Sauer K, Vazquez G, Thatcher E (4), Northey R (5), Gutierrez AA (1)	U.S.	Neutral super-oxidized solution is effective in killing P. aeruginosa biofilms. <i>Biofouling</i> . 2009 January; 25(1): 45-54.

- (1) Dr. Gutierrez was our Director of Medical Affairs and conducted the study during his employment at our Company.
- (2) Dr. Dalla Paola was a member of our Medical and Business Advisory Board, which we dissolved in April 2007, and received expense payments and Microcyn® to complete the study.
- (3) Indicates that investigator received Microcyn® to complete the study.
- (4) Dr. Thatcher is a stockholder of our Company, previously served on our Board of Directors, and received Microcyn® to complete the study.
- (5) Dr. Northey is our Vice President of Research and Development and conducted the study during his employment at our Company.

Products

The following table summarizes our main products by market:

Market	Product Name	Description
United States	Microcyn® Skin and Wound Care with preservatives	Management of wounds via debridement of wounds such as stage I-IV pressure ulcers, partial and full thickness wounds, diabetic foot ulcers, post-surgical wounds, first- and second-degree burns, grafted and donor sites.
	Microcyn® Skin & Wound HydroGel	Used on first and second degree burns, exuding wounds such as leg ulcers, pressure ulcers, diabetic ulcers, and for the management of mechanically or surgically debrided wounds.
	Alevicyn™ Dermal Spray	Cleansing, irrigation, moistening, debridement and removal of foreign material including microorganisms and debris from exudating wounds, acute and chronic dermal lesions including stage I-IV pressure ulcers, stasis ulcers, diabetic ulcers, post-surgical wounds, first- and second-degree burns, abrasions, minor irritations of the skin, diabetic foot ulcers, ingrown toe nails, grafted/donor sites and exit sites.
	Alevicyn™ Antipuritic Gel	Management of itch and pain associated with dermal irritations and wounds, such as sores, injuries and ulcers of dermal tissue.
	Celacyn™ Prescription Scar Management Gel	Management of old and new hypertrophic and keloid scarring on scars resulting from burns, general surgical procedures and trauma wounds.
Mexico	Microdacyn® Antiseptic	Wound care antiseptic.
	Baby Microdacyn®	Treatment of diaper rash and rosaduras in children.
	Gramaderm® Solution	Used as an adjunct in the tropical treatment of mild to moderate acne.
	Gramaderm® Gel	Used as an adjunct in the tropical treatment of mild to moderate acne.
	Pediacyn®	Care of lesions associated with atopic dermatitis. Pediacyn assists with moistening while forming a protective barrier against physical, chemical and microbial invasion of the atopic dermatitis lesions.
	Epicyn™	Management and reduction of new and existing hypertrophic and keloid scars. Epicyn™ assists with moistening while forming a protective barrier against physical, chemical and microbial invasion of the scar.

	Microdacyn® Bucofaringeo	Used as an adjunct in the treatment of both mouth and throat infections.
Europe	Microdacyn ₆₀ ® Wound Care	Used in the debridement and moistening of acute and chronic wounds, ulcers, cuts, abrasions and burns including those located in any human cavity such as the oral, nasal or ear.
	Microdacyn® Wound Care Hydrogel	Used in the debridement and moistening of acute and chronic wounds, ulcers, cuts, abrasions and burns including those in the mouth, nose and ear.
	Gramaderm® Solution	Used as an adjunct in the tropical treatment of mild to moderate acne.
	Gramaderm® Gel	Used as an adjunct in the tropical treatment of mild to moderate acne.
	Pediacyn®	Care of lesions associated with atopic dermatitis. Pediacyn assists with moistening while forming a protective barrier against physical, chemical and microbial invasion of the atopic dermatitis lesions.
	Epicyn™	Management and reduction of new and existing hypertrophic and keloid scars. Epicyn™ assists with moistening while forming a protective barrier against physical, chemical and microbial invasion of the scar.

Sales and Marketing

We generate revenue through established and scalable commercial operations, including manufacturing in Mexico and the United States, selling products in the United States through partners and our direct sales force and selling products internationally via strategic business partners.

In the United States, we sell into tissue care markets with our dedicated contract sales force, the dermatology markets through our partner Quinnova and through our IntraDerm™ Pharmaceuticals division staffed with a seasoned management and sales team. In the international markets, we work with partners, ranging from country specific distributors to a large pharmaceutical company to a full services sales and marketing company. The details of these efforts are further discussed in the following sections.

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 dermatology and advanced tissue care products available, both as prescription and over-the-counter products, under our ten 510(k) clearances in the United States and our international approvals.

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

Over the last several years, we have licensed our Microcyn products to corporate partners, who in turn market the products to the end user. Generally, the partner incurs all expenses related to their sales effort including sales and marketing personnel. We have learned this partnership business model does not provide consistent growth in revenue for several reasons. Initially, the partner places the Microcyn products in a predominant position in their product portfolio. But once revenue growth slows, they re-designate our products as a lower priority offering. Additionally, the partnership model provides us with little control over the development and selection of pipeline products. As well, the partner can select a different or even competing technology or product as the high priority for their sales group.

In light of these issues, our revised corporate strategy is to deploy a direct sales force to sell two of our products into our core markets, except where there are exclusivity agreements. At this time, our two core markets in the United States are dermatology and acute care, including advanced tissue care. For the non-core markets, we plan to continue identifying and recruiting partners to sell the Microcyn products into respective non-core markets such as animal care in the United States, and for distribution/sales in many countries outside the United States.

Dermatology

Historically, we sold our dermatology products through partnership agreements. Currently, our main partnership agreement is with Quinnova Pharmaceuticals, Inc., now named Exeltis USA Dermatology, Inc. Quinnova/Exeltis launched the Atrapro™ family of products formulated from our Microcyn® Technology platform in late February 2012. Quinnova/Exeltis markets 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; and 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.

Quinnova was recently acquired by Everett Laboratories, Inc., now named Exeltis USA, Inc., a part of Chemo Group. While we intend to allow Quinnova/Exeltis to continue to sell the Atrapro™ products, we are building our own direct sales force to sell into the dermatology markets through our new IntraDerm™ Pharmaceuticals division with new products, different than those products sold by Quinnova/Exeltis, including a prescription scar product approved by the FDA but not yet commercialized. We anticipate that these products will include over-the-counter and prescription and will be based on both Microcyn® and non-Microcyn® technologies. We recently added new members to our Board of Directors with expertise in sales, marketing and business strategy in dermatology. We hired an experienced dermatology management team and sales force, most of who are seasoned sales veterans that have established relationships with dermatologists in their respective territories. In October 2014, we launched two prescription dermatology products in the United States, an antipruritic gel and a dermal spray. We also have a strong product pipeline, including our new product for treatment of scars that we intend to launch in January 2015. We have licensed several proprietary dermatology products from two European dermatology companies that we believe we can bring to market in the near term.

Advanced Tissue Care

We launched sales of our 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 serve as our sales force.

In January 2014, Advocos LLC, a specialty U.S. contract sales organization, assumed the responsibility from Eloquest Healthcare for sales to acute care in hospitals in addition to sales to other entities for advanced tissue care. Advocos increased the number of sales people to focus on wound care centers.

In collaboration with Advocos LLC, we market a family of Microcyn® products for advanced tissue care. In January 2014, we announced the introduction of two new products into our advanced tissue care product line:

- Microcyn® Wound & Skin Spray HydroGel in a three-ounce spray bottle formulation, allowing it to be easily and conveniently sprayed directly onto the wound site.
- Microcyn® Wound & Skin Care with preservatives 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.

Currently, Advocos has a sales force of 15 people, selling into the acute care in hospitals with a focus on the high volume wound care centers.

Animal Healthcare and Over-the-Counter Wound Care for Humans

In April of 2014, Innovacyn, our animal healthcare partner notified us that over the next 12 months Innovacyn intends to transition to a new supplier of animal care products. Because of Innovacyn's failure to perform under the arrangements, we terminated the agreements on December 15, 2014. Most of the Vetericyn product has been transitioned to the new supplier for the fiscal year ended March 31, 2014. For the fiscal year ended March 31, 2014, approximately 23% of our total revenues were derived from our agreement with Innovacyn, and for the six months ended September 30, 2014, approximately 15% of our total revenues were derived from our agreement with Innovacyn. During the three months ended September 30, 2014 and 2013, we recorded revenue related to these agreements in the amounts of \$459,000 and \$1,289,000, respectively. During the six months ended September 30, 2014 and 2013, we recorded revenue related to these agreements in the amounts of \$987,000 and \$2,030,000, respectively. During the years ended March 31, 2014 and 2013, we recorded revenue related to these agreements in the amounts of \$3,100,000 and \$3,906,000, respectively. We are actively seeking new distribution channels, including locating new animal health care partners. We have identified two potential partners and are in the process of negotiating agreements. We can give no assurances that we and these potential partners will be able to agree on terms acceptable to us, if at all. Even if we are able to finalize agreements with these potential partners, these partnerships may not replace our revenues to the same levels as we had with Innovacyn.

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, Sweden, Spain, Norway, Switzerland, Poland, Finland, Denmark and Serbia.

Mexico

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. 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.

"Rest of World"

Through our partner More Pharma, we market and sell certain of our products 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, Panama, Paraguay, Peru, St. Bartolome, St. Vincent & Grenades, Surinam, Trinidad & Tobago, Turks & Caicos Islands, Uruguay, Venezuela and Virgin Islands.

Throughout the rest of the world, we use strategic partners and distributors for the sale of Microcyn®-based products, including Bangladesh, Pakistan, India, the People's Republic of China, United Arab Emirates, Saudi Arabia, Dubai, Kuwait, Iraq, Singapore, Indonesia and Malaysia.

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 of our products and potential products. Our testing laboratory complies with U.S. Current Good Manufacturing Practices and Quality Systems Regulations.

Manufacturing and Packaging

We manufacture Microcyn® through a proprietary electrolysis process within a multi-chamber system. We are able to control the passage of ions through proprietary membranes, yielding electrolyzed water with only trace amounts of chlorine. This process is fundamentally different from the processes for manufacturing hydrogen peroxide and bleach and, we believe, is the basis for our technology's effectiveness and safety. Our manufacturing process produces very little waste, and any remainder is disposed of as water after a simple non-toxic chemical treatment.

We manufacture our products at our facilities in Petaluma, California and Zapopan, Mexico. We have developed an automated manufacturing process and conduct quality assurance testing on each production batch in accordance with current U.S., Mexican and international Current Good Manufacturing Practices. Our facilities are required to meet and maintain regulatory standards applicable to the manufacture of pharmaceutical and medical device products. Our United States facilities are certified and comply with U.S. Current Good Manufacturing Practices, Quality Systems Regulations for medical devices, and International Organization for Standardization, or ISO, guidelines. Our Mexico facility has been approved by the Ministry of Health and is also ISO certified.

Our machines are subjected to a series of tests, which is part of a validation protocol mandated by U.S., Mexican and international Current Good Manufacturing Practices, Quality Systems Regulation, and ISO requirements. This validation is designed to ensure that the final product is consistently manufactured in accordance with product specifications at all manufacturing sites. Certain materials and components used in manufacturing our machines are proprietary to us.

We believe we have a sufficient number of machines to produce an adequate amount of Microcyn® to meet anticipated future requirements for at least the next two years. As we expand into new geographic markets, we may establish additional manufacturing facilities to better serve those new markets.

Intellectual Property

Our success depends in part on our ability to obtain and maintain proprietary protection for our product technology and know-how, to operate without infringing proprietary rights of others, and to prevent others from infringing our proprietary rights. We seek to protect our proprietary position by, among other methods, filing, when possible, U.S. and foreign patent applications relating to our technology, inventions and improvements that are important to our business. We also rely on trade secrets, know-how, continuing technological innovation, and in-licensing opportunities to develop and maintain our proprietary position.

As of January 5, 2015, we own a total of 38 issued patents, consisting of eight issued U.S. patents and 30 issued foreign patents. We also have 90 pending U.S. and foreign patent applications that include several PCT applications. Three of the patent applications, specifically two U.S. applications, and one PCT application under the Patent Cooperation Treaty, are directed to chlorogenic acid. The Patent Cooperation Treaty provides for unified filing of patent applications in order to protect inventions in each of the treaty's contracting countries. Once a patent has been reviewed by a regional office, the standard application is then granted or rejected according to each country's law. There are 148 countries that are parties to the treaty. The remaining patent applications as well as the issued patents are directed at our Microcyn® Technology. The issued U.S. and foreign patents expire in 2022-2027.

In addition to our own patents and applications, we have licensed technology developed in Japan relating to an electrolyzed water solution, methods of manufacture and electrolytic cell designs. This license includes eight issued Japanese patents.

Although we work diligently to protect our technology, we can make no assurances that any patent will be issued from our currently pending patent applications or from future patent applications. The scope of any patent protection may not exclude competitors or provide competitive advantages to us, and any of our patents may not be held valid if subsequently challenged, and others may claim rights in or ownership of our patents and proprietary rights. Furthermore, others may develop products similar to our products and may duplicate any of our products or design around our patents.

We have also filed for trademark protection for marks used with our Microcyn® products in each of the following countries: United States, Europe, Canada, certain countries in Central and South America, including Mexico and Brazil, certain countries in the Middle East and certain countries in Asia, including Japan, China, the Republic of Korea, India and Australia. In addition to patents and trademarks, we rely on trade secret and other intellectual property laws, nondisclosure agreements and other measures to protect our intellectual property rights. We believe that in order to have a competitive advantage, we must develop and maintain the proprietary aspects of our technologies. We require our employees, consultants and advisors to execute confidentiality agreements in connection with their employment, consulting or advisory relationship with us. We also require our employees, consultants and advisors with whom we expect to work on our products to agree to disclose and assign to us all inventions made in the course of our working relationship with them, while using our property or which relate to our business. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to wrongfully obtain or use information that we regard as proprietary.

Competition

Dermatology

The dermatology market is highly competitive. Our dermatology products face competition in the United States from several prescription products, including Novartis' Elidel® Cream, a prescription medicine used topically on the skin to treat eczema, which is also called atopic dermatitis, and Astellas' Protopic®, a prescription ointment used to treat moderate to severe eczema.

Advanced Tissue Care Markets

Competition in the markets for advanced tissue care is intense. We compete with a number of large, well-established and well-funded companies that sell a broad range of wound and tissue care products, including topical anti-infectives and antibiotics, as well as some advanced wound technologies, such as skin substitutes, growth factors and sophisticated delayed release silver-based dressings. We believe the principal competitive factors in our target market are related to improved patient outcomes, such as shortened time in the hospital, accelerated healing time, lack of adverse events, safety of products, ease-of-use, stability, pathogen, or disease causing micro-organism, killing and cost effectiveness.

Our products compete with a variety of products used for wound cleaning, debriding and moistening, including sterile saline and chlorhexidine-based products. They also compete with a large number of prescription and over-the-counter products for the prevention and treatment of infections, including topical anti-infectives, such as Betadine, silver sulfadiazine, hydrogen peroxide, Dakin's solution and hypochlorous acid, and topical antibiotics, such as Neosporin, Mupirocin and Bacitracin. Currently, no single anti-infective product dominates the chronic or acute wound markets because many of the products have serious limitations or tend to inhibit the wound healing process.

Our products can replace the use of saline for debriding and moistening a dressing and can be used as a complementary product with many advanced tissue care technologies, such as the Vacuum-Assisted Closure, or V.A.C. Therapy System from Kinetic Concepts Inc., skin substitute products from Smith & Nephew, Advanced BioHealing, now called Shire Regenerative Medicine, Integra Life Sciences, Life Cell, Organogenesis and Ortec International, and ultrasound products from Celleration. We believe that Microcyn® Technology can enhance the effectiveness of many of these advanced tissue care technologies. Because Microcyn® is competitive with some of the large wound care companies' products and complementary to others, we may compete with such companies in some product lines and complement such companies in other product lines.

Animal Healthcare

The distribution and manufacture of animal health products is highly competitive. We compete with numerous vendors and distributors based on customer relationships, service and delivery, product selection, price and e-commerce capabilities. Manufacturers have also invested heavily in the animal health industry by developing direct sales capabilities, which has intensified competition. Most of our products are available from several sources, including other distributors and vendors, and our customers tend to have relationships with several distributors. In addition, our competitors could obtain exclusive rights to distribute certain products, eliminating our ability to distribute those products. Consolidation in the animal healthcare distribution business could result in existing competitors increasing their market share, which could give them greater pricing power, decrease our revenues and profitability, and increase the competition for customers. Our primary competitors in the United States include the following:

- Animal Health International, Inc.;
- Henry Schein, Inc.;
- Innovacyn, Inc.;
- Patterson Companies, Inc.;
- other national, regional, local and specialty distributors; and
- manufacturers with direct sales capabilities.

The role of the animal health product distributor has changed dramatically during the last decade. Successful distributors are increasingly providing value-added services in addition to the products they have traditionally provided. We believe that to remain competitive we must continue to add value to the distribution channel, while removing unnecessary costs associated with product movement.

Factors Affecting Our Competitive Position

While many companies are able to produce oxychlorine formulations, their products, unlike ours, typically become unstable after a relatively short period of time or use very large ranges of effectiveness to improve their shelf lives. We believe Microcyn® Technology is a stable anti-infective therapeutic available, or soon to be available, throughout many parts of the world that treats infection while also enhancing wound healing through increased blood flow to the wound bed and reduction of inflammation.

Some of our competitors in the dermatology, advanced tissue care markets and animal healthcare enjoy several competitive advantages, including:

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

Government Regulation

Government authorities in the United States at the federal, state and local levels and foreign countries extensively regulate, among other things, the research, development, testing, manufacture, labeling, promotion, advertising, distribution, sampling, marketing, and import and export of pharmaceutical products, biologics and medical devices. All of our products in development will require regulatory approval or clearance by government agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous pre-clinical and clinical trials and other approval procedures of the FDA and similar regulatory authorities in foreign countries. Various federal, state, local and foreign statutes and regulations also govern testing, manufacturing, safety, labeling, storage, distribution and record-keeping related to such products and their marketing. The process of obtaining these approvals and clearances, and the subsequent process of maintaining substantial compliance with appropriate federal, state, local, and foreign statutes and regulations, require the expenditure of substantial time and financial resources. In addition, statutes, rules, regulations and policies may change and new legislation or regulations may be issued that could delay such approvals.

Medical Device Regulation

To date, Microcyn® has received ten 510(k) clearances for use as a medical device in wound care management, such as cleaning, debridement, lubricating, moistening and dressing, including for acute and chronic wounds, and in dermatology applications. Any future product candidates or new applications using Microcyn® that are classified as medical devices will require clearance by the FDA.

Medical devices, such as Microcyn® Wound Care, are subject to FDA clearance and extensive regulation under the Federal Food Drug and Cosmetic Act. Under the Federal Food Drug and Cosmetic Act, medical devices are classified into one of three classes: Class I, Class II or Class III. The classification of a device into one of these three classes generally depends on the degree of risk associated with the medical device and the extent of control needed to ensure safety and effectiveness. Devices may also be designated unclassified. Unclassified devices are legally marketed pre-amendment devices for which a classification regulation has yet to be finalized and for which a pre-market approval is not required.

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

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

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

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

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

- imposing fines, injunctions and civil penalties;
- requiring a recall or seizure of products;
- implementing operating restrictions, which can include a partial suspension or total shutdown of production;
- refusing requests for 510(k) clearance or pre-market approval of new products;
- withdrawing 510(k) clearance or pre-market approval approvals already granted; and
- criminal prosecution.

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

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

Other Regulation in the United States

Health Care Coverage and Reimbursement by Third-Party Payors

Commercial success in marketing and selling our products depends, in part, on the availability of adequate coverage and reimbursement from third-party health care payors, such as government and private health insurers and managed care organizations. Third-party payors are increasingly challenging the pricing of medical products and services. Government and private sector initiatives to limit the growth of health care costs, including price regulation, competitive pricing, and managed-care arrangements, are continuing in many countries where we do business, including the United States. These changes are causing the marketplace to be more cost-conscious and focused on the delivery of more cost-effective medical products. Government programs, including Medicare and Medicaid, private health care insurance companies, and managed-care plans control costs by limiting coverage and the amount of reimbursement for particular procedures or treatments. This has created an increasing level of price sensitivity among customers for our products. Some third-party payors also require that a favorable coverage determination be made for new or innovative medical devices or therapies before they will provide reimbursement of those medical devices or therapies. Even though a new medical product may have been cleared or approved for commercial distribution, we may find limited demand for the product until adequate coverage and reimbursement have been obtained from governmental and other third-party payors.

Fraud and Abuse Laws

In the United States, we are subject to various federal and state laws pertaining to healthcare fraud and abuse, which, among other things, prohibit the offer or acceptance of remuneration intended to induce or in exchange for the purchase of products or services reimbursed under a federal healthcare program and the submission of false or fraudulent claims with the government. These laws include the federal Anti-Kickback Statute, the False Claims Act and comparable state laws. These laws regulate the activities of entities involved in the healthcare industry, such as us, by limiting the kinds of financial arrangements such entities may have with healthcare providers who use or recommend the use of medical products, including, for example, sales and marketing programs, advisory boards and research and educational grants. In addition, in order to ensure that healthcare entities comply with healthcare laws, the Office of Inspector General of the U.S. Department of Health and Human Services recommends that healthcare entities institute effective compliance programs. To assist in the development of effective compliance programs, the Office of Inspector General has issued model Compliance Program Guidance, materials for a variety of healthcare entities which, among other things, identify practices to avoid that may implicate the federal Anti-Kickback Statute and other relevant laws and describes elements of an effective compliance program. While compliance with the Compliance Program Guidance materials is voluntary, a California law requires pharmaceutical and devices manufacturers to initiate compliance programs that incorporate the Compliance Program Guidance and the July 2002 Pharmaceuticals Research and Manufacturers of America Code on Interactions with Healthcare Professionals.

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

Anti-Kickback Laws. Our operations are subject to federal and state anti-kickback laws. The federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, receiving, offering or providing remuneration directly or indirectly to induce either the referral of an individual for a good or service reimbursed under a federal healthcare program, or the furnishing, recommending, or arranging of a good or service, for which payment may be made under a federal healthcare program, such as Medicare or Medicaid. The definition of “remuneration” has been broadly interpreted to include anything of value, including such items as gifts, discounts, the furnishing of supplies or equipment, waiver of co-payments, and providing anything at less than its fair market value. Because the Anti-Kickback Statute makes illegal a wide variety of common, even beneficial, business arrangements, the Office of Inspector General was tasked with issuing regulations, commonly known as “safe harbors,” that describe arrangements where the risk of illegal remuneration is minimal. As long as all of the requirements of a particular safe harbor are strictly met, the entity engaging in that activity will not be prosecuted under the federal Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, business arrangements that do not fully satisfy an applicable safe harbor may result in increased scrutiny by government enforcement authorities, such as the Office of Inspector General. Our agreements to pay compensation to our advisory board members and physicians who provide other services for us may be subject to challenge to the extent they do not fall within relevant safe harbors under state and federal anti-kickback laws. In addition, many states have adopted laws similar to the federal Anti-Kickback Statute, which apply to the referral of patients for health care services reimbursed by Medicaid, and some have adopted such laws with respect to private insurance. Violations of the Anti-Kickback Statute are subject to significant fines and penalties and may lead to a company being excluded from participating in federal health care programs.

False Claims Laws. The federal False Claims Act prohibits knowingly filing a false claim, knowingly causing the filing of a false claim, or knowingly using false statements to obtain payment from the federal government. Under the False Claims Act, such suits are known as “qui tam” actions. Individuals may file suit on behalf of the government and share in any amounts received by the government pursuant to a settlement. In addition, certain states have enacted laws modeled after the federal False Claims Act under the Deficit Reduction Act of 2005, where the federal government created financial incentives for states to enact false claims laws consistent with the federal False Claims Act. As more states enact such laws, we expect the number of qui tam lawsuits to increase. Qui tam actions have increased significantly in recent years, causing greater numbers of healthcare companies to have to defend false claims actions, pay fines or be excluded from Medicare, Medicaid or other federal or state government healthcare programs as a result of investigations arising out of such actions.

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

Health Information Privacy and Security.

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

Foreign Regulation

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

European Union Regulation

Medical Device Regulation. Our products are classified as medical devices in the European Union. In order to sell our medical device products within the European Union, we are required to comply with the requirements of the Medical Devices Directive, and its national implementations, including affixing CE markings on our products. The CE marking indicates a product’s compliance with EU legislation and so enables the sale of products throughout the European Economic Area (EEA, the 28 Member States of the EU and European Free Trade Association (EFTA) countries Iceland, Norway, Liechtenstein). In order to comply with the Medical Devices Directive, we must meet certain requirements relating to the safety and performance of our products and, prior to marketing our products, we must successfully undergo verification of our products’ regulatory compliance, or conformity assessment.

Medical devices are divided into three regulatory classes: Class I, Class IIB and Class III. The nature of the conformity assessment procedures depends on the regulatory class of the product. In order to comply with the examination, we completed, among other things, a risk analysis and presented clinical data, which demonstrated that our products met the performance specifications claimed by us, provided sufficient evidence of adequate assessment of unwanted side effects and demonstrated that the benefits to the patient outweigh the risks associated with the device. We are subject to continued supervision and are required to report any serious adverse incidents to the appropriate authorities. We are also required to comply with additional national requirements that are beyond the scope of the Medical Devices Directive.

We received a CE certificate for ten of our Class IIB medical devices, which allows us to affix CE markings on these products and sell them in Europe. The CE certificate is valid through December 2018. Currently, the European Commission and the European Parliament are discussing changes to the Medical Devices Directive which could include stricter requirements for obtaining CE markings or continued compliance. We may not be able to maintain the requirements established for CE markings for any or all of our products or be able to produce these products in a timely and profitable manner while complying with the requirements of the Medical Devices Directive and other regulatory requirements.

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

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

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

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

Mexican Regulation

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

The Ministry of Health is responsible for the issuance of Official Mexican Standards and specifications for drugs subject to the provisions of the General Health Law, which govern the process and specifications of drugs, including the obtaining, preparing, manufacturing, maintaining, mixing, conditioning, packaging, handling, transporting, distributing, storing and supplying of products to the public at large. In addition, a medical device is defined as a device that may contain antiseptics or germicides used in surgical practice or in the treatment of continuity solutions, skin injuries or its attachments.

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

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

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

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

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

The Ministry of Health classifies the medical devices in three classes:

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

Currently, we have ten approvals from the Mexican Ministry of Health to market and distribute our products in Mexico.

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

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

Research and Development

Research and development expense consists primarily of personnel expenses, clinical and regulatory services and supplies. For the six months ended September 30, 2014 and the years ended March 31, 2014 and 2013, research and development expense amounted to \$792,000 and \$2,887,000 and \$2,223,000, respectively. None of these expenses were borne by our customers.

Significant Customers

We rely on certain key customers for a significant portion of our revenues. At September 30, 2014 we had net accounts receivable of \$2,149,000. Additionally, at September 30, 2014, MorePharma represented 56% and Quinnova represented 11% of the net accounts receivable balance. At March 31, 2014, we had net accounts receivable of \$1,790,000. Additionally, at March 31, 2014, MorePharma represented 44%, Quinnova represented 15%, and Innovacyn represented 12% of the net accounts receivable balance. At March 31, 2013, MorePharma represented 34%, Quinnova represented 26%, and Innovacyn represented 15% of the net accounts receivable balance. During the year ended March 31, 2014, MorePharma represented 38%, and Innovacyn represented 23%, respectively, of net revenues. During the year ended March 31, 2013, Innovacyn represented 25% and MorePharma represented 13%, respectively, of net revenues.

In April of 2014, Innovacyn notified us that over the next twelve months Innovacyn intends to transition to a new supplier of animal care products. Because of Innovacyn’s failure to perform under the arrangements, we terminated the agreements on December 15, 2014. Most of their animal care product has been transitioned to the new supplier. We are actively seeking new distribution channels, including locating a new animal health care partner. We have identified two potential partners and are working on negotiating agreements. We can give no assurances that we and these potential partners will be able to agree on terms acceptable to us, if at all. Even if we are able to finalize agreements with these potential partners, these partnerships may not replace our revenues to the same levels as we had with Innovacyn.

Our Employees

As of December 30, 2014, we employed a total of 32 employees in the United States and the Netherlands, 31 of which were full-time. Additionally, we had 70 employees in Mexico, all of which were contracted through an employment agency. We are not a party to any collective bargaining agreements. We believe our relations with our employees are good.

Description of Property

We currently lease the following properties:

Location	Rent per month	Purpose
1129 N. McDowell Blvd., Petaluma, CA 94954, USA	USD 11,072	Principal executive office, also used for research and manufacturing
454 North 34th Street, Seattle, Wash. 98103, USA	USD 2,700	Shared office and laboratory space
Suite 130, First Floor, 2500 York Road, Jamison, PA 18929	USD 2,126	Office
Av De Las Americas, 1592 Piso 7, en la Colonia Country Club en Guadalajara Jalisco, CP 44637, Mexico	MXN 23,400	Office
Industra Mecanica Numero 2168 en el Fraccionamiento Industrial Zapopan Norte, de esta Ciudad, 45130 Mexico (1)	MXN 35,000	Warehouse
Nusterweg 123, 6136 ST Sittard (gemeente Sittard, sectie K, nummers 2765 en 2778) Herten, the Netherlands	Euro 6,250	Office

- (1) From time to time depending on the manufacturing needs this warehouse or another similar facility may need to be leased on a monthly basis to store finished product while being picked up by customers.

As we expand, we may need to establish manufacturing facilities in other countries. We believe that our properties will be adequate to meet our needs for at least the next 12 months.

Legal Proceedings

On November 13, 2014, we received a letter from Exeltis USA Dermatology, Inc. formerly known as Quinnova Pharmaceuticals, Inc., a significant customer of ours as disclosed elsewhere in this Form S-1, and herein referred to as "Quinnova", claiming that we are in breach of our Exclusive Sales and Distribution Agreement, or the Agreement, with Quinnova. Specifically, Quinnova has claimed that the marketing and selling of our Alevicyn gel product violates the terms of the Agreement and has demanded we cease and desist from any further marketing or sales. We believe that the marketing and selling of our Alevicyn gel is not in violation of the agreement and that the claims made by Quinnova are without merit. We intend to defend this matter vigorously and do not believe an accrual for a potential loss relating to this matter is necessary at this time. While we believe this claim is without merit, there can be no assurances provided by us that the outcome of this matter will be favorable to our Company or will not have a negative impact on our consolidated financial position or results from operations.

Apart from the demand described above, we are involved in legal matters arising in the ordinary course of business including matters involving proprietary technology from time to time. While we believe that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which we are or could become involved in litigation, will not have a material adverse effect on our business, financial condition or results of operations.

MANAGEMENT

Directors

At our 2008 Annual Meeting of Stockholders, our stockholders approved an amendment to our Restated Certificate of Incorporation, as amended, which provided that directors are classified into three classes, as nearly equal in number as possible, with each class serving for a staggered three-year term. Our Board currently consists of five directors:

	Name	Age	Position with the Company	Director Since	Term Expires
Class I					
	Sharon Barbari	60	Class I Director	03/2014	2015
	Russell Harrison	69	Class I Director	02/2014	2015
Class II					
	Jay Birnbaum	69	Class II Director	04/2007	2016
	Jim Schutz	51	Chief Executive Officer and Class II Director	05/2004	2016
Class III					
	Jerry McLaughlin	66	Class III Director	03/2013	2017

The biographies of our directors and certain information regarding each director's experience, attributes, skills and/or qualifications that led to the conclusion that the director should be serving as a director of Oculus are stated below.

Sharon Barbari: Ms. Barbari has worked in finance and the pharmaceutical industry for most of her career and has extensive experience working strategically in the field both internationally and during the development of clinical-stage products. She has served as Executive Vice President of Finance and Chief Financial Officer of Cytokinetics Inc., a biopharmaceutical company, since July 2009. She served as Senior Vice President of Finance and Chief Financial Officer from September 2004 through June 2009. From September 2002 to August 2004, Ms. Barbari served as Chief Financial Officer and Senior Vice President of Finance and Administration of InterMune, Inc., a biopharmaceutical company. From January 1998 to June 2002, she served at Gilead Sciences, Inc., a biopharmaceutical company, and held several positions of increasing responsibility including most recently as its Vice President and Chief Financial Officer. From 1996 to 1998, Ms. Barbari served as Vice President of Strategic Planning at Foote, Cone & Belding Healthcare in San Francisco, an international advertising and marketing firm. From 1972 to 1995, she was employed by Syntex Corporation where she held various management positions in corporate finance, financial planning, marketing and commercial planning.

Russell Harrison: Mr. Harrison has extensive experience in global markets, having spent much of his career working internationally. Mr. Harrison is the founding principal of The Leadership Group, LLC, a firm specializing in strategic change and executive coaching for U.S. and international companies, a position he has held since January 2012. From 2006 to 2012, he was employed by CoolSystems, Inc. d/b/a Game Ready, Inc. and was appointed as its President and Chief Executive Officer in 2007. Mr. Harrison has also served in the role of Chief Executive Officer for a number of publicly traded and private technology businesses in both the information technology and medical device technology sectors. From 1995 to 1997, he served as Chief Information Officer at SITA Telecommunications Holdings in Paris, where he led a team responsible for technology spanning more than 200 countries and territories. From 1991 to 1993, Mr. Harrison served as the first Chief Information Officer for McKesson Corporation, responsible for all computer technology-related activities. He also served as a Captain in the United States Marine Corps.

Jay Birnbaum: Dr. Birnbaum has served on our Board of Directors for 7 years, and has gained a deep understanding of the workings and direction of our Company. He has successfully guided us through leadership and strategy transitions evidencing his commitment to us and his willingness to adapt to ensure its continued success. He has extensive experience in pharmacology, having served as a practicing pharmacologist and consultant for over a decade. Dr. Birnbaum is a pharmacologist and since 1999, has been a consultant to pharmaceutical companies in his area of expertise. He previously served as Vice President of Global Project Management at Novartis/Sandoz Pharmaceuticals Corporation, where he had responsibility for strategic planning and development of the company's dermatology portfolio. Dr. Birnbaum is also a co-founder and former Chief Medical Officer of Kythera Biopharmaceuticals, and has served on the board of directors of Excaliard Pharmaceuticals (a company recently acquired by Pfizer) and on the scientific advisory boards of several companies.

Jim Schutz: Mr. Schutz was appointed our President and Chief Executive Officer on February 4, 2013. Mr. Schutz has been working for us for 13 years in various positions, and has gained a deep understanding of the workings and direction of our Company. Through his experience within the Corporation, Mr. Schutz has gained the knowledge, expertise, and ideas, to take Oculus to higher levels as its President and Chief Executive Officer. Prior to this appointment, he most recently held the position of our Chief Operating Officer and General Counsel, and has served in various other capacities as an executive officer of our Company since August 2003. From August 2001 to August 2003, Mr. Schutz served as General Counsel at Jomed, Inc. (formerly EndoSonic Corp.), an international medical device company where he orchestrated the sale of Jomed to Abbott Laboratories and Volcano Therapeutics (now part of Royal Phillips). From 1999 to July 2001, Mr. Schutz served as in-house counsel at Urban Media Communications Corporation, an internet/telecom company based in Palo Alto, California.

Jerry McLaughlin: Mr. McLaughlin possesses significant sales and marketing experience, having worked with several companies in the scientific industry. Mr. McLaughlin served as Interim Chief Executive Officer of Applied BioCode, Inc. from November 2011 to April 2013. In April 2011, he also founded and currently serves as Chairman and Chief Executive Officer, of DataStream Medical Imaging Systems, Inc., a start-up to develop diagnostic imaging software applications that work in conjunction with existing digital radiology platforms. He previously served as President of DataFlow Information Systems, from July 2007 to December 2011, and President and Chief Executive Officer of CompuMed, Inc. from May 2002 to June 2007. Mr. McLaughlin also serves on the board of directors of DataStream Medical Imaging Systems, Inc.

Director Independence

We determine independence using the definitions set forth in the NASDAQ Listing Rules and the rules under the Securities Exchange Act of 1934. As of March 31, 2014, we have determined that the following directors are independent:

- Sharon Barbari
- Russell Harrison
- Jerry McLaughlin; and
- Jay Birnbaum.

It is our policy that all employees, officers and directors must avoid any activity that is, or has the appearance of, conflicting with the interests of our Company. This policy is included in our Code of Business Conduct, and our Board formally adopted a Related Party Transaction Policy and Procedures in July 2007 for the approval of interested transactions with persons who are Board members or nominees, executive officers, holders of 5% of our common stock, or family members of any of the foregoing. The Related Party Transaction Policy and Procedures are administered by our Audit Committee. We conduct a review of all related party transactions for potential conflict of interest situations on an ongoing basis and all such transactions relating to executive officers and directors must be approved by the Audit Committee.

Committees of the Board of Directors

Our Board of Directors has appointed an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The Board of Directors has determined that each director who serves on these committees is "independent," as that term is defined by the NASDAQ Listing Rules and rules of the SEC. The Board of Directors has adopted written charters for its Audit Committee, its Compensation Committee and its Nominating and Corporate Governance Committee. Copies of these charters are available on our website at <http://ir.oculusis.com/governance.cfm>.

Compensation Committee: The Compensation Committee consists of Mr. McLaughlin (Committee Chair) and Mr. Harrison. Its primary function is to assist the Board of Directors in meeting its responsibilities in regards to oversight and determination of executive compensation and to review and make recommendations with respect to major compensation plans, policies and programs of our Company. Other specific duties and responsibilities of the Compensation Committee are to review and approve goals and objectives relevant to the recommendations for approval by the independent members of the Board of Directors regarding compensation of our Chief Executive Officer and other executive officers, establish and approve compensation levels for our Chief Executive Officer and other executive officers, and to administer our stock plans and other equity-based compensation plans.

Audit Committee: The Audit Committee consists of Ms. Barbari (Committee Chair), Mr. Birnbaum and Mr. Harrison. Its primary function is to provide assistance to the Board of Directors in fulfilling its oversight responsibilities related to our financial statements, system of internal control over financial reporting, and auditing, accounting and financial reporting processes. Other specific duties and responsibilities of the Audit Committee are to appoint, compensate, evaluate and, when appropriate, replace our independent registered public accounting firm; review and pre-approve audit and permissible non-audit services; review the scope of the annual audit; monitor the independent registered public accounting firm's relationship with us; and meet with the independent registered public accounting firm and management to discuss and review our financial statements, internal control over financial reporting, and auditing, accounting and financial reporting processes.

Nominating and Corporate Governance Committee: The Nominating and Corporate Governance Committee consists of Mr. Harrison (Committee Chair) and Ms. Barbari. Its primary function is to identify qualified individuals to become members of the Board of Directors, determine the composition of the Board and its Committees, and to monitor a process to assess Board effectiveness. Other specific duties and responsibilities of the Nominating and Corporate Governance Committee are to recommend nominees to fill vacancies on the Board of Directors, review and make recommendations to the Board of Directors with respect to director candidates proposed by stockholders, and review, on an annual basis, the functioning and effectiveness of the Board and its Committees.

Director Compensation

The following table sets forth the amounts and the value of compensation paid to our directors for their service in fiscal year 2014.

Name of Director	Fees Paid in Cash (\$)	Option Awards (\$) ¹	Total (\$)
Jim Schutz	–	–	\$ 0 ²
Russell Harrison	–	\$ 150,516 ³	\$ 150,516
Sharon Barbari	–	\$ 173,070 ⁴	\$ 173,070
Jay Birnbaum	\$ 50,000 ⁵	\$ 203,865 ^{6, 7}	\$ 253,865
Jerry McLaughlin	\$ 50,000 ⁵	\$ 200,163 ^{6, 8}	\$ 250,163
Richard Conley**	\$ 49,500	\$ 20,988 ^{6, 9}	\$ 70,488
Gregory French*	–	\$ 61,774 ^{6, 10}	\$ 61,774
Hoji Alimi**	–	–	\$ 0 ¹¹

*Resigned from the Board effective February 21, 2014.

**Resigned from the Board effective March 26, 2014.

¹ Represents the aggregate grant date fair value of stock option awards granted during the fiscal year ended March 31, 2014 as computed in accordance with FASB ASC Topic 718, Compensation — Stock Compensation. The fair value of each stock option award is estimated for the fiscal year ended March 31, 2014, on the date of grant using the Black-Scholes option valuation model. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 14 to our audited consolidated financial statements for the year ended March 31, 2014. These amounts do not represent the actual amounts paid to or realized by the directors during the fiscal year ended March 31, 2014.

² As a Company employee, Mr. Schutz did not receive compensation for his service as a director during the fiscal year ended March 31, 2014.

³ Mr. Harrison was appointed as a director of our Company on February 26, 2014. Pursuant to our non-employee director compensation plan, a non-employee director who joins our Board is automatically granted an initial stock option upon first becoming a member of our Board. Accordingly, on February 26, 2014, we granted Mr. Harrison options to purchase 7,143 shares of our common stock with an exercise price of \$3.56 per share, with a fair value of \$18,376, with the first one-third of the shares vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter, and set to expire on February 26, 2024. We also granted Mr. Harrison options to purchase 46,888 shares on March 4, 2014 to satisfy the second part of his initial stock option grant at an exercise price of \$3.90 per share, with a fair value of \$132,140, with the first one-third of the shares vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter, and set to expire on March 4, 2024.

⁴ Ms. Barbari was appointed as a director of our Company on March 26, 2014. Pursuant to our non-employee director compensation plan, a non-employee director who joins our Board is automatically granted an initial stock option upon first becoming a member of our Board. Accordingly, on March 26, 2014, we granted Ms. Barbari options to purchase 50,000 shares of our common stock with an exercise price of \$4.79 per share, with a fair value of \$173,070, with the first one-third of the shares vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter, and set to expire on March 19, 2024.

⁵ Dr. Birnbaum and Mr. McLaughlin each earned \$50,000 for services performed as a member of the Special Transaction Committee in the fiscal year ended March 31, 2014, which was paid in fiscal year 2015.

⁶ Pursuant to our non-employee director compensation plan in effect for the fiscal year ended March 31, 2014, each non-employee director was automatically granted an annual option to purchase 2,143 shares of our common stock, provided that no annual grant shall be granted to a non-employee director in the same calendar year that such person received his or her initial grant. On October 1, 2013, we granted Dr. Birnbaum and Messrs. French, Conley, and McLaughlin options to purchase 2,143 shares of our common stock with an exercise price of \$2.71 per share, with a fair value of \$3,887, with the options vesting in equal monthly increments over a period of one year, and set to expire on October 1, 2023.

⁷ For the fiscal year ended March 31, 2014, Dr. Birnbaum earned \$30,000 for his services as a director. Of this aggregate amount of \$30,000, Dr. Birnbaum received \$25,000 as his annual retainer for serving on the Board and \$5,000 for his service as a non-chairperson on the Audit Committee. Dr. Birnbaum elected to receive stock options in lieu of cash. Therefore, pursuant to our non-employee director compensation plan, on September 6, 2013, we granted Dr. Birnbaum options to purchase 14,035 shares of our common stock with an exercise price of \$2.75 per share, with a fair value of \$26,484, with the options vested on the date of grant, and set to expire on September 6, 2023. These options were issued to cover the annual grant amounts earned in the second half of fiscal year 2013 and the first half of fiscal year 2014. For the second half of the annual retainer owed for service as a director in 2014, on December 12, 2013, we granted Dr. Birnbaum 6,150 options with an exercise price of \$3.55 per share, with a fair value of \$14,302, with the options vested on the date of grant, and set to expire on December 11, 2023. On September 19, 2013, we issued Dr. Birnbaum 8,027 options at an exercise price of \$2.97 per share, with a fair value of \$17,101, with the options vesting quarterly over a three-year schedule, commencing on the date of grant, and set to expire on September 19, 2023. On March 4, 2014, we also issued Dr. Birnbaum 50,419 options with an exercise price of \$3.90 per share, with a fair value of \$142,091, with the options vesting 1/36 per month over three years, commencing on the date of grant, and set to expire on March 4, 2024.

⁸ For the fiscal year ended March 31, 2014, Mr. McLaughlin earned \$30,000 for his services as a director. Of this aggregate amount of \$30,000, Mr. McLaughlin received \$25,000 as his annual retainer for serving on the Board and \$5,000 for his service as a non-chairperson on the Audit Committee. Mr. McLaughlin elected to receive stock options in lieu of cash. Therefore, pursuant to our non-employee director compensation plan and to cover the annual grant amounts earned from March 1, 2014, the date Mr. McLaughlin was appointed, and the first half of fiscal year 2014, on September 6, 2013, we granted Mr. McLaughlin options to purchase 8,187 shares of our common stock with an exercise price of \$2.75 per share, with a fair value of \$15,449, with the options vested on the date of grant, and set to expire on September 6, 2023. For the second half of the annual retainer owed for service in 2014, on December 12, 2013, we granted Mr. McLaughlin 6,150 options with an exercise price of \$3.55 per share, with a fair value of \$14,302, with the options vested on the date of grant, and set to expire on December 11, 2023. On September 19, 2013, we issued Mr. McLaughlin 5,351 options with an exercise price of \$2.97 per share, with a fair value of \$11,400, with the options vesting quarterly over a three-year schedule, commencing on the date of grant, and set to expire on September 19, 2023. On March 4, 2014, we also issued Mr. McLaughlin 55,044 options with an exercise price of \$3.90 per share, with a fair value of \$155,125, with the options vesting 1/36 per month over three years, commencing on the date of grant, and set to expire March 4, 2024.

⁹ Mr. Conley resigned as a member of our Board of Directors, effective March 26, 2014. For the fiscal year ended March 31, 2014, Mr. Conley earned \$49,500 for his services as a director. Of this \$49,500, Mr. Conley received \$25,000 as his annual retainer for serving on the Board, \$10,000 for his service as Chairman of the Audit Committee, \$2,000 for serving as a member of the Nominating and Corporate Governance Committee, \$2,000 for serving on the Compensation Committee, and \$10,500 for unpaid compensation earned in fiscal year 2013. On September 19, 2013, we issued Mr. Conley 8,027 options with an exercise price of \$2.97 per share, with a fair value of \$17,101, with the options vesting quarterly over a three-year schedule, commencing on the date of grant, and set to expire on September 19, 2023. Notwithstanding the terms of any option agreements, according to the Separation Agreement dated August 2, 2013, with Ruthigen, Oculus options awarded to those leaving with Ruthigen shall expire on the earlier of (a) 90 days following such termination of service with Ruthigen, (b) 90 days following the date Oculus notifies the individual that Oculus and its Affiliates own less than 19.9% of the issued and outstanding common Stock, and (c) the option expiration date set forth in the applicable option agreement.

¹⁰ Mr. French resigned as a member of our Board of Directors, effective February 21, 2014. For the fiscal year ended March 31, 2014, Mr. French earned \$30,000 for his services as a director. Of this aggregate amount of \$30,000, Mr. French received \$25,000 as his annual retainer for serving on the Board and \$5,000 for his service as Chairman of the Compensation Committee. Mr. French elected to receive stock options in lieu of cash. Therefore, pursuant to our non-employee director compensation plan, on September 6, 2013, we granted Mr. French options to purchase 14,035 shares of our common stock with an exercise price of \$2.75 per share, with a fair value of \$26,484, with the options vested on the date of grant, and set to expire on September 6, 2023. These options were issued to cover the annual grant amounts earned in the second half of fiscal year 2013 and the first half of fiscal year 2014. For the second half of the annual retainer owed for service as a director in 2014, on December 12, 2013, we granted Mr. French 6,150 options with an exercise price of \$3.55 per share, with a fair value of \$14,302, with the options vested on the date of grant, and set to expire on December 11, 2023. On September 19, 2013, we issued Mr. French 8,027 options with an exercise price of \$2.97 per share, with a fair value of \$17,101, with the options vesting quarterly over a three-year schedule, commencing on the date of grant, and set to expire on September 19, 2023. Notwithstanding the terms of any option agreements, according to the Separation Agreement dated August 2, 2013 with Ruthigen, Oculus options awarded to those leaving with Ruthigen shall expire on the earlier of (a) 90 days following such termination of service with Ruthigen, (b) 90 days following the date Oculus notifies the individual that Oculus and its Affiliates own less than 19.9% of the issued and outstanding common Stock, and (c) the option expiration date set forth in the applicable option agreement.

¹¹ As a Company employee and employee of our formerly wholly-owned subsidiary, Ruthigen, Mr. Alimi did not receive compensation for his service as a director during the fiscal year ended March 31, 2014.

Narrative to Director Compensation Table

Non-Employee Director Compensation Plan in Effect until March 26, 2014

Pursuant to our Non-Employee Director Compensation Plan in effect until March 26, 2014, each non-employee director received an annual retainer of \$25,000. The Chairperson of the Board of Directors received \$15,000 annually and the Lead Member of the Board of Directors, if different from the Chairperson, received \$10,000 annually. The Chairperson of our Audit Committee received an annual retainer of \$10,000 and non-Chairperson members of the Audit Committee received an additional \$5,000 annually. The Chairpersons of the Compensation Committee and Nominating and Corporate Governance Committees of the Board received an annual retainer of \$5,000. Non-Chairperson members of the Compensation Committee and the Nominating and Corporate Governance Committee received an additional \$2,000 annually. The non-employee directors could elect to receive stock options in lieu of cash. We also reimbursed our non-employee directors for reasonable expenses in connection with attendance at Board of Director and Committee meetings.

In addition to cash compensation for services as a member of the Board, non-employee directors were also eligible to receive nondiscretionary, automatic grants of stock options under our Amended and Restated 2006 Stock Incentive Plan (the “2006 Plan”). Under the 2006 Plan, an outside, non-employee director who joined our Board of Directors was automatically granted an initial option to purchase 7,143 shares upon first becoming a member of our Board. The initial option vested and became exercisable over three years, with the first one-third of the shares vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. After each of our regularly scheduled Annual Meetings of Stockholders, each non-employee director was automatically granted an option to purchase 2,143 shares of our common stock, provided that no annual grant shall be granted to a non-employee director in the same calendar year that such person received his or her initial grant. These options vested in equal monthly increments over the period of one year.

Non-Employee Director Compensation Plan Effective March 26, 2014

Pursuant to our non-employee director compensation plan effective March 26, 2014, each non-employee director receives an annual retainer of \$32,500. The Lead Independent Director receives an annual retainer of \$15,000. The Chairman of our Audit Committee receives an annual retainer of \$10,000 and non-chairperson members of the Audit Committee receive an additional \$7,500 annually. The Chairpersons of the Compensation Committee and Nominating and Corporate Governance Committees of the Board receive an annual retainer of \$5,000. Non-chairperson members of the Compensation Committee and the Nominating and Corporate Governance Committee receive an additional \$2,000 annually. All Audit Committee retainers must be paid in cash. All other retainers may be paid in cash, options or as a stock grant, at the election of each director. We also reimburse our non-employee directors for reasonable expenses in connection with attendance at Board of Director and committee meetings.

In addition to cash compensation for services as a member of the Board, non-employee directors are also eligible to receive nondiscretionary, automatic grants of stock options under the Non-Employee Director Compensation Plan. An outside, non-employee director who joins our board is automatically granted an initial option to purchase 50,000 shares upon first becoming a member of our Board. The initial option vests and becomes exercisable over three years, with the first one-third of the shares vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. After each of our regularly scheduled Annual Meetings of Stockholders, each non-employee director is automatically granted an option to purchase 15,000 shares of our common stock, provided that no annual grant shall be granted to a non-employee director in the same calendar year that such person received his or her initial grant. These options vest in equal monthly increments over the period of one year.

In July 2014, the Board eliminated the provisions in the 2006 Plan that provided for automatic option grants to non-employee directors to eliminate redundancy in our non-employee director compensation. On October 31, 2014, the Board approved a new vesting schedule for any quarterly fees, except for Audit Committee fees, paid in options at the director’s election. These options will be granted on the first business day occurring 60 calendar days or more after the last day of each quarter. Such options shall vest immediately and the exercise price shall be the closing price of our common stock on the date such options are granted.

Executive Officers

The Company has the following executive officers:

Name	Age	Position with the Company
Jim Schutz	51	Chief Executive Officer
Robert Miller	72	Secretary, Chief Financial Officer, Chief Operating Officer
Bruce Thornton	50	Executive Vice President

The biographies of our executive officers and certain information regarding each officer’s experience, attributes, skills and/or qualifications that led to the conclusion that the officer should be serving as an officer of the Company are stated below.

Jim Schutz: For Mr. Schutz’s full biography, please refer to page 69 in the section entitled “Directors.”

Robert Miller: Mr. Miller has served as our Chief Financial Officer since June 2004 and Secretary and Chief Operating Officer since February 2013. He was a consultant to us from March 2003 to May 2004. Mr. Miller has served as a director of Scanis, Inc., a technology company, since 1998 and served as the acting Chief Financial Officer of Scanis from 1998 to June 2006. He was a Chief Financial Officer consultant to Evit Labs from June 2003 to December 2004, Wildlife International Network from October 2002 to December 2005, Endoscopic Technologies from November 2002 to March 2004, Biolog from January 2000 to December 2002 and Webware from August 2000 to August 2002. Prior to this, Mr. Miller was the Chief Financial Officer for GAF Corporation, Penwest Ltd. and Bugle Boy, and the Treasurer of Mead Corporation.

Bruce Thornton: Mr. Thornton has been working for our Company for a decade. Since June 2005, he served as Executive Vice President of International Operations and Sales. He has an extensive knowledge of our operations, the market for our products and our vision and goals for the future. Mr. Thornton served as our General Manager for U.S. operations from March 2004 to July 2005. He served as Vice President of Operations for Jomed (formerly EndoSonic Corp.) from January 1999 to September 2003, and as Vice President of Manufacturing for Volcano Therapeutics, an international medical device company, following its acquisition of Jomed, until March 2004.

Executive Compensation

This prospectus contains information about the compensation paid to our Named Executive Officers, as defined by Item 402(m)(2) of Regulation S-K, during our fiscal year ended March 31, 2014, or fiscal year 2014. For fiscal year 2014, in accordance with the rules and regulations of the Securities and Exchange Commission for smaller reporting companies, we determined that the following officers were our Named Executive Officers:

- Jim Schutz, Chief Executive Officer,
- Bob Miller, Chief Financial Officer,
- Bruce Thornton, Executive Vice President of International Sales, and
- Hoji Alimi, Chief Executive Officer of our formerly wholly-owned subsidiary, Ruthigen.

The following table sets forth, for the fiscal years ended March 31, 2014 and 2013, all compensation paid or earned by (i) all individuals serving as our Principal Executive Officer during our fiscal years ended March 31, 2014 and 2013; and (ii) our two most highly compensated executive officers, other than our Principal Executive Officer, who were serving as executive officers at the end of our fiscal years ended March 31, 2014 and 2013.

Summary Compensation Table

Name and Principal Position	Fiscal Year Ended	Salary (\$)		Bonus (\$)	Option Awards (\$) ^{1, 2}	All Other Compensation (\$)	Total (\$)
	Mar. 31						
Jim Schutz ³ <i>President, Chief Executive Officer and Director</i>	2014	\$ 263,462 ³	\$ 0	\$ 180,390	\$ 42,740 ⁴	\$ 486,592	
	2013	\$ 300,000	\$ 0	\$ 101,490	\$ 15,872 ⁵	\$ 417,362	
Robert Miller <i>Secretary and Chief Financial Officer & COO</i>	2014	\$ 250,000	\$ 0	\$ 423,663	\$ 66,758 ⁶	\$ 740,421	
	2013	\$ 250,000	\$ 0	\$ 101,490	\$ 12,331 ⁷	\$ 363,821	
Bruce Thornton <i>Executive Vice President of International Operations and Sales</i>	2014	\$ 250,000	\$ 0	\$ 344,302	\$ 47,558 ⁸	\$ 641,860	
	2013	\$ 250,000	\$ 50,000 ⁹	\$ 0	\$ 21,906 ¹⁰	\$ 321,906	
Hoji Alimi ¹¹ <i>Chief Executive Officer of Ruthigen</i>	2014	\$ 375,000 ¹²	\$ 158,000 ¹³	\$ 0	\$ 63,418 ¹⁴	\$ 596,418	
	2013	\$ 375,000	\$ 402,000 ¹⁵	\$ 0	\$ 95,005 ¹⁶	\$ 872,005	

- (1) Represents the aggregate grant date fair value of stock option awards granted in the covered fiscal year as computed in accordance with FASB ASC Topic 718, Compensation — Stock Compensation. The fair value of each stock option award is estimated for the covered fiscal year on the date of grant using the Black-Scholes option valuation model. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 14 to our audited consolidated financial statements for the year ended March 31, 2014, included in our Annual Report on Form 10-K filed with the SEC on June 30, 2014. The amounts in this column do not represent the actual amounts paid to or realized by our Named Executive Officers during the fiscal years ended March 31, 2014 and 2013.
- (2) These options were awarded pursuant to our stock incentive plans in effect for the applicable fiscal year, and further described below. See “Annual Incentive Plans.”
- (3) Mr. Schutz was appointed our President and Chief Executive Officer on February 4, 2013. His base salary amount for fiscal year 2013 remained the same as when he served as our Chief Operating Officer. On June 20, 2013, we entered into a new employment agreement with Mr. Schutz, and Mr. Schutz asked to reduce his salary by 16.67%, from \$300,000/annually to \$250,000/annually as of June 2013.
- (4) The 2014 perquisites and personal benefits for Mr. Schutz include (a) personal use of a Company automobile in the amount of \$1,880; (b) matching 401k contribution in the amount of \$10,539; and (c) payment of \$30,322 to cover premium for life, health, dental and vision insurance policy for the benefit of Mr. Schutz.
- (5) The 2013 perquisites and personal benefits for Mr. Schutz include (a) personal use of a Company automobile in the amount of \$2,855; (b) matching 401k contribution in the amount of \$12,000; and (c) payment of \$1,017 to cover premium for life insurance policy for the benefit of Mr. Schutz.
- (6) The 2014 perquisites and personal benefits for Mr. Miller include (a) personal use of a Company automobile in the amount of \$2,870; (b) matching 401k contribution in the amount of \$10,000; and (c) payment of \$53,888 to cover premium for life, health, dental and vision insurance policy for the benefit of Mr. Miller.
- (7) The 2013 perquisites and personal benefits for Mr. Miller include (a) personal use of a Company automobile in the amount of \$2,160; (b) matching 401k contribution in the amount of \$10,000; and (c) payment of \$171 to cover premium for life insurance policy for the benefit of Mr. Miller.
- (8) The 2014 perquisites and personal benefits for Mr. Thornton include (a) a car allowance in the amount of \$11,700; (b) matching 401k contribution in the amount of \$10,000; and (c) payment of \$25,858 to cover premiums for life insurance, health, dental and vision policies for the benefit of Mr. Thornton.
- (9) Mr. Thornton’s 2013 bonus compensation consisted of a one-time cash bonus of \$50,000.
- (10) The 2013 perquisites and personal benefits for Mr. Thornton include (a) a car allowance in the amount of \$11,700; (b) matching 401k contribution in the amount of \$10,035; and (c) payment of \$171 to cover premium for life insurance policy for the benefit of Mr. Thornton.
- (11) Mr. Alimi was Chairman of our Board of Directors. Mr. Alimi served as our President and Chief Executive Officer until February 4, 2013, at which time he became President and Chief Executive Officer of Ruthigen, Inc., our formerly wholly-owned subsidiary.
- (12) Mr. Alimi’s annual salary is \$375,000. \$315,865 represents the actual amount of base salary we paid Mr. Alimi from April 1, 2012 through February 4, 2013, for his services as our President and Chief Executive Officer, after which time Mr. Alimi was employed by Ruthigen and his salary was paid by Ruthigen. \$59,135 represents the salary paid from February 4, 2013 through March 31, 2013, by Ruthigen for Mr. Alimi’s services as its President and Chief Executive Officer.

- (13) On August 12, 2013, the Compensation Committee authorized a gross cash bonus in the amount of \$158,000 (or a net bonus of \$80,000), for Mr. Alimi to compensate him for his valuable services in connection with the IPO of Ruthigen.
- (14) The amount in the table represents the 2014 perquisites and personal benefits we paid on Mr. Alimi's behalf from April 1, 2013 through March 26, 2014, and include (a) personal use of a Company automobile in the amount of \$3,462; (b) matching 401k contribution in the amount of \$3,750; (c) payment of \$25,884 related to personal financial planning services; and (d) payment of \$30,322 to cover premium for life, health, dental and vision insurance policy for the benefit of Mr. Alimi.
- (15) Mr. Alimi's 2013 bonus compensation consisted of: (a) a one-time cash bonus of \$166,000 on June 10, 2012, pursuant to the FY 2012 Bonus Plan for meeting his stated Target Milestones; and (b) a pro-rated cash bonus of \$236,000 on March 18, 2013, pursuant to the FY 2013 Bonus Plan for meeting his stated Target Milestones and pursuant to our Compensation Committee's determination that progress on Ruthigen's business plan exceeded the timeline set by the Board. While our 2013 Bonus Plan covers bonuses earned through March 31, 2013, the Compensation Committee made the determination to compensate Mr. Alimi on a pro-rated basis under the 2013 Bonus Plan for his contributions to our Company toward his set target goals and milestones under the 2013 Bonus Plan and after such evaluation, determined that the 2013 Target Milestones as they pertained to Mr. Alimi were met.
- (16) The amount in the table represents the 2013 perquisites and personal benefits we paid on Mr. Alimi's behalf, and include (a) personal use of a Company automobile in the amount of \$3,844; (b) matching 401k contribution in the amount of \$3,750; (c) payment of \$3,832 to cover premium for life insurance policy for the benefit of Mr. Alimi; (d) payment of \$25,887 related to personal financial planning services; and (e) accrued vacation pay owed to Mr. Alimi due to resignation in the amount of \$57,692.

Employment Agreements and Potential Payments upon Termination

On June 20, 2013, we entered into new employment agreements with Jim Schutz, our President and Chief Executive Officer, and Robert Miller, our Chief Financial Officer, to update their previous employment agreements executed in 2004, to reflect their current roles and responsibilities and to update such agreements to reflect current tax and employment law. We also entered into an employment agreement, dated as of June 1, 2005, as amended on August 5, 2008, with Bruce Thornton, our Executive Vice President of International Operations and Sales.

In connection with the new employment agreement, Mr. Schutz volunteered to reduce his salary by 16.67%, from \$300,000 to \$250,000. Accordingly, the terms of the new employment agreement provides for an annual salary of \$250,000 for Mr. Schutz, or such other amount as the Board of Directors may set. The Compensation Committee of the Board of Directors also approved an equity grant to Mr. Schutz. As soon as practical following the execution of the new employment agreement with Mr. Schutz, we have agreed to issue to Mr. Schutz 300,000 common stock options. The exercise price of the stock option grant will be \$6.00 per share of stock. Mr. Miller's and Mr. Thornton's new employment agreements provide for annual salaries of \$250,000, which are their current salaries, or such other amount as the Board of Directors may set.

The employment agreements provide each executive with certain separation benefits in the event of termination without cause or resignation by Messrs. Schutz, Miller, or Thornton for good reason; as such terms are defined in the employment agreement. In the event Messrs. Schutz, Miller or Thornton is terminated without cause or resigns for good reason, the executive is entitled to:

- a lump severance payment equal to 18 times, in the case of Messrs. Schutz or Miller, 12 times in the case of Mr. Thornton, the average monthly base salary paid to the executive over the preceding 12 months (or for the term of the executive's employment if less than 12 months);
- automatic vesting of all unvested options and other equity awards;

- the extension of exercisability of all options and other equity awards to at least 12 months following the date the executive terminates employment or, if earlier, until the option expires;
- up to one year (the lesser of one year following the date of termination or until such executive becomes eligible for medical insurance coverage provided by another employer) reimbursement for health care premiums under COBRA; and
- a full gross up of any excise taxes payable by the executive under Section 4999 of the Internal Revenue Code because of the foregoing payments and acceleration (including the reimbursement of any additional federal, state and local taxes payable as a result of the gross up).

Each of Messrs. Schutz, Miller or Thornton may terminate his employment for any reason upon at least 30 days prior written notice. Receipt of the termination benefits described above is contingent on each executive executing a general release of claims against our Company, his resignation from any and all directorships and every other position held by him with our Company or any of our subsidiaries, and his return to our Company of all Company property received from or on account of our Company or any of our affiliates by such executive. In addition, the executive is not entitled to such benefits if he did not comply with the non-competition and invention assignment provisions of his employment agreement during the term of his employment or the confidentiality provisions of his employment agreement, whether during or after the term of his employment. Furthermore, we are under no obligation to pay the above-mentioned benefits if the executive does not comply with the non-solicitation provisions of his employment agreement, which prohibit a terminated executive from interfering with the business relations of our Company or any of our affiliates and from soliciting employees of our Company. These provisions apply during the term of employment and for two years following termination.

The table below was prepared as though each of Messrs. Schutz, Miller and Thornton had been terminated on March 31, 2014, the last day of our last completed fiscal year, without cause, or resigned for good reason, as that term is defined in the agreements with our Company. More detailed information about the payment of benefits, including duration, is contained in the discussion above. All such payments and benefits would be provided by our Company. The assumptions and valuations are noted in the footnotes.

Name	Salary Continuation (\$)	Health and Welfare Benefits Continuation (\$)¹	Excise and Tax Gross-up (\$)²	Total (\$)
Jim Schutz	375,000	30,322	189,488	594,810
Robert Miller	375,000	53,888	200,505	291,893
Bruce Thornton	250,000	25,858	128,964	404,822

(1) Amount assumes our cost of providing life, health, dental and vision insurance at the same rate for 12 months.

(2) In calculating these amounts we assumed a termination date on March 31, 2014, and the maximum Federal and California income and other payroll taxes, aggregating an effective tax rate of 46.75%.

Annual Incentive Plans

Pursuant to our annual incentive plan, each employee and executive officer of our Company, including Messrs. Schutz, Miller and Thornton, has the potential to earn an annual bonus based on the Compensation Committee's assessment of the individual's and our Company's contribution to target goals and milestones. Specific goals and milestones and a bonus potential range for each employee and executive officer are set forth in the Bonus Plan. The Compensation Committee will generally determine whether a bonus pool for executive officers and non-executive employees will be established within a specified time period after the end of each fiscal year. If a bonus pool is established, the Compensation Committee has discretion to set appropriate bonus amounts within an executive officer's bonus range, based on the Compensation Committee's assessment of corporate and individual achievements.

The Compensation Committee may decide that bonuses awarded to executive officers and non-executive employees under the bonus plan will be paid in cash, stock options or a combination of cash and options, depending on our year-end cash position, cash needs and projected cash receipts. The Compensation Committee will not declare any bonus pool or grant any cash awards that will endanger our ability to finance our operations and strategic objectives or place us in a negative cash flow position, in light of our anticipated cash needs.

2014 Bonus Awards for Named Executive Officers

On August 12, 2013, we awarded Mr. Alimi, our former Chief Executive Officer and the Chief Executive Officer of our formerly wholly-owned subsidiary, Ruthigen, a one-time gross cash bonus of \$158,000 for his efforts related to the filing of Ruthigen's registration statement.

2015 Bonus Plan

The 2015 Bonus Plan covers bonuses earned through March 31, 2015, although such bonuses will be paid after our fiscal year end. Pursuant to our 2015 Bonus Plan, each employee and executive officer, including our Named Executive Officers, has the potential to earn an annual bonus based on the Compensation Committee's assessment of the individual's and our Company's contribution to target goals and milestones. Specific goals and milestones and a bonus potential range for each employee and executive officer, including our Named Executive Officers, are set forth in the bonus plan. The Compensation Committee will generally determine whether a bonus pool for executive officers and non-executive employees will be established within a specified time period after the end of each fiscal year. If a bonus pool is established, the Compensation Committee has discretion to set appropriate bonus amounts within an executive officer's bonus range, based on the Compensation Committee's assessment of corporate and individual achievements.

At the discretion of the Compensation Committee, a bonus may be paid (i) in cash, (ii) by stock option grant (in lieu of cash bonus) to purchase that number of shares of the Company's common stock equal to the value of the bonus if paid in cash, using 1.5 stock options for every common stock model, on the date of the bonus award, or (iii) a combination of cash, stock options and/or restricted stock. The Compensation Committee will not declare any bonus pool or grant any cash awards that will endanger our ability to finance our operations and strategic objectives or place us in a negative cash flow position, in light of our anticipated cash needs.

On or about April 7, 2015, the Compensation Committee will determine the cash pool for bonus awards for executive officers, if any, and whether stock option grants will be made in lieu of all or some cash payments and, if so, in what ratio. On or about May 22, 2015, the Compensation Committee will determine whether Target Milestones have been met and make preliminary determinations of bonus awards. In determining the cash pool for awards of cash bonuses, the Compensation Committee will consider the Company's year-end cash position, cash needs and projected cash receipts. In determining whether option awards shall be made, the Compensation Committee will take into consideration the shares available for grant under the Company's Stock Incentive Plan, the contractual obligations of the Company to grant stock options and the future need to grant additional options to attract or retain talented executive officers, employees or consultants. Bonuses paid pursuant to the Bonus Plan will be paid on or about June 7, 2015.

2015 Bonus Plan Structure for Executive Officers:

Chief Executive Officer:

- If some or all of the Target Milestones are met, then the bonus may equal up to 48% of individual base salary.

Chief Financial Officer and Executive Vice President:

- If some or all of the Target Milestones are met, then the bonus may equal up to 48% of individual base salary.

Executive Vice President:

- If some or all of the Target Milestones are met, then the bonus may equal up to 48% of individual base salary.
- Since this person is in charge of the International group and does not have an impact on the revenue and expenses for the entire company, he will have additional target milestones relating to only his area of responsibility, which will be developed and approved by the CEO. The Target Milestones will represent 40% of his potential bonus and the target milestones specific to his area of responsibility will represent 60% of his potential bonus.

Equity Compensation Plan Information

Pursuant to Item 201(d) of Regulation S-K, “Securities Authorized for Issuance Under Equity Compensation Plans,” we are providing the following summary information about our equity compensation plans as of March 31, 2014. All shares and per share data have been adjusted to reflect a 1 for 7 reverse stock split, effective April 1, 2013.

Plan Category	Number of Securities to be issued upon exercise of outstanding options and rights	Weighted-average exercise price of outstanding options and rights	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,536,000	\$ 7.78	916,000
Equity compensation plans not approved by security holders	—	—	—
Total	2,536,000	\$ 7.78	916,000

Our Oculus Innovative Sciences, Inc. Amended and Restated 2006 Stock Incentive Plan and our Oculus Innovative Sciences, Inc. 2011 Stock Incentive Plan were adopted with the approval of our stockholders. The purpose of these plans is to promote the long-term success of our Company and the creation of stockholder value by (a) encouraging employees, outside directors and consultants to focus on critical long-range objectives, (b) encouraging the attraction and retention of employees, outside directors and consultants with exceptional qualifications and (c) linking employees, outside directors and consultants directly to stockholder interests through increased stock ownership. The plans seek to achieve this purpose by providing for awards in the form of restricted shares, stock units, options (which may constitute incentive stock options or nonstatutory stock options) or stock appreciation rights. The plans are administered by the Compensation Committee.

Outstanding Equity Awards

The following table shows grants of options outstanding on March 31, 2014, the last day of our last completed fiscal year, to each of the Named Executive Officers.

Effective as of the open of business on April 1, 2013, we effected a reverse stock split of our common stock. 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. All shares and per share data have been adjusted to reflect the reverse stock split.

Name	Grant Date	Initial Grant	Exercise Price	Amount Vested	Amount not Vested	Date Option Expires
Jim Schutz¹	07/10/2004	13,393	\$21.00	13,393	0	7/10/2014
	10/1/2005	893	\$71.12	893	0	10/1/2015
	6/15/2007	14,286	\$50.89	14,286	0	6/15/2017
	3/10/2009	26,357	\$7.63	26,357	0	3/10/2019
	2/10/2010	17,857	\$13.37	17,857	0	2/10/2020
	6/7/2010	8,929	\$13.79	8,929	0	6/7/2020
	3/31/2011	19,643	\$14.07	19,643	0	3/31/2021
	6/16/2011	7,143	\$11.20	7,143	0	6/16/2021
	3/7/2012	26,786	\$8.75	21,571	5,215	3/7/2022
	8/24/2012	21,429	\$6.51	11,309	10,120	8/24/2022
9/19/2013	100,000	\$6.00	16,666	83,334	9/19/2023	

Robert Miller²	7/10/2004	19,116	\$21.00	19,116*	0	7/10/2014
	10/1/2005	893	\$71.12	893	0	10/1/2015
	3/10/2009	26,357	\$7.63	26,357	0	3/10/2019
	6/7/2010	26,786	\$13.79	26,004	782	6/7/2020
	3/31/2011	1,786	\$14.07	1,786	0	3/31/2021
	6/16/2011	25,000	\$11.20	23,908	1,092	6/16/2021
	3/7/2012	8,929	\$8.75	6,667	2,262	3/7/2022
	8/24/2012	21,429	\$6.51	11,309	10,120	8/24/2022
	9/19/2013	26,756	\$2.97	4,459	22,297	9/19/2023
	3/4/2014	130,105	\$3.90	0	130,105	3/4/2024
Bruce Thornton³	7/10/2004	1,429	\$21.00	1,429	0	7/10/2014
	5/6/2005	2,857	\$30.80	2,857	0	5/6/2015
	10/1/2005	10,089	\$71.12	10,089	0	10/1/2015
	6/15/2007	3,571	\$50.89	3,571	0	6/15/2017
	12/9/2008	27,143	\$2.80	27,143**	0	12/9/2018
	6/7/2010	14,286	\$13.79	13,839	447	6/7/2020
	6/16/2011	26,786	\$11.20	25,545	1,241	6/16/2021
	3/7/2012	8,929 ²	\$8.75	6,667	2,262	3/7/2022
	9/19/2013	18,729 ³	\$2.97	3,121	15,608	9/19/2023
	3/4/2014	108,013 ⁴	\$3.90	0	108,013	3/4/2024
Hoji Alimi⁴	10/1/2005	1,786	\$71.12	1,786	0	10/1/2015
	3/10/2009	41,571	\$7.63	41,571	0	3/10/2019
	6/7/2010	21,428	\$13.79	20,758	670	6/7/2020

*8,571 shares have been exercised.

**20,168 shares were exercised.

- (1) Options with an expiration date of March 7, 2022 vested immediately as to 11,143 shares, and will vest 1/36th over a three-year vesting schedule commencing on the date of grant as to the remaining shares. Options with an expiration date of August 24, 2022, will vest 1/36th per month over a three-year vesting schedule commencing on the date of grant. Options with an expiration date of September 19, 2023, will vest quarterly over a three-year vesting schedule commencing on the date of grant. The options expiring on September 19, 2023, represent 1/3 of the equity grant awarded to Mr. Schutz pursuant to our entry into a new employment agreement with him effective June 20, 2013. Due to award limitations of our equity plans, the full grant of 300,000 options must be granted in tranches.
- (2) Options with an expiration date of March 7, 2022, vested immediately as to 2,143 shares, and will vest 1/36th per month over a three-year vesting schedule commencing on the date of grant as to the remaining shares. Options with an expiration date of August 24, 2022 and March 4, 2024, will vest 1/36th per month over a three-year vesting schedule commencing on the date of grant. Options with an expiration date of September 19, 2023, will vest quarterly over a three-year vesting schedule commencing on the date of grant.
- (3) Options with an expiration date of March 7, 2022, will vest 1/36th per month over a three-year vesting schedule commencing on the date of grant. Options with an expiration date of September 19, 2023, will vest quarterly over a three-year vesting schedule commencing on the date of grant. Options with an expiration date of March 4, 2024, will vest over a three-year vesting schedule 1/3 vesting one year after the date of grant and the remainder vesting monthly thereafter.

- (4) Mr. Alimi served as our President and Chief Executive Officer until February 4, 2013, at which time he became President and Chief Executive Officer of Ruthigen, Inc., our formerly wholly-owned subsidiary. Pursuant to our Separation Agreement with Ruthigen, dated August 2, 2013, as amended, all of the options to purchase our common stock shall expire on the earlier of (a) 90 days following such termination of services with Ruthigen, (b) 90 days following the date we notify the individual that we own less than 19.9% of the issued and outstanding common stock of Ruthigen, or (c) the option expiration date.

Retirement Benefits

On January 1, 2011, we established a qualified 401(k) employee savings and retirement plan for all regular full-time U.S. employees. Eligible employees may elect to defer a percentage of their eligible compensation in the 401(k) plan, subject to the statutorily prescribed annual limit. We may make matching contributions on behalf of all participants in the 401(k) plan in the amount equal to 4% of an employee's contributions. All contributions are immediately fully vested. We intend the 401(k) plan to qualify under Sections 401(k) and 501 of the Internal Revenue Code of 1986, as amended, so that contributions by employees or us to the 401(k) plan and income earned, if any, on plan contributions are not taxable to employees until withdrawn from the 401(k) plan (except as regards Roth contributions), and so that we will be able to deduct our contributions when made. The trustee of the 401(k) plan, at the direction of each participant, invests the assets of the 401(k) plan in any of a number of investment options. Company contributions to the 401(k) plan amounted to an aggregate of \$131,000 for the year ended March 31, 2014.

Code of Business Conduct and Senior Financial Officers' Code of Ethics

We have adopted a Code of Business Conduct that applies to all of our officers and employees, including our Chief Executive Officer, Chief Financial Officer, and other employees who perform financial or accounting functions. The Code of Business Conduct sets forth the basic principles that guide the business conduct of our employees. We have also adopted a Senior Financial Officers' Code of Ethics that specifically applies to our Chief Executive Officer, Chief Financial Officer, and other key management employees.

To date, there have been no waivers under our Code of Business Conduct or Senior Financial Officers' Code of Ethics. We intend to disclose future amendments to certain provisions of our Code of Business Conduct or Senior Officers' Code of Ethics or any waivers, if and when granted, of our Code of Business Conduct or Senior Officers' Code of Ethics on our website at <http://www.oculusis.com> within four business days following the date of such amendment or waiver.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Ruthigen

Ruthigen, Inc. was incorporated in the State of Nevada on January 18, 2013, as our formerly wholly-owned subsidiary. Ruthigen reincorporated from Nevada to Delaware on September 25, 2013. Ruthigen announced its initial public offering on March 21, 2014. As of March 26, 2014, the closing date of Ruthigen's initial public offering, we held 2,000,000, or 43% of the shares of Ruthigen common stock. On March 26, 2014, Ruthigen was deconsolidated.

During the year ended March 31, 2013, Ruthigen contracted with an immediate family member of Ruthigen's CEO to provide marketing services including, but not limited to, brand management of Ruthigen's website, name and logo development. The family member received \$6,000 for the services rendered.

Beginning in March 2013, Ruthigen employed an immediate family member of Ruthigen's CEO as an operations technician at an annualized salary of approximately \$36,000.

Arrangements or Understandings between our Executive Officers or Directors and Others

There are no arrangements or understandings between our executive officers or directors and any other person pursuant to which he or she was or is to be selected as a director or officer.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables set forth certain information as of January 8, 2015, as to shares of our common stock beneficially owned by: (1) each person who is known by us to own beneficially 5% or more of our common stock, (2) each of our Named Executive Officers, (3) each of our current directors and (4) all of our directors and executive officers as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days after January 8, 2015. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Stockholders Known by Us to Own 5% or More of Our Common Stock

Name and Address of Beneficial Owner	Amount and Nature of beneficial ownership	Percentage of Shares Beneficially Owned ¹
Sabby Healthcare Master Fund, Ltd. ² c/o Ogier Fiduciary Services (Cayman) Limited 89 Nexus Way, Camana Bay Grand Cayman KY1-9007 Cayman Islands	495,800 ³	5.7%

- (1) On January 8, 2015, we had 8,660,580 shares of common shares issued and outstanding.
- (2) Sabby Management, LLC is a Delaware limited liability company. Sabby Management, LLC serves as the investment manager of Sabby Healthcare Master Fund, Ltd., a Cayman Islands company. Sabby Management, LLC, in its capacity as investment advisor to Sabby Healthcare Master Fund, Ltd., may be deemed to be the beneficial owner of the shares held by Sabby Healthcare Master Fund, Ltd. Hal Mintz, in his capacity as manager of Sabby Management, LLC, may be deemed to be the indirect beneficial owner of the shares held by Sabby Healthcare Master Fund, Ltd.; however, he disclaims beneficial ownership over the securities.
- (3) We relied, in part, on Schedule 13G filed jointly with the SEC on January 7, 2015, by Sabby Healthcare Master Fund, Ltd., Sabby Management, LLC, and Hal Mintz. Sabby Healthcare Master Fund, Ltd. beneficially owns 337,100 shares of our common stock. Sabby Management, LLC and Hal Mintz do not directly own any shares of our common stock, but each indirectly beneficially owns 495,800 shares of our common stock. Sabby Management, LLC, a Delaware limited liability company, indirectly owns 495,800 shares of our common stock because it serves as the investment manager of Sabby Healthcare Master Fund, Ltd. and Sabby Volatility Warrant Master Fund, Ltd., each a Cayman Islands company. Mr. Mintz indirectly owns 495,800 shares of our common stock in his capacity as manager of Sabby Management, LLC.

Officers and Directors

Name and Address of Beneficial Owner ¹	Nature of Beneficial Ownership	Shares Owned	Shares-rights to acquire ²	Total Number	Percentage of Shares Beneficially Owned prior to this Offering ³	Percentage of Shares Beneficially Owned after this Offering
Jim Schutz ⁴	President, Chief Executive Officer, and Director	20,885	181,417	202,302	2.3%	
Robert Miller ⁵	Chief Financial Officer & COO	10,429	162,123	172,552	2.0%	
Bruce Thornton ⁶	Executive Vice President of International Operations and Sales	0	117,299	117,299	1.3%	
Sharon Barbari ⁷	Director	0	4,830	4,830	*	
Russell Harrison ⁸	Lead Independent Director	0	23,540	23,540	*	
Jerry McLaughlin ⁹	Director	0	52,918	52,918	*	
Jay Birnbaum ¹⁰	Director	0	99,871	99,871	1.1%	
Directors and Officers as a group (7 persons)		31,314	641,998	673,312	7.2%	

* indicates less than 1%

- (1) Unless otherwise stated, the address of each beneficial owner listed on the table is c/o Oculus Innovative Sciences, Inc., 1129 N. McDowell Blvd., Petaluma, California 94954.
- (2) Represents shares subject to outstanding stock options and warrants currently exercisable or exercisable, or currently vested or that will vest, within 60 days of January 8, 2015.
- (3) On January 8, 2015, we had 8,660,580 shares of common shares issued and outstanding.
- (4) Mr. Schutz is our President and Chief Executive Officer. He is also a member of our Board of Directors. Mr. Schutz beneficially owns 20,885 shares of common stock and 181,417 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of January 8, 2015.
- (5) Mr. Miller is our Chief Financial Officer. Mr. Miller beneficially owns 10,429 shares of common stock, which includes 8,572 shares held by The Miller 2005 Grandchildren's Trust, for which Mr. Miller and his wife, Margaret I. Miller, are the trustees. Mr. Miller and Ms. Miller share voting and dispositive control over the shares held by The Miller 2005 Grandchildren's Trust. Mr. Miller also beneficially owns 162,123 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of January 8, 2015.
- (6) Mr. Thornton is our Executive Vice President of International Operations and Sales. Mr. Thornton beneficially owns 0 shares of common stock and 117,299 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of January 8, 2015.
- (7) Ms. Barbari was appointed to our Board of Directors on March 26, 2014. She beneficially owns 0 shares of common stock and 4,830 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of January 8, 2015.
- (8) Mr. Harrison was appointed to our Board of Directors on February 26, 2014. He beneficially owns 0 shares of common stock and 23,540 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of January 8, 2015.

- (9) Mr. McLaughlin is a member of our Board of Directors and was appointed as Lead Independent Director on March 26, 2014. He beneficially owns 0 shares of common stock and 52,918 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of January 8, 2015.
- (10) Dr. Birnbaum is a member of our Board of Directors. He beneficially owns 0 shares of common stock and 99,871 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of January 8, 2015.

DESCRIPTION OF SECURITIES

The following description of our capital stock and provisions of our Restated Certificate of Incorporation and our Amended and Restated Bylaws, is only a summary. You should also refer to our Restated Certificate of Incorporation, and our Amended and Restated Bylaws, copies of which are incorporated by reference as exhibits to the registration statement of which this prospectus is a part.

Preferred Stock

Our Board of Directors is authorized to issue 714,286 shares of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications, limitations and restrictions thereof, including dividend rights and rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without any vote or action by our shareholders. Any preferred stock to be issued could rank prior to our common stock with respect to dividend rights and rights on liquidation. Our Board of Directors, without shareholder approval, may issue preferred stock with voting and conversion rights which could adversely affect the voting power of holders of our common stock and discourage, delay or prevent a change in control of the Company. As of the date of this prospectus, no shares of preferred stock are outstanding.

Common Stock

We are authorized to issue up to a total of 30,000,000 shares of common stock, \$0.0001 par value per share. Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. We have not provided for cumulative voting for the election of directors in our Restated Certificate of Incorporation. This means that the holders of a majority of the shares voted can elect all of the directors then standing for election. Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available at the times and in the amounts that our Board of Directors may determine from time to time.

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

Warrants

In connection with this offering, we will issue warrants to purchase up to ___ shares of our common stock. For every share of common stock issued, we will issue a warrant to purchase ___ shares of our common stock at an initial exercise price of \$___ per share. The warrants are exercisable commencing upon consummation of this offering and terminating on the fifth anniversary of the date of issuance.

The warrants will be issued in registered form under a warrant agreement between us and our warrant agent. The material provisions of the warrants are set forth herein but are only a summary and are qualified in their entirety by the provisions of the warrant agreement that has been filed as an exhibit to the registration statement of which this prospectus forms a part.

The warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the public warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price, by certified or official bank check payable to us, for the number of warrants being exercised. Under the terms of the warrant agreement, we have agreed to use our best efforts to maintain the effectiveness of the registration statement and current prospectus relating to common stock issuable upon exercise of the warrants until the expiration of the warrants. During any period we fail to have maintained an effective registration statement covering the shares underlying the warrants, the warrant holder may exercise the warrants on a cashless basis. The warrant holders do not have the rights or privileges of holders of common stock and any voting rights until they exercise their warrants and receive shares of common stock. After the issuance of shares of common stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

No fractional shares of common stock will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, we, at our sole discretion may, upon exercise, either round up to the nearest whole number of shares of common stock to be issued to the warrant holder or pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the price per share at which shares of common stock may be purchased at the time a warrant is exercised. If multiple warrants are exercised by the holder at the same time, we will aggregate the number of whole shares issuable upon exercise of all the warrants.

The exercise price and number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including in the event of a stock dividend, extraordinary dividend on or recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuances of common stock at a price below their respective exercise prices.

Representative's Warrants

We have agreed to grant to Maxim Group LLC, the representative of the underwriters, warrants to purchase a number of shares of common stock equal to 5.0% of the total number of shares of common stock sold in this offering at a price equal to 110% of the price per share of the common stock sold in this offering. The warrants will not be redeemable and will have substantially similar terms as those warrants sold to purchasers in the offering.

UNDERWRITING

We have entered into an underwriting agreement with Maxim Group LLC acting as the sole book-running manager and sole representative for the underwriters named below. Subject to the terms and conditions of the underwriting agreement, the underwriters named below have agreed to purchase, and we have agreed to sell to them, the number of shares of common stock and warrants to purchase common stock at the public offering price, less the underwriting discounts and commissions, as set forth on the cover page of this prospectus and as indicated below:

Underwriter	Number of Shares
Maxim Group LLC	_____
Dawson James Securities, Inc.	_____
Total	_____

The underwriting agreement provides that the obligations of the underwriters to pay for and accept delivery of the shares and warrants offered by this prospectus are subject to the approval of certain legal matters by their counsel and to other conditions. The underwriters are obligated to take and pay for all of the shares and warrants offered by this prospectus if any such shares and warrants are taken, other than those shares and warrants covered by the over-allotment option described below.

Over-Allotment Option

We have granted to the underwriters an option, exercisable no later than 45 calendar days after the date of the underwriting agreement to purchase up to ___ additional shares of common stock at a price, after the underwriting discount, of \$___ per share, and/or warrants to purchase up to 15% of the number of shares sold in this offering of common stock at a price, after the underwriting discount, of \$0.0092 per warrant from us to cover over-allotments. The underwriters may exercise this option only to cover over-allotments, if any, made in connection with this offering. To the extent the option is exercised and the conditions of the underwriting agreement are satisfied, we will be obligated to sell to the underwriters, and the underwriters will be obligated to purchase, these additional shares of common stock and/or warrants to purchase common stock.

Commissions

We have agreed to pay the underwriters (i) a cash fee equal to 8% of the aggregate gross proceeds raised in this offering and (ii) warrants to purchase that number of shares of our common stock equal to an aggregate of 5% of the shares of common stock sold in the offering (or ___ shares, assuming the over-allotment option is fully exercised). Such underwriters' warrants shall have an exercise price equal to \$___ per share, which is 110% of the public offering price, terminate five (5) years after the effective date of the registration statement of which this prospectus forms a part, and otherwise have the same terms as the warrants sold in this offering except that (1) they will not be subject to redemption by the Company and (2) they will provide for limited "piggyback" registration rights with respect to the underlying shares during the three year period commencing six months after the effective date of this offering in the event we fail to keep the registration statement, of which this prospectus forms a part, current. Such underwriters' warrants will be subject to FINRA Rule 5110(g) (1) in that, except as otherwise permitted by FINRA rules, for a period of 180 days following the effective date of the registration statement, of which this prospectus forms a part, the underwriters' warrants shall not be (A) sold, transferred, assigned, pledged, or hypothecated, or (B) 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.

The representative has advised us that the underwriters propose to offer the shares and warrants directly to the public at the public offering price set forth on the cover of this prospectus. In addition, the representative may offer some of the shares and warrants to other securities dealers at such price less a concession of up to \$___ per share. After the offering to the public, the offering price and other selling terms may be changed by the representative without changing the Company's proceeds from the underwriters' purchase of the shares and warrants.

The following table summarizes the public offering price per share and per warrant, underwriting commissions and proceeds before expenses to us assuming both no exercise and full exercise of the underwriters' option to purchase additional shares and warrants. The underwriting commissions are equal to the public offering price per share less the amount per share the underwriters pay us for the shares and warrants.

	<u>Per Share</u>	<u>Per Warrant</u>	<u>Total Without Over-Allotment</u>	<u>Total With Over-Allotment</u>
Public Offering price	\$	\$	\$	\$
Underwriting discounts and commissions (1)	\$.	\$	\$	\$
Proceeds, before expenses, to us	\$	\$	\$	\$

(1) The fees shown do not include the warrant to purchase shares of common stock issuable to the underwriters at closing.

We estimate that the total expenses of the offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and commissions, will be approximately \$___, all of which are payable by us.

Lock-Up Agreements

We and each of our officers, directors, and certain existing stockholders aggregating at least ___% of our outstanding shares have agreed, subject to certain exceptions, not to offer, issue, sell, contract to sell, encumber, grant any option for the sale of or otherwise dispose of any shares of our common stock or other securities convertible into or exercisable or exchangeable for shares of our common stock for a period of 6 months after the effective date of the registration statement of which this prospectus is a part without the prior written consent of Maxim Group LLC.

Maxim may in its sole discretion and at any time without notice release some or all of the shares subject to lock-up agreements prior to the expiration of the lock-up period. When determining whether or not to release shares from the lock-up agreements, the representative will consider, among other factors, the security holder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time.

Price Stabilization, Short Positions and Penalty Bids

In connection with this offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock. Specifically, the underwriters may over-allot in connection with this offering by selling more shares and warrants than are set forth on the cover page of this prospectus. This creates a short position in our common stock for its own account. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares common stock or warrants over-allotted by the underwriters is not greater than the number of shares of common stock or warrants that they may purchase in the over-allotment option. In a naked short position, the number of shares of common stock or warrants involved is greater than the number of shares common stock or warrants in the over-allotment option. To close out a short position, the underwriters may elect to exercise all or part of the over-allotment option. The underwriters may also elect to stabilize the price of our common stock and/or warrants, or reduce any short position by bidding for, and purchasing, common stock and/or warrants in the open market.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter or dealer repays selling concessions allowed to it for distributing a security in this offering because the underwriter repurchases that security in stabilizing or short covering transactions.

Finally, the underwriters may bid for, and purchase, shares of our common stock in market making transactions, including “passive” market making transactions as described below.

These activities may stabilize or maintain the market price of our common stock at a price that is higher than the price that might otherwise exist in the absence of these activities. The underwriters are not required to engage in these activities, and may discontinue any of these activities at any time without notice. These transactions may be effected on NASDAQ, in the over-the-counter market, or otherwise.

In connection with this offering, the underwriters and selling group members, if any, or their affiliates may engage in passive market making transactions in our common stock immediately prior to the commencement of sales in this offering, in accordance with Rule 103 of Regulation M under the Exchange Act. Rule 103 generally provides that:

- a passive market maker may not effect transactions or display bids for our common stock in excess of the highest independent bid price by persons who are not passive market makers;
- net purchases by a passive market maker on each day are generally limited to 30% of the passive market maker’s average daily trading volume in our common stock during a specified two-month prior period or 200 shares, whichever is greater, and must be discontinued when that limit is reached; and
- passive market making bids must be identified as such.

Other Terms

We have agreed to bear the cost of all actual expenses related to the offering, including, without limitation, all filing fees and communication expenses relating to the registration of the shares to be sold in the offering. We provided Maxim Group LLC an advance of \$25,000 for its anticipated out-of-pocket accountable expenses and will provide an additional advance of \$25,000 upon written request by Maxim Group LLC which shall also be applied to its anticipated out-of-pocket expenses, for aggregate advances of \$50,000. Maxim Group LLC will reimburse us for any remaining portion of the advance to the extent such monies were not used for out-of-pocket accountable expenses actually incurred if this offering is not completed. If this offering is completed, we will reimburse Maxim Group LLC for certain out-of-pocket actual expenses related to the offering, including legal fees and expenses incurred to clear the offering with FINRA, including background searches of our officers and directors and roadshow expenses, up to a maximum aggregate reimbursable amount of \$125,000 (of which \$100,000 can be allocated to legal expenses and \$25,000 for non-legal expenses). In addition, we will be responsible for the costs and expenses of “tombstone” advertisements not to exceed \$5,000 and commemorative lucite memorabilia valued up to \$1,500.

We granted Maxim Group LLC a right of first refusal for future public and private financings (excluding (i) at-the-market offerings, (ii) funding from a strategic investor, or (iii) equity issued to purchase business assets or to acquire a strategic company) for a period of 12 months from the effective date of this prospectus.

Ruthigen Transaction

On January 8, 2015, we agreed to sell our shares in Ruthigen to two investors for an aggregate purchase price of \$5.5 million upon the occurrence of a trigger event during a standstill period of 60 calendar days. Such trigger event is defined in the securities purchase agreement as the closing of any merger or consolidation of Ruthigen with or into another company, corporation or similar entity or the merger or consolidation of another company, corporation, or assets of a corporation or company into Ruthigen, or in the case of any sale or conveyance to another corporation or the assets or other property of Ruthigen, for which Ruthigen enters into a definitive agreement. We agreed to pay Dawson James Securities, Inc. a cash fee in the amount of \$200,000 upon the closing of the actual sale of the Ruthigen shares. These fees will not be deemed an Item of Value under FINRA Rule 5110(c) and will not be included in the aggregate underwriting compensation for this offering.

Indemnification

We have agreed to indemnify the underwriters against liabilities relating to the offering arising under the Securities Act and the Exchange Act, liabilities arising from breaches of some or all of the representations and warranties contained in the underwriting agreement, and to contribute to payments that the underwriters may be required to make for these liabilities.

Electronic Distribution

A prospectus in electronic format may be made available on a website maintained by the representatives of the underwriters and may also be made available on a website maintained by other underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives of the underwriters to underwriters that may make Internet distributions on the same basis as other allocations. In connection with the offering, the underwriters or syndicate members may distribute prospectuses electronically. No forms of electronic prospectus other than prospectuses that are printable as Adobe® PDF will be used in connection with this offering.

The underwriters have informed us that they do not expect to confirm sales of shares and warrants offered by this prospectus to accounts over which they exercise discretionary authority.

Other than the prospectus in electronic format, the information on any underwriter's website and any information contained in any other website maintained by an underwriter is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter in its capacity as underwriter and should not be relied upon by investors.

LEGAL MATTERS

Trombly Business Law, PC will pass upon the validity of the securities offered hereby. Certain legal matters in connection with this offering will be passed upon for the underwriters by Ellenoff Grossman & Schole LLP.

EXPERTS

The consolidated financial statements as of and for the years ended March 31, 2014 and 2013 included in this prospectus and in the Registration Statement have been so included in reliance on the report of Marcum LLP, an independent registered public accounting firm, appearing elsewhere herein and in the Registration Statement, given on the authority of said firm as experts in auditing and accounting.

INTERESTS OF NAMED EXPERTS AND COUNSEL

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the common stock was employed for such purpose on a contingency basis, or had, or is to receive, in connection with this offering, a substantial interest, direct or indirect, in us or any of our parents or subsidiaries, nor was any such person connected with us or any of our parents or subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission, Washington, D.C., 20549, under the Securities Act of 1933, a registration statement on Form S-1 relating to the securities offered hereby. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. For further information with respect to our company and the securities we are offering by this prospectus you should refer to the registration statement, including the exhibits and schedules thereto. You may inspect a copy of the registration statement without charge at the Public Reference Section of the Securities and Exchange Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains an Internet site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The Securities and Exchange Commission's World Wide Web address is <http://www.sec.gov>.

We file periodic reports, proxy statements and other information with the Securities and Exchange Commission in accordance with requirements of the Exchange Act. These periodic reports, proxy statements and other information are available for inspection and copying at the regional offices, public reference facilities and Internet site of the Securities and Exchange Commission referred to above. In addition, you may request a copy of any of our periodic reports filed with the Securities and Exchange Commission at no cost, by writing or telephoning us at the following address:

Investor Relations
Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954
(707) 283-0550

Investors and others should note that we announce material financial information using our company website: www.oculus.com, our investor relations website: ir.oculus.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://oculus.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 prospectus.

You should rely only on the information contained in or incorporated by reference or provided in this prospectus or any supplement to this prospectus. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers, or persons controlling our Company pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Oculus Innovative Sciences, Inc.

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FINANCIAL STATEMENTS

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	September 30,	March 31,
	2014	2014
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,549	\$ 5,480
Accounts receivable, net	2,149	1,790
Due from affiliate	–	537
Inventories, net	1,235	1,088
Prepaid expenses and other current assets	358	647
Total current assets	7,291	9,542
Property and equipment, net	867	971
Long-term investment, at cost	10,150	10,150
Other assets	86	128
Total assets	\$ 18,394	\$ 20,791
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,051	\$ 736
Accrued expenses and other current liabilities	556	889
Deferred revenue	1,990	2,629
Current portion of long-term debt	8	143
Derivative liabilities (See Note 5)	856	3,175
Total current liabilities	4,461	7,572
Deferred revenue	563	1,152
Long-term debt, less current portion	–	4
Total liabilities	5,024	8,728
Commitments and Contingencies		
Stockholders' Equity		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized, none issued and outstanding at September 30, 2014 (unaudited) and March 31, 2014, respectively	–	–
Common stock, \$0.0001 par value; 14,285,715 shares authorized, 8,585,302 and 8,160,145 shares issued and outstanding at September 30, 2014 (unaudited) and March 31, 2014, respectively (Note 12)	1	1
Additional paid-in capital	151,338	149, 141
Accumulated other comprehensive loss	(3,171)	(3,069)
Accumulated deficit	(134,798)	(134,010)
Total stockholders' equity	13,370	12,063
Total liabilities and stockholders' equity	\$ 18,394	\$ 20,791

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 September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Product	\$ 2,695	\$ 3,456	\$ 5,491	\$ 6,177
Product licensing fees	378	397	752	830
Service	191	236	413	454
Total revenues	<u>3,264</u>	<u>4,089</u>	<u>6,656</u>	<u>7,461</u>
Cost of revenues				
Product	1,368	1,203	2,690	2,224
Service	164	181	328	332
Total cost of revenues	<u>1,532</u>	<u>1,384</u>	<u>3,018</u>	<u>2,556</u>
Gross profit	<u>1,732</u>	<u>2,705</u>	<u>3,638</u>	<u>4,905</u>
Operating expenses				
Research and development	353	883	792	1,390
Selling, general and administrative	2,923	3,093	5,904	5,912
Total operating expenses	<u>3,276</u>	<u>3,976</u>	<u>6,696</u>	<u>7,302</u>
Loss from operations	(1,544)	(1,271)	(3,058)	(2,397)
Interest expense	(1)	(188)	(4)	(438)
Interest income	-	-	-	1
Gain (loss) due to change in fair value of common stock	-	99	-	(210)
Gain due to change in fair value of derivative liabilities (See Note 5)	841	-	2,319	-
Other expense, net	(14)	(39)	(45)	(67)
Net loss	<u>\$ (718)</u>	<u>\$ (1,399)</u>	<u>\$ (788)</u>	<u>\$ (3,111)</u>
Net loss per common share: basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.21)</u>	<u>\$ (0.09)</u>	<u>\$ (0.47)</u>
Weighted-average number of shares used in per common share calculations:				
Basic and diluted	<u>8,503</u>	<u>6,631</u>	<u>8,425</u>	<u>6,625</u>
Other comprehensive loss				
Net loss	\$ (718)	\$ (1,399)	\$ (788)	\$ (3,111)
Foreign currency translation adjustments	(110)	13	(102)	(86)
Comprehensive loss	<u>\$ (828)</u>	<u>\$ (1,386)</u>	<u>\$ (890)</u>	<u>\$ (3,197)</u>

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)

	Six Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Net loss	\$ (788)	\$ (3,111)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	101	136
Stock-based compensation	907	666
Change in fair value of derivative liabilities (See Note 5)	(2,319)	–
Loss due to change in fair value of common stock	–	210
Non-cash interest expense	–	294
Foreign currency transaction losses (gains)	15	(5)
Gain on disposal of property and equipment	(13)	–
Changes in operating assets and liabilities:		
Accounts receivable, net	(426)	(738)
Due from affiliate	537	–
Inventories, net	(188)	215
Prepaid expenses and other current assets	287	369
Accounts payable	331	225
Accrued expenses and other liabilities	(158)	76
Deferred revenue	(1,295)	(791)
Net cash used in operating activities	<u>(3,009)</u>	<u>(2,454)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(16)	(338)
Long-term deposits	39	26
Net cash provided by (used in) investing activities	<u>23</u>	<u>(312)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	1,213	–
Deferred offering costs	–	(780)
Principal payments on long-term debt	(139)	(1,138)
Net cash provided by (used in) financing activities	<u>1,074</u>	<u>(1,918)</u>
Effect of exchange rate on cash and cash equivalents	<u>(19)</u>	<u>(26)</u>
Net decrease in cash and cash equivalents	(1,931)	(4,710)
Cash and cash equivalents, beginning of year	5,480	7,900
Cash and cash equivalents, end of period	<u>\$ 3,549</u>	<u>\$ 3,190</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 4</u>	<u>\$ 143</u>

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 Basis of Presentation

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 specialty device and pharmaceutical company that develops, produces, and markets solutions for the treatment of dermatological conditions and advanced tissue care in the United States and internationally. The Company is pioneering innovative products for the dermatology, surgical, advanced tissue and skin care, and animal healthcare markets. The Company’s key proprietary technology platform is 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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of September 30, 2014 and for the three and six 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 10 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 September 30, 2014, the condensed consolidated statements of comprehensive loss for the three and six months ended September 30, 2014 and 2013, and the condensed consolidated statements of cash flows for the six months ended September 30, 2014 and 2013 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 six months ended September 30, 2014 are not necessarily indicative of results to be expected for the year ending March 31, 2015 or for any future interim period. The condensed consolidated balance sheet at March 31, 2014 has been derived from the 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, 2014, and notes thereto included in the Company’s annual report on Form 10-K, which was filed with the SEC on June 30, 2014.

Note 2. Liquidity and Going Concern

The Company reported a loss of \$788,000 for the six months ended September 30, 2014. At September 30, 2014 and March 31, 2014, the Company’s accumulated deficit amounted to \$134,798,000 and \$134,010,000, respectively. The Company had working capital of \$2,830,000 and \$1,970,000 as of September 30, 2014 and March 31, 2014, respectively. The Company expects to continue incurring losses for the foreseeable future and must raise additional capital to pursue its product development initiatives, penetrate markets for the sale of its products and continue as a going concern. The Company cannot provide any assurance that it will raise additional capital. 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 new financing will be available on commercially acceptable terms, if at all. If the economic climate in the U.S. deteriorates, the Company’s ability to raise additional capital could be negatively impacted. 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 in amounts sufficient to sustain operations and meet its obligations. These measures could cause significant delays in the Company’s efforts to commercialize its products, which is critical to the realization of its business plan and the future operations of the Company. These matters raise substantial doubt about the Company’s ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

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 tax assets, valuation of equity and derivative instruments, debt discounts, valuation of investments, and the estimated amortization periods of upfront product licensing fees received from customers. Periodically, the Company evaluates and adjusts estimates accordingly. The allowances for uncollectible accounts receivable balances amounted to \$19,000 and \$8,000, which are included in Accounts Receivable, net in the accompanying September 30, 2014 and March 31, 2014 condensed consolidated balance sheets, respectively.

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 loss per share for the three and six months ended September 30, 2014 and 2013 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	September 30,	
	2014	2013
Options to purchase common stock	2,754,000	1,229,000
Warrants to purchase common stock	2,034,000	1,318,000
	<u>4,788,000</u>	<u>2,547,000</u>

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, other than certain warrants that contained reset provisions and certain warrants that required net-cash settlement that the Company classified as derivative liabilities as more fully described in Note 5.

Revenue Recognition and Accounts Receivable

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

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

The Company records revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectability of the sale is reasonably assured.

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

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

The selling prices of all goods are fixed, and agreed to with the customer, prior to shipment. Selling prices are generally based on established list prices. The Company does not customarily permit our customers to return any products for monetary refunds or credit against completed or future sales. The Company may, from time to time, replace expired goods on a discretionary basis. The Company records these types of adjustments, when made, as a reduction of revenue. Sales adjustments were insignificant during the quarters ended September 30, 2014 and 2013 and the years ended March 31, 2014 and 2013.

The Company evaluates the creditworthiness of new customers and monitor the creditworthiness of our existing customers to determine whether events or changes in their financial circumstances would raise doubt as to the collectability of a sale at the time in which a sale is made. Payment terms on sales made in the United States are generally 30 days and internationally, generally range from 30 days to 90 days.

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

Additionally, the Company defers recognition of revenue related to distributors' that are unable to provide inventory or product sell-through reports on a timely basis, until payment is received. The Company believes the receipt of payment is the best indication of product sell-through.

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

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

Product license revenue is generated through agreements with strategic partners for the commercialization of Microcyn® products. The terms of the agreements sometimes include non-refundable upfront fees. The Company analyzes multiple element arrangements to determine whether the elements can be separated. Analysis is performed at the inception of the arrangement and as each product is delivered. If a product or service is not separable, the combined deliverables are accounted for as a single unit of accounting and recognized over the performance obligation period.

Assuming the elements meet the criteria for separation and all other revenue requirements for recognition, the revenue recognition methodology prescribed for each unit of accounting is summarized below:

When appropriate, the Company defers recognition of non-refundable upfront fees. If the Company has continuing performance obligations then such up-front fees are deferred and recognized over the period of continuing involvement.

The Company recognizes royalty revenues from licensed products upon the sale of the related products.

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

Inventory

Inventories are stated at the lower of cost, cost being determined on a standard cost basis (which approximates actual cost on a first-in, first-out basis), or market. Due to changing market conditions, estimated future requirements, age of the inventories on hand and production of new products, the Company regularly reviews inventory quantities on hand and record a provision to write down excess and obsolete inventory to its estimated net realizable value.

Income Taxes

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

Fair Value of Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The carrying amounts of long-term investments include the investment held in Ruthigen, Inc. (“Ruthigen”) and are carried at cost, which management believes approximates fair value (see Note 9). 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; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

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:

	Fair Value Measurements at September 30, 2014 Using			
	Total September 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Liabilities:				
Derivative liabilities – warrants	\$ 856,000	–	–	\$ 856,000

	Fair Value Measurements at March 31, 2014 Using			
	Total March 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Liabilities:				
Derivative liabilities – warrants	\$ 3,175,000	–	–	\$ 3,175,000

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company’s accounting and finance department, who report 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.

As of September 30, 2014, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

Impairment of Long-Lived Assets

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

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

When circumstances indicate that an impairment may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. In estimating these future cash flows, assets and liabilities are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other such groups. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, will be recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable. During the six months ended September 30, 2014, the Company had noted no indicators of impairment.

Long-Term Investments

The Company's long-term investments consist of the 2,000,000 shares it owns in Ruthigen at September 30, 2014 and March 31, 2014. The Company has accounted for the 2,000,000 shares of common stock it owns in Ruthigen at cost in accordance with ASC 325-20 as a result of (a) the restrictions on voting the shares held as disclosed above, (b) the Company having no representation on the Ruthigen Board of Directors, (c) the Company's inability to set policy at Ruthigen (d) the Company having no further commitments for funding the operations of Ruthigen and (e) the restrictions on transferability of the shares which extend beyond a one-year period. The Company reviewed available public information disclosed by Ruthigen to determine if operational issues could be identified that would result in a decline in the value of the Ruthigen investment. The Company did not identify any operational issues that would negatively impact the value of the investment. The Company has not recorded any impairment losses during the three or six months ended September 30, 2014 as it relates to its investments held. See Note 12 for recent developments as it relates to the Company's investments held in Ruthigen.

Subsequent Events

Management has evaluated subsequent events or transactions occurring through the date the condensed consolidated financial statements were issued (Note 12).

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") No. 2014-12, *Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's condensed consolidated financial position and results of operations.

The FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is currently evaluating the impact of the adoption of this standard on its condensed consolidated financial position and results of operations.

The FASB has issued ASU No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The guidance, which is effective for annual reporting periods ending after December 15, 2016, extends the responsibility for performing the going-concern assessment to management and contains guidance on how to perform a going-concern assessment and when going-concern disclosures would be required under U.S. GAAP. The Company has elected to early adopt the provisions of ASU 2014-15 in connection with the issuance of these unaudited condensed consolidated financial statements. Management's evaluations of events and conditions that raise substantial doubt regarding the Company's ability to continue as a going concern have been disclosed in Note 2.

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 4. Condensed Consolidated Balance Sheets

Inventories, net

Inventories, net consist of the following:

	September 30, 2014	March 31, 2014
Raw materials	\$ 796,000	\$ 743,000
Finished goods	439,000	345,000
	<u>\$ 1,235,000</u>	<u>\$ 1,088,000</u>

Note 5. Derivative Liabilities

The Company deems financial instruments, which require net-cash settlement, as either an asset or a liability. The common stock purchase warrants issued in conjunction with the Company's December 9, 2013 and February 26, 2014 registered direct offerings contain net-cash settlement features, which give the warrant holder the right to a net-cash settlement in the event certain transactions occur. Pursuant to the terms of the warrants, if such a transaction occurs, the warrant holder will be entitled to a net-cash settlement value calculated using the Black-Scholes valuation model using an expected volatility equal to the greater of 100% and the 30 day volatility obtained from the Bloomberg Historical Volatility ("HVT") function on Bloomberg, an expected term equal to the remaining term of the warrants, and applicable risk-free interest rate corresponding to the U.S. Treasury.

The derivative liabilities relating to the warrants with net-cash settlement provisions were valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

	Measurement Date	Warrants	Remaining Contract Term in Years	Exercise Price	Volatility	Risk-free Interest Rate	Fair Value
Warrant							
Placement Agent Warrants	March 31, 2014	16,500	2.09	\$ 5.00	128%	0.44%	\$ 37,000
Investor - Series A Warrants	March 31, 2014	1,000	1.41	\$ 3.00	128%	0.44%	1,000
Investor - Series B Warrants	March 31, 2014	1,400,000	1.41	\$ 3.63	128%	0.44%	2,958,000
Placement Agent Warrants	March 31, 2014	69,037	2.09	\$ 3.00	128%	0.44%	179,000
							<u>\$ 3,175,000</u>
Warrant							
Placement Agent Warrants	June 30, 2014	16,500	1.84	\$ 5.00	100%	0.47%	\$ 19,000
Investor - Series A Warrants	June 30, 2014	1,000	1.16	\$ 3.00	100%	0.11%	1,000
Investor - Series B Warrants	June 30, 2014	1,400,000	1.16	\$ 3.63	100%	0.11%	1,568,000
Placement Agent Warrants	June 30, 2014	69,037	1.84	\$ 3.00	100%	0.47%	109,000
							<u>\$ 1,697,000</u>
Warrant							
Placement Agent Warrants	September 30, 2014	16,500	1.59	\$ 5.00	100%	0.58%	\$ 11,000
Investor - Series A Warrants	September 30, 2014	1,000	0.90	\$ 3.00	100%	0.13%	1,000
Investor - Series B Warrants	September 30, 2014	1,400,000	0.90	\$ 3.63	100%	0.13%	777,000
Placement Agent Warrants	September 30, 2014	69,037	1.59	\$ 3.00	100%	0.58%	67,000
							<u>\$ 856,000</u>

The following table sets forth a summary of the changes in the fair value of our Level 3 financial liabilities that are measured at fair value on a recurring basis:

	Three Months Ended September 30, 2014	Six Months Ended September 30, 2014
Derivative liabilities		
Beginning fair value	\$ 1,697,000	\$ 3,175,000
Gain due to change in fair value of derivative liabilities	(841,000)	(2,319,000)
Ending fair value	<u>\$ 856,000</u>	<u>\$ 856,000</u>

Note 6. Commitments and Contingencies

Legal Matters

The 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 the Company is or could become involved in litigation may have a material adverse effect on its business, financial condition or results of comprehensive loss.

Employment Agreements

As of September 30, 2014, the Company had employment agreements in place with four 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 September 30, 2014, potential severance amounted to \$1,130,000 and aggregated annual salaries amounted to \$935,000.

Related Party 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®-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®-based animal healthcare products branded as Vetericyn®. The Company receives a fixed amount for each bottle of Vetericyn® sold by Vetericyn, Inc.

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.

Additionally, 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 with Vetericyn, Inc. and Innovacyn, Inc. During the three months ended September 30, 2014 and 2013, the Company recorded revenue related to these agreements in the amounts of \$459,000 and \$1,289,000, respectively. During the six months ended September 30, 2014 and 2013, the Company recorded revenue related to these agreements in the amounts of \$987,000 and \$2,030,000, respectively. The revenue is recorded in product revenues in the accompanying condensed consolidated statements of comprehensive loss. At September 30, 2014 and March 31, 2014, the Company had outstanding accounts receivable of \$117,000 and \$220,000, respectively, related to Innovacyn, Inc.

In April of 2014, Innovacyn, Inc. notified the Company that over the next twelve months Innovacyn, Inc. is in the process of transitioning to a new supplier for its animal care products. Because of Innovacyn's failure to perform under the arrangements, the Company terminated the agreements on December 15, 2014. The Company is actively seeking new distribution channels and new animal healthcare partners. The Company has identified two potential partners and is working on negotiating agreements. The Company can give no assurances that these potential partners will be able to agree on acceptable terms. Even if the Company is able to finalize agreements with these potential partners, these partnerships may not replace revenues to the same levels as the Company derived from Innovacyn. The Company's animal healthcare revenues have been adversely impacted and will continue to be until a new animal healthcare partner is secured. If the Company is unable to locate new distribution channels or a new animal healthcare partner, the Company's results of operations and financial condition may be adversely affected. The Company's animal healthcare revenues for the three and nine months ended September 30, 2014 have declined as a result of this transition.

Commercial Agreements

On August 9, 2012, the Company, along with its Mexican subsidiary and manufacturer Oculus Technologies of Mexico S.A. de C.V. ("Manufacturer"), 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, Manufacturer granted More Pharma an exclusive license to certain of Manufacturer's then-held trademarks in exchange for a payment of \$100,000 to Manufacturer. 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, along with Manufacturer, 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 the 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 will recognize 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 having 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. During the three and six months ended September 30, 2014 and 2013, the Company recognized \$16,000 and \$32,000, respectively, in each period, as expense related to the transaction costs of the transaction. During each of the three months ended September 30, 2014 and 2013, the Company recognized \$378,000 related to the amortization of the upfront fees received in the transaction. During each of the six months ended September 30, 2014 and 2013, the Company recognized \$752,000 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. At September 30, 2014 and March 31, 2014, the Company had outstanding accounts receivable of \$1,201,000 and \$790,000 due from More Pharma, respectively.

Note 7. Stockholders' Equity

Sale of Common Stock

On April 2, 2014, the Company entered into an At-the-Market Issuance Sales Agreement with MLV & Co. LLC ("MLV") under which the Company may issue and sell shares of common stock having an aggregate offering price of up to \$9,159,000 from time to time through MLV acting as the Company's sales agent. The Company will pay MLV a commission rate equal to 3.0% of the gross proceeds from the sale of any shares of common stock sold through MLV as agent under the Sales Agreement. As of September 30, 2014, the sales of 392,656 shares under this agreement have resulted in gross proceeds of \$1,284,000 and net proceeds of \$1,213,000 (after deducting commissions, legal and accounting costs).

Common Stock Issued to Settle Fees for Services Provided

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 tissue care products in the United States. Pursuant to the agreement, the Company agreed to pay the contract sales organization a monthly fee and commissions in return for providing a direct salesforce and management of the salesforce. The Company agreed to issue the contract sales organization cash and or shares of common stock as compensation for its services. On September 30, 2014, the Company issued 32,501 shares of common stock valued at \$76,000 in connection with this agreement to settle outstanding fees. The Company has determined that the fair value of the common stock, which was calculated when the 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 expense. During the three and six months ended September 30, 2014, the Company recorded \$33,000 and \$62,000 of expense related to this agreement. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of comprehensive loss. Additionally, the Company settled \$14,000 of outstanding fees which were outstanding and accrued at March 31, 2014.

Note 8. Stock-Based Compensation

In April 2014, the Company's board of directors approved increases to the number of shares authorized for issuance under the 2006 and 2011 Plans by 250,000 and 1,224,021 shares, respectively.

The Company estimated the fair value of employee and non-employee stock options using the Black-Scholes option pricing model. The fair values of employee and non-employee stock options are being amortized on a straight-line basis over the requisite service periods of the respective awards.

The Company believes that the fair value of the stock options issued to non-employees is more reliably measurable than the fair value of the services received. The stock-based compensation expense will fluctuate as the fair market value of the common stock fluctuates. In connection with stock options granted to non-employees, the Company recorded \$40,000 and \$93,000 of stock-based compensation expense in the three and six months ended September 30, 2014, respectively. These amounts are included in the stock compensation table below.

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 using an average of the historical share price volatilities of the Company and its 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. Compensation expense includes the impact of an estimate for forfeitures for all stock options. The Company estimates forfeitures based on historical experience and reduces compensation expense accordingly. The estimated forfeiture rates used during the three months ended September 30, 2014 ranged from 0.27% to 0.37%.

Stock-based compensation expense is as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Cost of service revenue	\$ 59,000	\$ 30,000	\$ 123,000	\$ 56,000
Research and development	82,000	45,000	178,000	78,000
Selling, general and administrative	315,000	221,000	606,000	349,000
Total stock-based compensation	<u>\$ 456,000</u>	<u>\$ 296,000</u>	<u>\$ 907,000</u>	<u>\$ 483,000</u>

At September 30, 2014, there were unrecognized compensation costs of \$3,910,000 related to stock options which is expected to be recognized over a weighted-average amortization period of 2.38 years.

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

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

The fair value of the stock options granted was calculated using the Black-Scholes option-pricing model using the following weighted-average assumptions:

	Three and Six Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Expected life	8.90 years	5.89 years	5.89 years	5.89 years
Risk-free interest rate	2.32%	1.42%	1.42%	1.42%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Volatility	98%	86%	86%	86%
Fair value of options granted	\$ 2.39	\$ 2.10	\$ 2.10	\$ 2.10

A summary of all option activity as of September 30, 2014 and changes during the three months then ended is presented below:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Contractual Term	Aggregate Intrinsic Value
Outstanding at April 1, 2014	2,536,000	\$ 7.78		
Options granted	245,000	2.76		
Options exercised	—	—		
Options forfeited or expired	(27,000)	20.88		
Outstanding at September 30, 2014	<u>2,754,000</u>	<u>\$ 7.21</u>	<u>8.24</u>	<u>\$ —</u>
Exercisable at September 30, 2014	<u>1,197,000</u>	<u>\$ 11.62</u>	<u>6.71</u>	<u>\$ —</u>
Options available for grant as of September 30, 2014	<u>1,579,000</u>			

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock (\$2.35) for stock options.

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

Note 9. Income Taxes

The Company has completed a study to assess whether a change in control has 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. The Company, after considering all available evidence, fully reserved its deferred tax assets since it is more likely than not such benefits will not be realized in future periods. The Company incurred losses for both financial reporting and income tax purposes for the year ended March 31, 2014. 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 September 30, 2014 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 10. Segment and Geographic Information

The Company generates product revenues from wound care products that are sold into the human and animal healthcare markets, and the Company generates service revenues from laboratory testing services, which are provided to medical device manufacturers.

The Company operates a single segment business for product sales and product licensing fees, which consists of three geographical sales territories as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
U.S.	\$ 978,000	\$ 1,898,000	\$ 2,006,000	\$ 3,221,000
Mexico	1,541,000	1,352,000	3,011,000	2,776,000
Europe and Rest of World	554,000	603,000	1,226,000	1,010,000
	<u>\$ 3,073,000</u>	<u>\$ 3,853,000</u>	<u>\$ 6,243,000</u>	<u>\$ 7,007,000</u>

For the three months ended September 30, 2014 and 2013, the Company received licensing revenues of \$378,000 and \$397,000, 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 six months ended September 30, 2014 and 2013, the Company received licensing revenues of \$752,000 and \$830,000, 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 \$191,000 and \$236,000 for the three months ended September 30, 2014 and 2013, respectively, and the Company's service revenues amounted to \$413,000 and \$454,000 for the six months ended September 30, 2014 and 2013, respectively.

Note 11. Significant Customer Concentrations

For the three months ended September 30, 2014, one customer represented 47% of net revenue and one customer represented 14% of net revenue. For the three months ended September 30, 2013, one customer represented 33% of net revenue and one customer represented 32% of net revenue.

For the six months ended September 30, 2014, one customer represented 45% of net revenue and one customer represented 15% of net revenue. For the six months ended September 30, 2013, one customer represented 37% of net revenue and one customer represented 27% of net revenue.

At September 30, 2014, one customer represented 56%, and one customer represented 11% of the net accounts receivable balance. At March 31, 2014, one customer represented 44%, one customer represented 15%, and one customer represented 12% of the net accounts receivable balance.

Note 12. Subsequent Events

On October 1, 2014, the Company granted an aggregate of 30,000 stock options to two of its non-employee directors. The options have an exercise price of \$2.21 and vest quarterly over a one year period. The options were granted pursuant to the Company's Non-Employee Director Compensation Plan.

On December 4, 2014, the Company held a special meeting of stockholders, which approved an amendment to the Company's Restated Certificate of Incorporation, as amended, increasing the number of authorized common stock, \$0.0001 par value per share, to a total number of 30,000,000 shares.

Pursuant to an At-the-Market Issuance Sales Agreement with MLV & Co. LLC dated April 2, 2014, under which the Company may issue and sell shares of common stock having an aggregate offering price of up to \$9,159,000 from time to time through MLV acting as the

Company's sales agent, the Company sold 467,934 shares of common stock as of November 5, 2014. The sales of shares under this agreement have resulted in net proceeds of \$1,399,000. The Company pays MLV a commission rate equal to 3.0% of the gross proceeds from the sale of any shares of common stock sold through MLV as agent.

On November 13, 2014, the Company received a letter from Exeltis Dermatology, Inc. (f/k/a Quinnova Pharmaceuticals, Inc.), a significant customer of the Company, and herein referred to as "Quinnova", claiming that the Company is in breach of the Exclusive Sales and Distribution Agreement with Quinnova. Specifically, Quinnova has claimed that the marketing and selling of the Company's Alevicyn gel product violates the terms of the Exclusive Sales and Distribution Agreement and has demanded the Company cease and desist from any further marketing or sales. The Company believes that the marketing and selling of the Alevicyn gel is not in violation of the agreement and that the claims made by Quinnova are without merit. The Company intends to defend this matter vigorously and does not believe an accrual for a potential loss relating to this matter is necessary at this time. While the Company believes this claim is without merit, there can be no assurances provided that the outcome of this matter will be favorable to the Company or will not have a negative impact on the Company's consolidated financial position or results from operations.

On December 1, 2014, the Company granted an aggregate of 20,513 stock options to its four non-employee directors. The options have an exercise price of \$1.40 and vested immediately, on the date such options were granted. In addition, the four non-employee directors will receive an aggregate of approximately \$26,000 of cash compensation. The compensation was earned pursuant to the Company's Non-Employee Director Compensation Plan as compensation for services provided during the three months ended September 30, 2014.

On January 8, 2015, the Company entered into a Securities Purchase Agreement with two accredited investors, under which the Company agreed not to market, offer or sell its 2 million shares of common stock it holds in Ruthigen, Inc. to any person other than the investors for a period of 60 calendar days from the date of the Securities Purchase Agreement and under which the investors irrevocably agree to purchase all of the Ruthigen shares upon the occurrence of a trigger event. The purchase price for the Ruthigen shares to be purchased by the investors shall be \$2.75 per share, or an aggregate of \$5,500,000 for all of the Ruthigen shares. Such triggering event is defined in the Securities Purchase Agreement as the closing of any merger or consolidation of Ruthigen with or into another company, corporation or similar entity or the merger or consolidation of another company, corporation, or assets of a corporation or company into Ruthigen, or in the case of any sale or conveyance to another corporation or the assets or other property of Ruthigen, for which Ruthigen enters into a definitive agreement. Such definitive agreement could be subject to or pending customary closing conditions, regulatory approvals and/or shareholder approval and still be considered definitive for purposes of the Securities Purchase Agreement. Ruthigen and Dawson James Securities, Inc., as the managing underwriter of the Ruthigen IPO, approved the transaction in accordance with the provisions of the Separation Agreement between Ruthigen and the Company, dated August 2, 2013, as amended, subject to certain conditions set forth in the Securities Purchase Agreement. As of the filing date of the amended Registration Statement, of which this prospectus forms part, no triggering event has occurred nor can there be any assurance that one will occur.

In connection with entering into the Securities Purchase Agreement to sell the Ruthigen shares at a fixed price of \$2.75 per share, the Company has determined that the carrying value of the Ruthigen shares is impaired. As a result, during the three months ended December 31, 2014, the Company will record an impairment loss in the amount of \$4,650,000 which represents the difference between cost and aggregate purchase price.

Additionally, the Company agreed to pay Dawson James Securities, Inc. a finder's fee in the amount of \$200,000 upon the closing of the actual sale of the Ruthigen shares.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Shareholders
of Oculus Innovative Sciences, Inc.

We have audited the accompanying consolidated balance sheets of Oculus Innovative Sciences, Inc. and Subsidiaries (the "Company") as of March 31, 2014 and 2013, and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oculus Innovative Sciences, Inc. and Subsidiaries, as of March 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum LLP

Marcum LLP
New York, NY
June 30, 2014

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31,	
	2014	2013
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,480	\$ 7,900
Accounts receivable, net	1,790	1,707
Due from affiliate	537	–
Inventories, net	1,088	992
Prepaid expenses and other current assets	647	935
Total current assets	9,542	11,534
Property and equipment, net	971	800
Deferred offering costs	–	44
Long-term investment, at cost	10,150	–
Other assets	128	187
Total assets	\$ 20,791	\$ 12,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 736	\$ 808
Accrued expenses and other current liabilities	889	703
Current portion of cash settlement liability (See Note 10)	–	37
Deferred revenue	2,629	2,320
Current portion of long-term debt, net of debt discount of \$0 and \$521 at March 31, 2014 and 2013, respectively	143	1,259
Derivative liabilities	3,175	–
Total current liabilities	7,572	5,127
Deferred revenue, less current portion	1,152	2,619
Long-term debt, net of debt discount of \$0 and \$248 at March 31, 2014 and March 31, 2013, respectively, less current portion	4	676
Cash settlement liability, less current portion (See Note 10)	–	62
Total liabilities	8,728	8,484
Commitments and Contingencies		
Stockholders' Equity		
Convertible preferred stock, \$0.0001 par value; 714,286 shares authorized, none issued and outstanding at March 31, 2014 and 2013, respectively		
Common stock, \$0.0001 par value; 14,285,715 shares authorized, 8,160,145 and 6,583,150 shares issued and outstanding at March 31, 2014 and 2013, respectively	1	1
Additional paid-in capital	149,141	144,816
Accumulated other comprehensive loss	(3,069)	(2,991)
Accumulated deficit	(134,010)	(137,745)
Total stockholders' equity	12,063	4,081
Total liabilities and stockholders' equity	\$ 20,791	\$ 12,565

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

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended March 31,	
	2014	2013
	(In thousands, except per share amounts)	
Revenues		
Product	\$ 10,894	\$ 12,897
Product licensing fees	1,829	1,686
Service	945	869
Total revenues	<u>13,668</u>	<u>15,452</u>
Cost of revenues		
Product	4,510	3,976
Service	761	733
Total cost of revenues	<u>5,271</u>	<u>4,709</u>
Gross profit	<u>8,397</u>	<u>10,743</u>
Operating expenses		
Research and development	2,887	2,223
Selling, general and administrative	11,561	11,894
Total operating expenses	<u>14,448</u>	<u>14,117</u>
Loss from operations	(6,051)	(3,374)
Interest expense	(1,058)	(1,107)
Interest income	1	7
Gain due to change in fair value of common stock (See Note 10)	1,357	(1,599)
Gain on deconsolidation of Ruthigen	11,133	-
Loss due to change in fair value of derivative liabilities	(1,566)	767
Other expense, net	(81)	(125)
Net income (loss)	3,735	(5,431)
Preferred stock deemed dividend	-	(1,062)
Net income (loss) available to common shareholders	<u>\$ 3,735</u>	<u>\$ (6,493)</u>
Earnings (loss) per common share		
Basic	<u>\$ 0.54</u>	<u>\$ (1.30)</u>
Diluted	<u>\$ 0.54</u>	<u>\$ (1.30)</u>
Weighted-average number of common shares outstanding:		
Basic	<u>6,882</u>	<u>4,977</u>
Diluted	<u>6,898</u>	<u>4,977</u>
Other comprehensive income (loss)		
Net income (loss)	\$ 3,735	\$ (5,431)
Foreign currency translation adjustments	(78)	62
Comprehensive income (loss)	<u>\$ 3,657</u>	<u>\$ (5,369)</u>

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

expense, net of forfeitures	-	-	-	-	1,107	-	-	1,107
Foreign currency translation adjustment	-	-	-	-	-	(78)	-	(78)
Net income	-	-	-	-	-	-	3,735	3,735
Balance, March 31, 2014	<u>-</u>	<u>-</u>	<u>8,160,145</u>	<u>1</u>	<u>149,141</u>	<u>(3,069)</u>	<u>(134,010)</u>	<u>12,063</u>

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

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,	
	2014	2013
	(In thousands)	
Cash flows from operating activities		
Net income (loss)	\$ 3,735	\$ (5,431)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	284	268
Provision for doubtful accounts	(6)	33
Provision for obsolete inventory	6	85
Stock-based compensation	1,451	1,601
Loss (gain) due to change in fair value of derivative liabilities	1,566	(767)
(Gain) loss due to change in fair value of common stock (See Note 10)	(1,357)	1,599
Gain on deconsolidation of Ruthigen	(11,133)	–
Non-cash interest expense	863	624
Foreign currency transaction (gains) losses	(6)	11
Loss on disposal of property and equipment	39	2
Changes in operating assets and liabilities:		
Accounts receivable	(88)	411
Due from affiliate	(537)	
Inventories	(126)	(103)
Prepaid expenses and other current assets	458	(262)
Accounts payable	848	(10)
Accrued expenses and other current liabilities	271	(141)
Deferred revenue and other liabilities	(1,158)	3,230
Net cash (used in) provided by operating activities	<u>(4,890)</u>	<u>1,150</u>
Cash flows from investing activities:		
Purchases of property and equipment	(504)	(257)
Long-term deposits	59	(113)
Net cash used in investing activities	<u>(445)</u>	<u>(370)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	3,188	4,942
Proceeds from the issuance of convertible preferred stock, net of offering costs	–	907
Deferred offering costs	44	(44)
Proceeds from issuance of common stock upon exercise of stock options and warrants	1,295	28
Proceeds from cash settlement liability (See Note 10)	33	–
Principal payments on long-term debt	(1,615)	(2,083)
Net cash provided by financing activities	<u>2,945</u>	<u>3,750</u>
Effect of exchange rate on cash and cash equivalents	(30)	19
Net (decrease) increase cash and cash equivalents	(2,420)	4,549
Cash and cash equivalents, beginning of year	7,900	3,351
Cash and cash equivalents, end of year	<u>\$ 5,480</u>	<u>\$ 7,900</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 195</u>	<u>\$ 483</u>
Non-cash operating and financing activities:		
Insurance premiums financed	<u>\$ 188</u>	<u>\$ 155</u>
Issuance of common stock to settle obligations	<u>\$ –</u>	<u>\$ 51</u>
Non-cash investing and financing activities:		
Common stock issued in connection with stock purchase agreement (See Note 10)	<u>\$ –</u>	<u>\$ 3,500</u>
Debt settled in connection with stock purchase agreement (See Note 10)	<u>\$ 1,131</u>	<u>\$ –</u>
Cash settlement liability settled in connection with stock purchase agreement (See Note 10)	<u>\$ 2,000</u>	<u>\$ –</u>
Reclassification of derivative liabilities to paid in capital	<u>\$ 1,683</u>	<u>\$ 1,636</u>
Warrants issued as derivative liabilities in connection with registered direct offering	<u>\$ 3,292</u>	<u>\$ 2,347</u>

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

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

NOTE 1 – Organization and Recent Developments

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 over 20 countries. It is pioneering innovative products for the dermatology, surgical, advanced wound and skin 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 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 consolidated financial statements have been retroactively adjusted to reflect a 1 for 7 reverse stock split.

Deconsolidation of Ruthigen, Inc.

On March 26, 2014, the Company deconsolidated its formerly wholly-owned subsidiary Ruthigen, Inc. (“Ruthigen”) in connection with the completion of Ruthigen’s initial public offering of its common stock. As a result of the initial public offering, the Company’s ownership interest in Ruthigen decreased to approximately 43%. The Ruthigen results from operations and cash flows through March 26, 2014 have been included in the Company’s consolidated financial statements. See Note 8.

NOTE 2 – Liquidity and Financial Condition

The Company had net income of \$3,735,000 and incurred losses from operations of \$6,051,000 for the year ended March 31, 2014. At March 31, 2014, the Company’s accumulated deficit amounted to \$134,010,000. The Company had working capital of \$1,970,000 as of March 31, 2014. 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.

On April 2, 2014, the Company entered into an At-the-Market Issuance Sales Agreement with MLV & Co. LLC (“MLV”) under which the Company may issue and sell shares of common stock having an aggregate offering price of up to \$9,159,000 from time to time through MLV acting as the Company’s sales agent. The Company will pay MLV a commission rate equal to 3.0% of the gross proceeds from the sale of any shares of common stock sold through MLV as agent under the Sales Agreement. As of June 24, 2014, the sales of shares under this agreement have resulted in net proceeds of \$982,000.

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 April 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 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 – Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Aquamed Technologies, Inc. ("Aquamed"), Oculus Technologies of Mexico S.A. de C.V. ("OTM"), Oculus Innovative Sciences Netherlands, B.V. ("OIS Europe") and Ruthigen (through the date of deconsolidation on March 26, 2014). Aquamed has no current operations. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. 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 tax assets, valuation of equity and derivative instruments, debt discounts, valuation of investments, and the estimated amortization periods of upfront product licensing fees received from customers.

Revenue Recognition

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

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

The Company records revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectability of the sale is reasonably assured.

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

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

The selling prices of all goods that the Company sells are fixed, and agreed to with the customer, prior to shipment. Selling prices are generally based on established list prices. The Company does not customarily permit its customers to return any of its products for monetary refunds or credit against completed or future sales. The Company, from time to time, may replace expired goods on a discretionary basis. The Company records these types of adjustments, when made, as a reduction of revenue. Sales adjustments were insignificant during the years ended March 31, 2014 and 2013.

The Company evaluates the creditworthiness of new customers and monitors the creditworthiness of its existing customers to determine whether events or changes in their financial circumstances would raise doubt as to the collectability of a sale at the time in which a sale is made. Payment terms on sales made in the United States are generally 30 days and internationally, generally range from 30 days to 90 days.

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

Additionally, the Company's treatment for recognizing revenue related to distributors that are unable to provide inventory or product sell-through reports on a timely basis, is to defer and recognize revenue when payment is received. The Company believes the receipt of payment is the best indication of product sell-through.

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

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

Product license revenue is generated through agreements with strategic partners for the commercialization of Microcyn® products. The terms of the agreements sometimes include non-refundable upfront fees. The Company analyzes multiple element arrangements to determine whether the elements can be separated. Analysis is performed at the inception of the arrangement and as each product is delivered. If a product or service is not separable, the combined deliverables are accounted for as a single unit of accounting and recognized over the performance obligation period.

Assuming the elements meet the criteria for separation and all other revenue requirements for recognition, the revenue recognition methodology prescribed for each unit of accounting is summarized below:

When appropriate, the Company defers recognition of non-refundable upfront fees. If it has continuing performance obligations then such up-front fees are deferred and recognized over the period of continuing involvement.

The Company recognizes royalty revenues from licensed products upon the sale of the related products.

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

Sales Tax and Value Added Taxes

The Company accounts for sales taxes and value added taxes imposed on its goods and services on a net basis.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents may be invested in money market funds, commercial paper, variable rate demand instruments, and certificates of deposits.

Long-Term Investments

The Company's long-term investments consist of the 2,000,000 shares it owns in Ruthigen at March 31, 2014. The Company carries securities that do not have a readily determinable fair value at cost. The Company has not recorded any impairment losses during the years ended March 31, 2014 as it relates to its investments held.

Concentration of Credit Risk and Major Customers

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents and accounts receivable. Cash and cash equivalents are maintained in financial institutions in the United States, Mexico and the Netherlands. The Company is exposed to credit risk in the event of default by these financial institutions for amounts in excess of the Federal Deposit Insurance Corporation insured limits. Cash and cash equivalents held in foreign banks are intentionally kept at minimal levels, and therefore have minimal credit risk associated with them.

The Company grants credit to its business customers, which are primarily located in Mexico, Europe and the United States. Collateral is generally not required for trade receivables. The Company maintains allowances for potential credit losses. At March 31, 2014, one customer represented 44%, one customer represented 15%, and one customer represented 12% of the net accounts receivable balance. During the year ended March 31, 2014, one customer represented 38%, and one customer represented 23%, respectively, of net revenues. At March 31, 2013, one customer represented 34%, one customer represented 26%, and one customer represented 15% of the net accounts receivable balance. During the year ended March 31, 2013, one customer represented 25%, and one customer represented 13%, respectively, of net revenues.

Accounts Receivable

Trade accounts receivable are recorded net of allowances for cash discounts for prompt payment, doubtful accounts, and sales returns. Estimates for cash discounts and sales returns are based on analysis of contractual terms and historical trends.

The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Other factors that the Company considers include its existing contractual obligations, historical payment patterns of its customers and individual customer circumstances, an analysis of days sales outstanding by customer and geographic region, and a review of the local economic environment and its potential impact on government funding and reimbursement practices. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts at March 31, 2014 and 2013 represents probable credit losses in the amounts of \$8,000 and \$22,000, respectively.

Inventories

Inventories are stated at the lower of cost, cost being determined on a standard cost basis (which approximates actual cost on a first-in, first-out basis), or market.

Due to changing market conditions, estimated future requirements, age of the inventories on hand and production of new products, the Company regularly reviews inventory quantities on hand and records a provision to write down excess and obsolete inventory to its estimated net realizable value. The Company recorded reserves to reduce the carrying amounts of inventories to their net realizable value in the amounts of \$47,000 and \$170,000 at March 31, 2014 and 2013, respectively, which is included in cost of product revenues on the Company's accompanying consolidated statements of comprehensive income (loss).

Fair Value of Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The carrying amounts of long-term investments include the investment in Ruthigen and are carried at cost, which management believes approximates fair value. 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; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

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:

	Fair Value Measurements at March 31, 2014 Using			
	Total	Quoted prices in	Significant other	Significant
	March 31,	active markets	observable inputs	other
	2014	for identical	(Level 2)	unobservable
		assets		inputs
		(Level 1)		(Level 3)
Liabilities:				
Derivative liabilities – warrants	\$ 3,175,000	–	–	\$ 3,175,000

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's accounting and finance department, who report 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 derivatives 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 due to change in fair value of derivative liabilities" in the Company's consolidated statements of comprehensive income (loss).

As of March 31, 2014, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

Property and Equipment

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

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

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

Impairment of Long-Lived Assets

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

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

When circumstances indicate that an impairment may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. In estimating these future cash flows, assets and liabilities are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other such groups. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, will be recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable. During the years ended March 31, 2014 and 2013, the Company had noted no indicators of impairment.

Research and Development

Research and development expense is charged to operations as incurred and consists primarily of personnel expenses, clinical and regulatory services and supplies. For the years ended March 31, 2014 and 2013, research and development expense amounted to \$2,887,000 and \$2,223,000, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to \$155,000 and \$91,000, for the years ended March 31, 2014 and 2013, respectively. Advertising costs are included in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income (loss).

Shipping and Handling Costs

The Company classifies amounts billed to customers related to shipping and handling in sale transactions as product revenues. Shipping and handling costs incurred are recorded in cost of product revenues. For the years ended March 31, 2014 and 2013, the Company recorded revenue related to shipping and handling costs of \$58,000 and \$116,000, respectively.

Foreign Currency Reporting

The Company's subsidiary, OTM, uses the local currency (Mexican Pesos) as its functional currency and its subsidiary, OIS Europe, uses the local currency (Euro) as its functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date, and revenue and expense accounts are translated at average exchange rates during the period. Resulting translation adjustments were recorded in accumulated other comprehensive loss in the accompanying consolidated balance sheets at March 31, 2014 and 2013.

Foreign currency transaction gains (losses) relate primarily to trade payables and receivables between subsidiaries OTM and OIS Europe. These transactions are expected to be settled in the foreseeable future. The Company recorded foreign currency transaction gains of \$6,000 and losses of \$11,000 for the years ended March 31, 2014 and 2013, respectively. The related gains were recorded in other expense, net, in the accompanying consolidated statements of comprehensive income (loss).

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 estimates the fair value of employee stock awards using the Black-Scholes option pricing model. 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 Company accounts for equity instruments issued to non-employees at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instrument vests or becomes non-forfeitable. Non-employee stock-based compensation charges are amortized over the vesting period or as earned.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and net operating loss and credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to impact taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Tax benefits claimed or expected to be claimed on a tax return are recorded in the Company's consolidated financial statements. A tax benefit from an uncertain tax position is only recognized if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Uncertain tax positions have had no impact on the Company's consolidated financial condition, results of comprehensive loss or cash flows.

Comprehensive Loss

Other comprehensive loss includes all changes in stockholders' equity during a period from non-owner sources and is reported in the consolidated statement of changes in stockholders' equity. To date, other comprehensive loss consists of changes in accumulated foreign currency translation adjustments. Accumulated other comprehensive losses at March 31, 2014 and 2013 were \$3,069,000 and \$2,991,000, respectively.

Earnings (Loss) Per Share

Basic earnings and loss per share are computed by dividing the net income or loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options (using the treasury stock method) and warrants (using the if-converted method). Diluted loss per share excludes the shares issuable upon the exercise of stock options and warrants from the calculation of net loss per share as their effect would be anti-dilutive.

	For the Years Ended	
	March 31,	
	2014	2013
Net income (loss) available to common stockholders - basic	\$ 3,735,000	\$ (6,493,000)
Denominator - basic:		
Weighted average number of common shares outstanding	6,882,000	4,977,000
Basic earnings (loss) per common share	\$ 0.54	\$ (1.30)
Net income (loss) income available to common stockholders - diluted	\$ 3,735,000	\$ (6,493,000)
Denominator - diluted:		
Weighted average number of common shares outstanding	6,882,000	4,977,000
Common share equivalents of outstanding stock options	12,000	-
Common share equivalents of outstanding warrants	4,000	-
Weighted average number of common shares outstanding	6,898,000	4,977,000
Dilutive earnings (loss) per common share	\$ 0.54	\$ (1.30)
Securities excluded from the weighted average dilutive common shares outstanding because their inclusion would have been anti-dilutive:		
Stock options	1,122,000	975,000
Warrants	1,410,000	1,318,000
	<u>2,532,000</u>	<u>2,293,000</u>

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, other than certain warrants that contained reset provisions and certain warrants that required net-cash settlement that the Company classified as derivative liabilities as more fully described in Note 11.

Preferred Stock

The Company applies the accounting standards for distinguishing liabilities from equity when determining the classification and measurement of its preferred stock. Shares that are subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. The Company classifies conditionally redeemable preferred shares, which includes preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control, as temporary equity. At all other times, preferred shares are classified as stockholders' equity.

Convertible Instruments

The Company evaluates and bifurcates conversion options from their host instruments and accounts for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the host instrument is deemed to be conventional as that term is described under applicable Generally Accepted Accounting Principles ("GAAP").

Subsequent Events

Management has evaluated subsequent events or transactions occurring through the date these consolidated financial statements were issued.

Recent Accounting Pronouncements

Accounting standards that have been issued or proposed by the Financial Accounting Standards Board ("FASB"), the U.S. Securities and Exchange Commission ("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 consolidated financial statements upon adoption.

NOTE 4 – Accounts Receivable

Accounts receivable consists of the following:

	March 31,	
	2014	2013
Accounts receivable	\$ 1,798,000	\$ 1,729,000
Less: allowance for doubtful accounts	(8,000)	(22,000)
	<u>\$ 1,790,000</u>	<u>\$ 1,707,000</u>

Allowance for doubtful accounts activities are as follows:

Year Ended March 31	Balance at Beginning of Year	Additions Charged to Operations	Deductions Write-Offs	Balance at End of Year
2013	\$ 52,000	\$ 33,000	\$ (63,000)	\$ 22,000
2014	\$ 22,000	\$ (6,000)	\$ (8,000)	\$ 8,000

NOTE 5 – Inventories

Inventories consist of the following:

	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
Raw materials	\$ 790,000	\$ 835,000
Finished goods	345,000	327,000
	<u>1,135,000</u>	<u>1,162,000</u>
Less: inventory allowances	(47,000)	(170,000)
	<u>\$ 1,088,000</u>	<u>\$ 992,000</u>

Reserve for obsolete inventories activities are as follows:

<u>Year Ended March 31</u>	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Cost of Product Revenues</u>	<u>Deductions Write-Offs</u>	<u>Balance at End of Year</u>
2013	\$ 105,000	\$ 85,000	\$ (20,000)	\$ 170,000
2014	\$ 170,000	\$ 6,000	\$ (129,000)	\$ 47,000

NOTE 6 – Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
Prepaid insurance	\$ 429,000	\$ 332,000
Other prepaid expenses and other current assets	218,000	603,000
	<u>\$ 647,000</u>	<u>\$ 935,000</u>

NOTE 7 – Property and Equipment

Property and equipment consists of the following:

	<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
Manufacturing, lab, and other equipment	\$ 3,073,000	\$ 2,731,000
Office equipment	302,000	356,000
Furniture and fixtures	88,000	78,000
Leasehold improvements	269,000	282,000
	<u>3,732,000</u>	<u>3,447,000</u>
Less: accumulated depreciation and amortization	(2,761,000)	(2,647,000)
	<u>\$ 971,000</u>	<u>\$ 800,000</u>

Depreciation and amortization expense amounted to \$284,000 and \$268,000 for the years ended March 31, 2014 and 2013, respectively.

During the year ended March 31, 2014 and 2013, the Company incurred losses on the disposal of property and equipment in the amounts of \$39,000 and \$2,000, respectively. This amount was recorded within operating expenses in the accompanying consolidated statements of comprehensive income (loss).

NOTE 8 – Investment in Ruthigen, Inc.

The Company's formerly wholly owned subsidiary, Ruthigen, was incorporated in the State of Nevada on January 18, 2013, and reincorporated from Nevada to Delaware on September 25, 2013. As of March 31, 2014 and 2013 and on the date of deconsolidation, March 26, 2014, the Company held 2,000,000 shares of Ruthigen common stock.

The Company has entered into key agreements with Ruthigen establishing the arrangements between the two companies following the completion of Ruthigen's Initial Public Offering (the "IPO"), including license and supply and certain shared services arrangements. Each of these 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 March 26, 2014, the closing date of Ruthigen's IPO.

License and Supply Agreement

On June 6, 2013, the Company entered into a License and Supply Agreement with Ruthigen. 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 and November 6, 2013, the Company entered into Amendment No. 1 and No. 2 to the License and Supply Agreement with Ruthigen, respectively, to amend 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 Supply 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.

Separation Agreement

On August 2, 2013, 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 initial public offering. On January 31, 2014, the parties amended the Separation Agreement. The separation agreement took effect on March 26, 2014 upon the closing of Ruthigen's 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 as well as restrictions on the Company's ability to vote on the 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 the completion of Ruthigen's initial public offering, unless consent to such transfer has been provided by both the Ruthigen board of directors and the lead underwriter in the Ruthigen IPO. Following the one-year lock up period and during the second year following the closing of the IPO, if Oculus owns greater than 19.9% of the issued and outstanding common stock of Ruthigen, transfers by the Company of the Ruthigen shares are restricted unless the Company obtains consent from the Ruthigen's board of directors.

Following the completion of the second year, transfers of the Ruthigen shares must be conducted in accordance with 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.

In addition to the above transfer restrictions, if the Company owns greater than 19.9% of the issued and outstanding common stock of Ruthigen during the 8.5 year term of the Separation Agreement, the Company is required to vote, in person or by proxy, all of the shares it owns in Ruthigen in the same manner as the majority of the votes cast by the holders of all the other issued and outstanding shares of Ruthigen at any duly called meeting of the stockholders or in any action by written consent of the stockholders of Ruthigen.

On January 31, 2014, the Company also entered into a Funding Agreement with Ruthigen due to certain changes to the terms of Ruthigen's initial public offering that had occurred in order to govern the terms of certain additional financing which was provided to Ruthigen by the Company, in connection with the Separation, subject to the terms and conditions set forth in the agreement. The amended Separation Agreement disclosed above 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 initial public offering for which Ruthigen was required to reimburse the Company.

Since the legal inception of Ruthigen on January 18, 2013 and through the date of the Funding Agreement, the Company had advanced Ruthigen \$916,000 in connection with the funding of Ruthigen's IPO and operations. Pursuant to the Funding Agreement, the Company agreed to continue to fund Ruthigen for a total of up to an additional \$760,000 to allow Ruthigen to proceed with its initial public offering. The parties agreed that the Company had no further obligation to fund operations of Ruthigen beyond the amounts detailed in a budget mutually agreed upon by the parties in connection with the execution of the funding agreement. The Funding Agreement also required the resignation of all Ruthigen board of director members from the Company's board of directors at the time Ruthigen's initial public offering was completed. Furthermore, any funds provided by the Company to Ruthigen pursuant to the Funding Agreement were to be repaid by Ruthigen to the Company at the time of the closing of the Ruthigen initial public offering. Through the date of the Ruthigen IPO, the Company made aggregate advances to Ruthigen in the amount of \$1,453,000 (inclusive of the \$916,000 disclosed above).

In connection with the completion of the initial public offering, on March 26, 2014 Ruthigen reimbursed the Company \$916,000 and as a result, the remaining \$537,000 is included in due from affiliates on the Company's consolidated balance sheet as of March 31, 2014. On April 1, 2014 Ruthigen reimbursed the Company the remaining \$537,000.

Deconsolidation of Ruthigen

On March 26, 2014, Ruthigen completed an initial public offering for the issuance of 2,650,000 shares of its common stock to third parties (along with Series A and Series B warrants) for aggregate gross proceeds of \$19,212,500. As a result, the Company's ownership interest in Ruthigen decreased to 43% on March 26, 2014 and the Company deconsolidated Ruthigen.

The Company accounts for deconsolidation of subsidiaries in which it loses controlling interest in the financial interest of the subsidiary in accordance with Accounting Standards Codification (“ASC”) 810-10-40 – “Consolidation”. In accordance with ASC 810-10-40-5, the Company shall account for the deconsolidation of a subsidiary by recognizing a gain or loss in net income (loss) measured as the difference between:

- a) The aggregate of the fair value of any consideration received by the Company; plus
- b) The fair value of any retained non-controlling investment in the former subsidiary by the Company at the date the subsidiary is deconsolidated; plus
- c) The carrying amount of any existing non-controlling interest in the former subsidiary (including any accumulated other comprehensive income (loss) attributable to the non-controlling interest) at the date the subsidiary is deconsolidated; less
- d) The carrying amount of the former subsidiary’s assets and liabilities.

As a result of the deconsolidation of Ruthigen, the Company recorded a gain on deconsolidation of \$11,133,000 calculated as follows:

	March 26, 2014
Aggregate fair value of consideration received by the Company	\$ –
Fair value of retained non-controlling interest by the Company	10,150,000
Carrying amount on non-controlling interest in subsidiary	–
Less:	
Carrying amount of the Ruthigen assets and liabilities	<u>(983,000)</u>
Gain (loss) on deconsolidation of Ruthigen	<u>\$ 11,133,000</u>

The aggregate fair value of the Company’s retained non-controlling interest in Ruthigen is comprised of the 2,000,000 shares of Ruthigen common stock held by the Company as of March 26, 2014 with an estimated fair value of \$10,150,000. The fair market value of the 2,000,000 shares held by the Company was determined with the assistance of an independent valuation specialist considering key factors of the nature of the arrangement between the Company and Ruthigen, including but not limited to, the restrictions on transferability associated with the shares, the restrictions on voting the shares, and the limited trading history of the Ruthigen common stock.

Subsequent to the deconsolidation of Ruthigen, the Company has accounted for the 2,000,000 shares of common stock it owns in Ruthigen at cost in accordance with ASC 325-20 as a result of (a) the restrictions on voting the shares held as disclosed above, (b) the Company having no representation on the Ruthigen Board of Directors, (c) the Company’s inability to set policy at Ruthigen (d) the Company having no further commitments for funding the operations of Ruthigen and (e) the restrictions on transferability of the shares which extend beyond a one-year period. During the year ended March 31, 2014, the Company had noted no indicators of impairment as it relates to investment held in Ruthigen.

NOTE 9 – Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	March 31,	
	2014	2013
Salaries and related costs	\$ 516,000	\$ 455,000
Professional fees	362,000	141,000
Other	11,000	107,000
	<u>\$ 889,000</u>	<u>\$ 703,000</u>

NOTE 10 – Long-Term Debt

Financing of Insurance Premiums

On February 25, 2014, the Company entered into a note agreement for \$188,000 with an interest rate of 4.81% per annum. This instrument was issued in connection with financing insurance premiums. The note is payable in monthly installments of \$27,000 with the final payment on August 25, 2014. During the year ended March 31, 2014, the Company made principal and interest payments of \$53,000 and \$1,000, respectively. The remaining balance of this note amounted to \$135,000 at March 31, 2014 which is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

On February 25, 2013, the Company entered into a note agreement for \$155,000 with an interest rate of 4.81% per annum. This instrument was issued in connection with financing insurance premiums. The note is payable in monthly installments of \$22,500 with the final payment on August 25, 2013. During the year ended March 31, 2013, the Company made principal and interest payments of \$44,000 and \$1,000, respectively. The remaining balance of this note amounted to \$110,000 at March 31, 2013, which \$6,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

Venture Lending & Leasing, Inc. and Venture Lending & Leasing VI, Inc.

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 \$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 \$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 respective letter agreements with VLL5 and VLL6 to amend the repayment terms of its outstanding debt obligations. Prior to the execution of these agreements, LLC5 and LLC6 held an aggregate of 79,517 warrants (adjusted for the reverse stock split effective April 1, 2013) to purchase common stock, which, in the aggregate, had a total put option cash value of \$2,000,000 (the “Cash Settlement Liability”) and was included in long term liabilities on the Company’s consolidated balance sheets.

On that same day, the Company also entered into a stock purchase agreement with LLC5 and LLC6 (together with LLC5, collectively referred to as “WTI”) for the issuance to WTI of shares of its common stock having an aggregate grant date fair market value of \$3,500,000, or approximately \$5.67 per post-split share, in exchange for LLC5’s agreement to surrender the VLL5 Warrants, and LLC6’s agreement to surrender the VLL6 Warrants, and the surrender by WTI of the accompanying Cash Settlement Liability. Accordingly, on November 1, 2012, the Company issued an aggregate of 617,284 restricted shares of its post-split common stock (the “Shares”) to WTI, pursuant to the terms of the stock purchase agreement. The VLL5 Warrants and the VLL6 Warrants were surrendered on October 30, 2012.

If at any time between October 30, 2012 through either March 31, 2014 or July 31, 2015 (the “Settlement Dates”) WTI sells the Shares, then the proceeds from the sale of the Shares will be applied as follows (the “Grace Period”):

- (a) If and when the Shares are sold by WTI during the Grace Period, the fair value of the proceeds received will be retained by WTI as consideration for surrendering the Cash Settlement Liability, up to a maximum value of \$2,000,000.
- (b) If and when the Shares are sold by WTI during the Grace Period, any additional proceeds received from the sale of the Shares in excess of \$2,000,000 (approximately \$3.22 per share) but up to \$3,500,000 (approximately \$5.67 per share) will be applied by WTI as a prepayment of a portion of the then outstanding debt based on the terms of the stock purchase agreement.

- (c) If and when the Shares are sold by WTI during the Grace Period, any additional proceeds received from the sale of the Shares in excess of \$3,500,000 (approximately \$5.67 per share) up to \$4,500,000 (approximately \$7.28 per share) shall be the sole possession and property of WTI, in accordance with the terms of the stock purchase agreement.
- (d) If the Shares are sold by WTI during the Grace Period for value in excess of \$4,500,000 (approximately \$6.72 per share), 50% of the amount of the proceeds in excess of the \$4,500,000 will be the sole possession and property of WTI and 50% of the amount of the proceeds shall be applied as a prepayment of a portion of the then outstanding debt based on the terms of the stock purchase agreement.
- (e) If the Shares are sold by WTI during the Grace Period for value less than \$2,000,000 (approximately \$3.22 per share), the Company is required to make a cash payment to WTI until the total Cash Settlement Liability of \$2,000,000 has been recovered ("Cash Shortfall").

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 were no outstanding loans under the VLL5 Loan Agreements, the Company used the amount to prepay the outstanding loans under the VLL6 Loan Agreements, for which \$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 years ended March 31, 2014 and 2013, the Company made interest payments of \$188,000 and \$474,000, respectively, and aggregate principal payments of \$1,379,000 and \$1,855,000, respectively. In addition, for the years ended March 31, 2014 and 2013, the Company recorded \$863,000 and \$624,000 of non-cash interest related to the loans, respectively.

A summary of principal payments due in years subsequent to March 31, 2014 for long-term debt is as follows:

For Years Ending March 31,

2015	143,000
2016	4,000
Total principal payments	147,000
Less: current portion	(143,000)
Long-term portion	<u>\$ 4,000</u>

NOTE 11 – Derivative Liability

Warrants Issued in Conjunction with the Company's August 13, 2007 Private Placement

The Company deems financial instruments which do not have fixed settlement provisions to be derivative instruments. The common stock purchase warrants issued with the Company's August 13, 2007 private placement, and the common stock purchase warrants issued to the placement agent in the transaction, do not have fixed settlement provisions because their exercise prices may be lowered if the Company issues securities at lower prices in the future. The Company was required to include the reset provisions in order to protect the warrant holders from the potential dilution associated with future financings. At issuance, the warrants were recognized as equity instruments and have since been re-characterized as derivative liabilities. Accordingly, the warrant obligations were adjusted to fair value at the end of each reporting period with the change in value reported in the consolidated statement of comprehensive loss. Such fair values were estimated using the Black-Scholes valuation model. Although the Company determined the common stock warrants include an implied down-side protection feature, it performed a Monte-Carlo simulation and concluded that the value of the feature is de minimis between the two models and the use of the Black-Scholes valuation model is considered to be a reasonable method to value the warrants. The Company will continue to adjust the derivative liability for changes in fair value until the earlier of the exercise, at which time the liability will be reclassified to stockholders' equity (deficiency), or expiration of the warrants.

On February 13, 2013, the stock purchase warrants issued with the August 13, 2007 private placement expired. Accordingly, the Company has decreased the derivative liability by \$55,000, from the amount reported at March 31, 2012, to reflect the expiration of the warrants and related change in fair value. This amount is included as a gain due to the change in the fair value of derivative liabilities in the accompanying consolidated statement of comprehensive loss for the year ended March 31, 2013.

Warrants Issued in Conjunction with the Company's April 22, 2012 Registered Direct Offering

The Company deems financial instruments which require net-cash settlement as either an asset or a liability. The common stock purchase warrants issued in conjunction with the Company's April 22, 2012 registered direct offering originally contained a net-cash settlement feature which gave the warrant holder the right to net-cash settlement in the event certain transactions occur. Pursuant to the terms of the original warrants, if such a transaction occurs the warrant holder will be entitled to a net-cash settlement value calculated using the Black-Scholes valuation model using an expected volatility equal to the greater of 100% and the 100 day volatility obtained from the HVT function on Bloomberg, an expected term equal to the remaining term of the warrants, and applicable risk-free interest rate corresponding to the U.S. Treasury. On October 29, 2012, the Company entered into a side letter agreement with the holders of the warrants and the parties agreed to amend the terms of the warrants to eliminate the net-cash settlement feature contained in the warrants and extended the expiration date of the warrants by two years. Subsequent to the execution of the side letter agreement, the Company adjusted the fair value of the warrants to the modified fair value and recorded a \$298,000 gain. Additionally, the Company recorded a \$382,000 loss due to the incremental fair value adjustment resulting from the modification of the warrants from the April 2012 offering. Subsequent to the Company's entry into the side letter agreement, the Company reclassified the fair value of the warrants of \$1,636,000 from a liability to additional paid-in capital as classified on the accompanying March 31, 2013 consolidated balance sheet.

The derivative liability relating to the warrants with net-cash settlement provisions were valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

	Modification Incremental Fair Value October 30, 2012	Pre- modification October 30, 2012	April 22, 2012
Expected life	4.00 years	2.00 years	2.50 years
Risk-free interest rate	0.74%	0.30%	0.40%
Dividend yield	0.00%	0.00%	0.00%
Volatility	89%	100%	100%
Warrants outstanding	495,874	495,874	495,874
Fair value of warrants	\$ 1,636,000	\$ 1,254,000	\$ 2,347,000

Warrants Issued in Conjunction with the Company's December 9, 2013 and February 26, 2014 Registered Direct Offerings

The Company deems financial instruments which require net-cash settlement as either an asset or a liability. The common stock purchase warrants issued in conjunction with the Company's December 9, 2013 and February 26, 2014 registered direct offerings contain a net-cash settlement feature which give the warrant holder the right to net-cash settlement in the event certain transactions occur. Pursuant to the terms of the warrants, if such a transaction occurs the warrant holder will be entitled to a net-cash settlement value calculated using the Black-Scholes valuation model using an expected volatility equal to the greater of 100% and the 30 day volatility obtained from the HVT function on Bloomberg, an expected term equal to the remaining term of the warrants, and applicable risk-free interest rate corresponding to the U.S. Treasury.

The derivative liabilities relating to the warrants with net-cash settlement provisions were valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

Fair Value – Issue Date	Measurement Date	Warrants	Remaining Contract		Exercise		Risk-free		Fair Value
			Term in Years	Price	Volatility	Interest Rate			
Placement Agent Warrants	December 9, 2013	16,500	2.40	\$ 5.00	223%	0.44%		\$ 64,000	
Investor - Series A Warrants	February 26, 2014	450,620	1.50	\$ 3.00	100%	0.44%		814,000	
Investor - Series B Warrants	February 26, 2014	1,400,000	1.50	\$ 3.63	100%	0.44%		2,271,000	
Placement Agent Warrants	February 26, 2014	69,037	2.18	\$ 3.00	100%	0.44%		143,000	
								<u>\$ 3,292,000</u>	
Fair Value - Exercise Date									
Investor - Series A Warrants	March 18, 2014	315,434	1.44	\$ 3.00	104%	0.44%		\$ 1,180,000	
Investor - Series A Warrants	March 19, 2014	134,186	1.44	\$ 3.00	104%	0.44%		503,000	
								<u>\$ 1,683,000</u>	
Fair Value – Reporting Date									
Placement Agent Warrants	March 31, 2014	16,500	2.09	\$ 5.00	128%	0.44%		\$ 37,000	
Investor - Series A Warrants	March 31, 2014	1,000	1.41	\$ 3.00	128%	0.44%		1,000	
Investor - Series B Warrants	March 31, 2014	1,400,000	1.41	\$ 3.63	128%	0.44%		2,958,000	
Placement Agent Warrants	March 31, 2014	69,037	2.09	\$ 3.00	128%	0.44%		179,000	
								<u>\$ 3,175,000</u>	

The following table sets forth a summary of the changes in the fair value of our Level 3 financial liabilities that are measured at fair value on a recurring basis:

	Year Ended March 31,	
	2014	2013
Beginning balance	\$ –	\$ 55,000
Fair value of warrants issued	3,292,000	2,347,000
Mark to market net unrealized loss (gain)	1,566,000	(1,148,000)
Incremental fair value adjustment due to modification	–	382,000
Reclassification to additional paid in capital	(1,683,000)	(1,636,000)
Ending balance	<u>\$ 3,175,000</u>	<u>\$ –</u>

NOTE 12 – Commitments and Contingencies

Lease Commitments

On June 15, 2013, the Company leased office space in Mexico with an address of: Av De Las Americas, 1592 Piso 7, en la Colonia Country Club en Guadalajara Jalisco, CP 44637 for 23,400 Mexican Pesos (approximately \$1,800 USD) per month. One months' rent was required as a deposit. If the Company terminates this lease within the first year, a penalty in the amount of 12 months' rent is applicable. If the Company terminates the contract within the second year, a penalty in the amount of 8 months' rent is applicable. The lease term is for 3 years, beginning on June 15, 2013.

Also on June 15, 2013, the Company leased warehouse space in Mexico with an address of: Industria Mecanica Numero 2168 en el Fraccionamiento Industrial Zapopan Norte, de esta Ciudad for 35,000 Mexican Pesos (approximately \$2,700 USD) per month. A deposit equal to two months' rent was required. The lease term is from June 15, 2013 to June 14, 2014.

We also share certain office and laboratory space, as well as certain laboratory equipment, in a building located at 454 North 34th Street, Seattle, Washington. The space is rented for \$2,700 per month and requires a ninety day notice for cancellation.

The Company currently rents approximately 800 square feet of sales office space in Herten, the Netherlands. The office space is rented on a month to month basis at \$1,700 per month and requires a sixty day notice for cancellation.

On October 10, 2012, the Company entered into Amendment No. 7 to its property lease agreement, extending the lease on its Petaluma, California facility to September 30, 2017. Pursuant to the amendment, in exchange for certain improvements on the building, the Company agreed to increase the lease payment from \$10,380 to \$11,072 per month.

On October 31, 2011, the Company leased approximately 1,800 square feet of office and manufacturing space in Sacramento, California. On August 30, 2012, the Company entered into an amendment to its lease dated October 31, 2011 for the property located at 3045 65th Street, Suite 13, Sacramento, California 95820, to amend the lease to include a 3,000 square foot industrial unit located at 3021 65th Street, Sacramento, California, and to extend the lease on both properties to October 31, 2013. The total rent for both properties is \$2,610 per month.

Minimum lease payments for non-cancelable operating leases are as follows:

For Years Ending March 31,

2015	\$	321,000
2016		189,000
2017		149,000
2018		66,000
Total minimum lease payments	\$	<u>725,000</u>

Rental expense amounted to \$413,000 and \$392,000 for the years ended March 31, 2014 and 2013, respectively and is recorded in the accompanying consolidated statement of comprehensive income (loss).

Legal Matters

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 appeared to allege conversion of assets, tortious interference and defamation, among other claims. In 2014, the case was dismissed due to inactivity. The Company remains of the opinion that the lawsuit was completely without merit.

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 March 31, 2014, the Company had employment agreements in place with four 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 March 31, 2014, potential severance amounted to \$1,130,000 and aggregated annual salaries amounted to \$935,000.

Related Party 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 health care 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 health care products branded as Vetericyn®. The Company receives a fixed amount for each bottle of Vetericyn® sold by Vetericyn, Inc.

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.

Additionally, 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 with Vetericyn, Inc. and Innovacyn, Inc. During the years ended March 31, 2014 and 2013, the Company recorded revenue related to these agreements in the amounts of \$3,100,000 and \$3,906,000, respectively. The revenue is recorded in product revenues in the accompanying consolidated statements of comprehensive income (loss). At March 31, 2014 and 2013, the Company had outstanding accounts receivable of \$220,000 and \$264,000, respectively, related to Innovacyn, Inc.

In April of 2014, Innovacyn, Inc. notified the Company that over the next twelve months Innovacyn, Inc. will transition to a new supplier for its animal care products. The Company is discussing a transition agreement with Innovacyn, Inc. and is actively seeking new distribution channels and locating a new animal health care partner. The Company's future revenue may be adversely impacted during this transition.

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.

Commercial Agreements

On February 14, 2011, the Company entered into a Product Option Agreement with an Amneal Enterprises alliance member, AmDerma Pharmaceuticals, LLC ("AmDerma"). The Company plans to use its proprietary Microcyn® technology to develop a prescription pharmaceutical product for the treatment of acne in connection with AmDerma (the "Future Acne Product"). Pursuant to the Agreement, the Company sold the option to exclusively sell and distribute the Future Acne Product to AmDerma 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, the Company finalized 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, \$250,000 of the upfront payment will be applied against a future milestone in the transaction and is recorded as deferred revenue in the March 31, 2014 in the accompanying consolidated balance sheet. The \$250,000 of the upfront payment was earned and recognized as revenue during the year ended March 31, 2013.

On August 9, 2012, the Company, along with its Mexican subsidiary and manufacturer Oculus Technologies of Mexico S.A. de C.V. (“Manufacturer”), 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, Manufacturer granted More Pharma an exclusive license to certain of Manufacturer’s then-held trademarks in exchange for a payment of \$100,000 to Manufacturer. 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, along with Manufacturer, 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 will recognize 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 March 31, 2014 and 2013, the Company had outstanding accounts receivable of \$790,000 and \$580,000 due from More Pharma, respectively. During years ended March 31, 2014 and 2013, the Company recognized \$1,501,000 and \$932,000, respectively, related to the amortization of the upfront fees received in the transaction. Additionally, during the year ended March 31, 2014 and 2013, the Company recognized \$63,000 and \$39,000, respectively, as expense related to the transaction costs of the transaction. The Company recognizes product sales on a sell-through basis as More Pharma sells products through to its customers.

Other Matters

NASDAQ Listing Matters

On November 22, 2013, the Company received a letter from the Listing Qualifications staff of The NASDAQ Stock Market LLC, notifying the Company that it was 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, the Company had stockholders' equity of \$1,550,000, as reported in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, filed by the Company with the Securities and Exchange Commission on November 19, 2013. The letter also noted that, as of November 21, 2013, the Company 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).

The Company was notified by The NASDAQ Stock Market LLC on April 16, 2014 that it had regained compliance.

NOTE 13 – Stockholders' Equity

Authorized Capital

The Company is authorized to issue up to 14,285,715 shares of common stock with a par value of \$0.0001 per share and 714,286 shares of convertible preferred stock with a par value of \$0.0001 per share.

Description of Common Stock

Each share of common stock has the right to one vote. The holders of common stock are entitled to dividends when funds are legally available and when declared by the board of directors.

April 2012 Registered Direct Offering

On April 22, 2012, the Company entered into agreements with certain investors to issue up to: a) 337,143 shares of common stock; b) 1,000 shares of Series A Preferred Stock; and c) warrants to purchase up to 495,873 shares of common stock. The Company also offered up to 158,730 shares of common stock issuable upon conversion of the Series A Preferred Stock. The Company received approximately \$3,124,000 in gross proceeds from the sale of these securities. Net proceeds after deducting the placement agent commissions, legal expenses and other offering expenses, and assuming no exercise of the Warrants, was \$2,797,000. The Company retained Rodman & Renshaw, LLC as the exclusive placement agent for this offering, and paid them \$218,680 in placement agent commissions. Following the close of the transaction, one of the investors converted 1,000 shares of the Series A Preferred Stock purchased in the transaction into 158,730 shares of common stock.

In connection with the issuance of the Series A Preferred Stock, the Company determined the instrument contained a beneficial conversion feature at the date of issuance. This beneficial conversion feature amounted to \$1,062,000 and was recorded as a deemed preferred dividend on the consolidated statement of statement of comprehensive loss for the year ended March 31, 2013.

The warrants issued with the offering have an initial exercise price of \$8.26 per share, were not exercisable for nine months from the date of issuance, and had an initial exercise term of 2.5 years from the date of issuance. Additionally, the warrants initially contained a net-cash settlement feature which gave the warrant holder the right to net-cash settlement in the event certain transactions had occurred. Pursuant to the terms of the warrants, if such a transaction had occurred the warrant holder would have been entitled to a net-cash settlement value calculated using the Black-Scholes valuation model using specific volatility, expected term and risk-free interest rate assumptions, as further detailed in the warrants. On October 29, 2012, the Company entered into a side letter agreement with the holders of the warrants to amend the terms of the warrants. The holders of the warrants agreed to eliminate certain net-cash settlement features contained in the warrants in exchange for the Company's agreement to a two-year extension of the expiration date of the warrants. Accordingly, the expiration date of the warrants was extended from October 25, 2014 to October 25, 2016 (Note 10).

March 2013 Underwritten Public Offering

On March 12, 2013, the Company closed an underwritten public offering of 1,232,143 shares of common stock at an offering price to the public of \$2.80 per share, including an additional 160,715 shares of common stock to cover the underwriters' over-allotment. The gross proceeds from this offering were \$3,450,000, before deducting underwriting discounts and commissions and other estimated offering expenses of \$398,000. The Company also issued warrants to the underwriters to purchase 53,571 shares of the Company's common stock with an initial exercise price per share equal to \$3.50, which was 125% of the public offering price. The underwriters' warrants are exercisable from March 12, 2014 through March 12, 2016.

December 2013 Registered Direct Offering

On December 9, 2013, the Company completed a registered direct offering with accredited investors and issued 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.

February 2014 Registered Direct Offering

On February 26, 2014, the Company completed a registered direct offering to institutional and accredited investors for \$1,352,000 and net proceeds of \$1,186,000 after deducting placement agent commissions and other offering costs. The Company issued units (the "Units"), consisting of shares of common stock and Series A and Series B warrants (collectively, the "Warrants"). Each Unit was priced at \$3.00 and comprised of one share of common stock (the "Shares"), a Series A warrant (the "Series A Warrants") and a certain number of Series B warrants (the "Series B Warrants"). Each investor received Series A Warrants to purchase a number of shares of common stock equal to 100% of the number of Shares purchased by such investor. Each investor received Series B Warrants to purchase a certain number of shares of common stock equal to the investor's respective percentage of the total Series B Warrant allotment of 1,400,000 shares, whereby such percentage was determined by the respective percentage of the investor's amount of the total Shares purchased by all investors in this offering; however, we did not issue fractional warrants and therefore, the number of Series B Warrants issued was rounded up or down depending on the total amount invested by each respective investor. The Series A Warrants will have an exercise price per share of \$3.00 and expire five years from the date of issuance. The Series B Warrants will not be exercisable for six months following closing, will have an exercise price per share of \$3.63 and expire on the later of (a) one year from the earlier of (i) the effective date of an effective registration statement pursuant to which all the Series B Warrant shares are registered for resale and (ii) the date that all Series B Warrant shares may be sold pursuant to Rule 144 (without volume limitations and assuming cashless exercise) and (b) one year anniversary of the closing of the initial public offering of our subsidiary, Ruthigen, Inc., or March 26, 2014. The Series B Warrants vested at the closing of Ruthigen's initial public offering on March 26, 2014.

The Company retained Dawson James Securities, Inc. as the exclusive placement agent for this offering, and paid them \$94,630 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 69,037 shares of common stock. The warrants are exercisable at \$3.00 per share and will expire on May 3, 2016. The warrant issued to Dawson James Securities, Inc. has no registration rights, but does contain cashless exercise provisions.

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 years ended March 31, 2014 and 2013, the Company issued 65,645 and 25,105 shares of common stock, respectively, in connection with this agreement. The Company has 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 market value of the stock as compensation expense. During the years ended March 31, 2014 and 2013, the Company recorded \$208,000 and \$179,000 of expense related to this agreement, respectively. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statements of comprehensive income (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 market value of the stock as compensation expense. During the years ended March 31, 2014 and 2013, the Company issued 30,361 and 12,232 shares of common stock, respectively. During the years ended March 31, 2014 and 2013, the Company recorded \$120,000 and \$120,000, respectively, of expense related to this agreement, of which \$109,000 was paid with 30,361 shares of common stock. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statement of comprehensive income (loss).

On September 4, 2012, the Company entered into an agreement with Worldwide Financial Marketing, Inc. for providing financial advisory services. Pursuant to the agreement, the Company agreed to pay Worldwide Financial Marketing, Inc. 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 market value of the stock as expense. During the year ended March 31, 2014 and 2013, the Company issued 10,000 and 3,571 shares of common stock, respectively, in connection with this agreement. During the year ended March 31, 2014 and 2013, the Company recorded \$23,000 and \$17,000 of expense related to this agreement, respectively. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statements of comprehensive income (loss).

NOTE 14 – Stock-Based Compensation

2004 Stock Plan

The Company's 2004 stock option plans (the "Plan") became effective July 2004. The Plan provides for grants of both incentive stock options (ISOs) and non-qualified stock options (NSOs) to employees, consultants and directors.

In accordance with the Plan, the stated exercise price may not be less than 100% and 85% of the estimated fair market value of the Company's common stock on the date of grant for ISOs and NSOs, respectively, as determined by the board of directors at the date of grant. With respect to any 10% shareholder, the exercise price of an ISO or NSO was not to exceed 110% of the estimated fair market value per share on the date of grant.

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

In connection with the Company's reincorporation in Delaware on December 15, 2006, the Company's board of directors determined no future options will be granted under the 2004 Plan.

2006 Stock Plan

The board initially adopted the 2006 Stock Incentive Plan on August 25, 2006. On December 14, 2006, the stockholders approved the 2006 Stock Incentive Plan which became effective at the close of the Company's initial public offering. The 2006 Stock Incentive Plan was later amended and restated by a unanimous board resolution on April 26, 2007, and such amendments were subsequently approved by the stockholders. On September 10, 2009, the Company's shareholders approved a subsequent amendment to the 2006 Stock Incentive Plan. The 2006 Stock Incentive Plan, as amended and restated, is hereafter referred to as the "2006 Plan."

The 2006 Plan provides for the granting of incentive stock options to employees and the granting of nonstatutory stock options to employees, non-employee directors, advisors and consultants. The 2006 Plan also provides for grants of restricted stock, stock appreciation rights and stock unit awards to employees, non-employee directors, advisors and consultants.

In accordance with the 2006 Plan the stated exercise price may not be less than 100% and 85% of the estimated fair market value of common stock on the date of grant for ISOs and NSOs, respectively, as determined by the board of directors at the date of grant. With respect to any 10% stockholder, the exercise price of an ISO or NSO shall not be less than 110% of the estimated fair market value per share on the date of grant.

Options issued under the 2006 Plan generally have a ten-year term.

Shares subject to awards that expire unexercised or are forfeited or terminated will again become available for issuance under the 2006 Plan. No participant in the 2006 Plan can receive option grants, restricted shares, stock appreciation rights or stock units for more than 26,786 shares (adjusted for the reverse stock split effective April 1, 2013) in the aggregate in any calendar year.

On November 7, 2006, the board initially authorized a total of 178,571 of the Company's common stock shares (adjusted for the reverse stock split effective April 1, 2013) for issuance under the 2006 Plan in addition to increases provided for in the 2006 Plan through August 25, 2016. On September 10, 2009, the Company's shareholders approved an amendment of the 2006 Plan which authorized and reserved an additional 142,858 shares (adjusted for the reverse stock split effective April 1, 2013) for issuance under the 2006 Plan. The number of shares of the Company's common stock reserved for issuance under the 2006 Plan may increase if such increase is approved by the board, with no further action by the stockholders, at the beginning of each fiscal year by an amount equal to the lesser of (i) 250,000 shares (adjusted for the reverse stock split effective April 1, 2013); (ii) 5% of the outstanding shares of common stock of the Company on the last day of the immediately preceding year, or (iii) an amount determined by the Company's board of the directors.

As provided under the 2006 Plan, the aggregate number of shares authorized for issuance as awards under the 2006 Plan increased on April 1, 2012 by 207,199 shares (which number constitutes 5% of the outstanding shares on the last day of the year ended March 31, 2012). During the year ended March 31, 2014, the board of directors approved an increase of 250,000 shares authorized for issuance. The Plan is subject to adjustment on April 1, 2014, at the board's discretion (Note 18).

2011 Stock Plan

On September 12, 2011, upon recommendation of the board, the stock holders approved the Company's 2011 Stock Incentive Plan (the "2011 Plan"). The 2011 Plan is effective as of June 21, 2012.

The 2011 Plan provides for the grant of incentive stock options as defined in Section 422 of the Internal Revenue Code to employees, and the grant of non-statutory stock options and stock purchase rights to employees, non-employee directors, advisors and consultants. The 2011 Plan also permits the grant of stock appreciation rights, stock units and restricted stock.

The board has authorized 428,572 of the Company's common stock for issuance under the 2011 Plan, in addition to automatic increases provided for in the 2011 Plan through April 1, 2021. The number of shares of the Company's common stock reserved for issuance under the 2011 Plan will automatically increase, with no further action by the stockholders, at the beginning of each fiscal year by an amount equal to the lesser of (i) 15% of the outstanding shares of the Company's common stock on the last day of the immediately preceding year, or (ii) an amount approved by the Company's board of directors. On April 1, 2012, the board determined not to increase the number of shares authorized for issuance under the 2011 Plan on April 1, 2012 as no shares had yet been issued from the 2011 Plan. The number of shares authorized for issuance will be subject to adjustment on April 1, 2014, in the board's discretion (Note 18).

Options issued under the 2011 Plan will generally have a ten-year term.

In accordance with the 2011 Plan, the stated exercise price of an employee incentive stock option shall not be less than 100% of the estimated fair market value of a share of common stock on the date of grant, and the stated exercise price of a nonstatutory option shall not be less than 85% of the estimated fair market value of a share of common stock on the date of grant, as determined by the board of directors. An employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company shall not be eligible for the grant of an employee incentive stock option unless such grant satisfies the requirements of Section 422(c)(5) of the Internal Revenue Code.

Shares subject to awards that expire unexercised or are forfeited or terminated for any other reason will again become available for issuance under the 2011 Plan. No participant in the 2011 Plan can receive option grants, stock appreciation rights, restricted shares, or stock units for more than 107,143 shares in the aggregate in any calendar year. As provided under the 2011 Plan, the aggregate number of shares authorized for issuance as awards under the 2011 Plan automatically increases on April 1 of each year by an amount equal to the lesser of (i) 15% of the outstanding shares on the last day of the immediately preceding year, or (ii) an amount determined by the board. During the year ended March 31, 2014, the board of directors approved an increase of 987,439 shares authorized for issuance. The Plan is subject to adjustment on April 1, 2014, at the board's discretion (Note 18).

Options and restricted stock units outstanding at March 31, 2014 under the various plans is as follows:

Plan	Total Number of Options and Restricted Stock Units Outstanding in Plan
2004 Plan	66,000
2006 Plan	1,114,000
2011 Plan	1,356,000
	2,536,000

A summary of activity under all option plans for the years ended March 31, 2014 and 2013 is presented below:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2012	895,000	\$ 16.52		
Options granted	124,000	6.41		
Options exercised	(10,000)	5.53		
Options forfeited or expired	(34,000)	24.38		
Outstanding at March 31, 2013	975,000	15.08		
Options granted	1,648,000	3.91		
Options exercised	—	—		
Options forfeited or expired	(87,000)	16.04		
Outstanding at March 31, 2014	2,536,000	7.78	8.49	\$ 258,000
Exercisable at March 31, 2014	934,000	\$ 14.11	6.25	\$ 122,000
Options available for grant as of March 31, 2014	916,000			

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock (\$3.77) for stock options.

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.

Employee stock-based compensation expense is as follows:

	Employee Stock-based Compensation for the Year Ended March 31, 2014	Employee Stock-based Compensation for the Year Ended March 31, 2013
Cost of revenues	\$ 126,000	\$ 132,000
Research and development	187,000	231,000
Selling, general and administrative	794,000	791,000
Total stock-based compensation	<u>\$ 1,107,000</u>	<u>\$ 1,154,000</u>

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

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:

	Year Ended March 31,	
	2014	2013
Fair value of common stock on date of grant	\$ 3.91	\$ 6.41
Expected Term	5.96 yrs	5.80 yrs
Risk-free interest rate	1.66%	0.72%
Dividend yield	0.00%	0.00%
Volatility	86.0%	88.0%

The weighted-average fair values of options granted during the years ended March 31, 2014 and 2013 were \$2.65 and \$4.61, respectively.

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 using an average of the historical volatilities of the Company and its 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. The estimated forfeiture rates used during the year ended March 31, 2014 ranged from 2.53% to 4.77%.

At March 31, 2014, there were unrecognized compensation costs of \$4,124,000 related to stock options which are expected to be recognized over a weighted-average amortization period of 2.78 years.

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

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

NOTE 15 – Income Taxes

The Company has the following net deferred tax assets (in thousands):

	March 31,	
	2014	2013
Deferred tax assets:		
Net operating loss carryforwards	\$ 36,209	\$ 34,880
Research and development tax credit carryforwards	1,650	1,646
Stock-based compensation	3,941	3,727
Reserves and accruals	2,537	1,404
Other deferred tax assets	13	13
State income taxes	(1)	1
Basis difference in assets	35	37
Total deferred tax assets	<u>\$ 44,384</u>	<u>\$ 41,708</u>
Deferred tax liabilities:		
Unrealized gain on Ruthigen	(3,111)	–
Net deferred tax asset	41,273	41,708
Valuation allowance	(41,273)	(41,708)
Net deferred tax asset	<u>\$ –</u>	<u>\$ –</u>

The Company's recorded income tax expense, net of the change in the valuation allowance, for each of the periods presented is as follows (in thousands):

	Years Ended March 31,	
	2014	2013
Income tax (benefit)	\$ 436	\$ (391)
Change in valuation allowance	(436)	391
Net income tax expense	<u>\$ –</u>	<u>\$ –</u>

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Years Ended March 31,	
	2014	2013
Expected federal statutory rate	(34.0)%	(34.0)%
State income taxes, net of federal benefit	(6.6)%	(3.8)%
Research and development credit	0.1%	(1.4)%
Foreign earnings taxed at different rates	(2.6)%	1.7%
Recognition of change in estimate of state and foreign NOL carryforward benefits	0.0%	0.0%
Effect of permanent differences on Ruthigen deconsolidation	29.7%	0.0%
Effect of permanent differences	(19.5)%	31.3%
Impact of change in foreign deferred	14.9%	(1.3)%
Impact of change in foreign net operating loss	15.8%	0.0%
Cancellation of stock options and true-ups	(6.5)%	0.9%
Withholding tax	0.0%	(0.9)%
Foreign tax credit	0.0%	0.9%
Other	(3.1)%	(0.7)%
	(11.8)%	(7.3)%
Change in valuation allowance	11.8%	7.3%
Totals	<u>0.0%</u>	<u>0.0%</u>

At March 31, 2014, the Company had net operating loss carryforwards for federal, state and foreign income tax purposes of approximately \$84,027,010, \$67,507,526 and \$16,994,620, respectively. The federal net operating loss carryforwards will expire, if not utilized, beginning of fiscal year March 31, 2022. The state net operating loss carryforwards will expire, if not utilized, beginning of fiscal year March 31, 2015. The foreign net operating loss carryforwards will expire, if not utilized, beginning of fiscal year March 31, 2018. The Company also had, at March 31, 2014, federal and state research credit carryforwards of approximately \$809,580 and 790,390, respectively. The federal credits will expire beginning in March 31, 2024 and the state credits do not expire. The Company also had, at March 31, 2014 foreign tax credits carryforwards of approximately \$50,000. The foreign credits will expire beginning of fiscal year March 31, 2024.

On March 26, 2014, Ruthigen, Inc. ("Ruthigen") filed a certificate of incorporation (the "Restated Certificate") with the Secretary of State of the State of Delaware in connection with the closing of the Company's initial public offering of its securities. Upon the closing of the initial public offering, the Company deconsolidated Ruthigen because it no longer has a controlling financial interest in Ruthigen, its former subsidiary. For tax purposes, no taxable gain or loss is recognized related to the Company's investment in Ruthigen because Oculus did not sell any of its ownership in Ruthigen as part of the initial public offering transaction. For financial reporting purpose, Ruthigen will be considered as a related party after the deconsolidation as long as Oculus still holds a non-controlling financial interest in Ruthigen. Ruthigen maintains a separate accounting function from Oculus as of March 26, 2014.

The Company has completed a study to assess whether a change in control has 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. The Company, after considering all available evidence, fully reserved for these and its other deferred tax assets since it is more likely than not such benefits will not be realized in future periods. The Company has incurred losses for both financial reporting and income tax purposes for the year ended March 31, 2014. 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 table of deferred tax assets and liabilities shown above does not include certain deferred tax assets at March 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.

The Company only recognizes tax benefits from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. To date, the Company has not recognized such tax benefits in its consolidated financial statements.

The Company has identified its federal tax return and its state tax return in California as major tax jurisdictions. The Company also filed tax returns in foreign jurisdictions, principally Mexico and The Netherlands. The Company's evaluation of uncertain tax matters was performed for tax years ended through March 31, 2014. Generally, the Company is subject to audit for the years ended March 31, 2013, 2012 and 2011 and may be subject to audit for amounts relating to net operating loss carryforwards generated in periods prior to March 31, 2011. The Company has elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect interest and penalties attributable to income taxes, to the extent they arise, as a component of its income tax provision or benefit as well as its outstanding income tax assets and liabilities. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments, other than those identified above that would result in a material change to its financial position.

The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized tax benefits will increase or decrease within 12 months of March 31, 2014. The unrecognized tax benefits may increase or change during the next year for items that arise in the ordinary course of business.

NOTE 16 – Employee Benefit Plan

The Company has a program to contribute and administer a qualified 401(k) plan. Under the 401(k) plan, the Company matches employee contributions to the plan up to 4% of the employee's salary. Company contributions to the plans amounted to an aggregate of \$131,000 and \$140,000 for the years ended March 31, 2014 and 2013, respectively.

NOTE 17 – Segment and Geographic Information

The Company generates product revenues from wound care products which are sold into the human and animal healthcare markets, and the Company generates service 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:

	March 31,	
	2014	2013
U.S.	\$ 5,340,000	\$ 6,842,000
Mexico	5,259,000	5,886,000
Europe and other	2,124,000	1,855,000
	<u>\$ 12,723,000</u>	<u>\$ 14,583,000</u>

For the year ended March 31, 2014 and 2013, the Company recognized product licensing revenues of \$1,829,000 and \$1,686,000, 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 \$945,000 and \$869,000 for the years ended March 31, 2014 and 2013.

NOTE 18 – Subsequent Events***At-the-Market Sales Issuances***

On April 2, 2014, the Company entered into an At-the-Market Issuance Sales Agreement with MLV & Co. LLC under which we may issue and sell shares of our common stock having an aggregate offering price of up to \$9,159,000 from time to time through MLV acting as the Company's sales agent. The Company will pay MLV a commission rate equal to 3.0% of the gross proceeds from the sale of any shares of common stock sold through MLV as agent under the Sales Agreement. As of June 24, 2014, the Company sold 300,000 shares and the sales of shares under this agreement have resulted in net proceeds of \$982,000.

Increase in Shares Authorized for Issuance under the 2006 and 2011 Plans

In April 2014, the Company's board of directors approved increases to the number of shares authorized for issuance under the 2006 and 2011 Plans by 250,000 and 1,224,021 shares, respectively.

No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained in this prospectus in connection with the offer made by this prospectus. If given or made, such information or representation must not be relied upon as having been authorized by Oculus Innovative Sciences, Inc. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any securities by any person in any jurisdiction in which such an offer or solicitation is not authorized or is unlawful. Neither delivery of this prospectus nor any sale made hereunder shall under any circumstances create an implication that information contained herein is correct as of any time subsequent to the date of this prospectus.

DEALER PROSPECTUS DELIVERY OBLIGATION

Until ____ (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

____ Shares of Common Stock and
Warrants to Purchase _____ Shares of Common Stock



OCULUS INNOVATIVE SCIENCES, INC.

PROSPECTUS

Sole Book-Running Manager

Maxim Group LLC

Co-Manager

Dawson James Securities, Inc.

PART II — INFORMATION NOT REQUIRED IN PROSPECTUS

OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The estimated costs of the issuance and distribution of the securities registered under this prospectus are denoted below. Please note that all amounts are estimates other than the Commission's registration fee.

	Amount to be paid
Approximate SEC Registration Fee	\$ 1,122.49
Transfer agent fees	\$ 15,000.00
Accounting fees and expenses	\$ 40,000.00
Legal fees and expenses	\$ 250,000.00
NASDAQ Fees	\$ 50,000.00
Miscellaneous (including EDGAR filing fees)	\$ 10,000.00
Total	<u>\$ 366,122.49</u>

We will pay all expenses of the offering listed above from cash on hand.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors, and other corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933 (the "Securities Act"). Our Restated Certificate of Incorporation and Bylaws, each as amended, provide for indemnification of our directors, officers, employees and other agents to the extent and under the circumstances permitted by the Delaware General Corporation Law. We have also entered into agreements with our directors and officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent not prohibited by law.

RECENT SALES OF UNREGISTERED SECURITIES

On September 30, 2014, we issued 32,501 restricted shares of common stock to Advocos, LLC as compensation for services rendered to us related to the sale of our products in the United States.

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.

EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

Exhibits

Exhibit No.	Description
1.1*	Form of Underwriting Agreement by and between Oculus Innovative Sciences, Inc. and Maxim Group LLC, dated _____ 2015.
3.1	Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc. (included as Exhibit 3.1 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	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).
3.4	Certificate of Amendment to the 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 December 8, 2014, and incorporated herein by reference).
3.5	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).
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	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).
4.9	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) declared effective on July 24, 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), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
4.11	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).
4.12	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).
4.13	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 (included as exhibit 4.14 to the Company's 10-Q filed February 14, 2014 and incorporated herein by reference).
- 4.15 Warrant issued to Dawson James Securities, Inc., dated December 9, 2013 (included as exhibit 4.14 to the Company's 10-Q filed February 14, 2014 and incorporated herein by reference).
- 4.16 Form of Series A Common Stock Purchase Warrant for February 2014 offering (included as exhibit 4.1 to the Company's Current Report on Form 8-K filed February 26, 2014 and incorporated herein by reference).
- 4.17 Form of Series B Common Stock Purchase Warrant for February 2014 offering (included as exhibit 4.2 to the Company's Current Report on Form 8-K filed February 26, 2014 and incorporated herein by reference).
- 4.18 Warrant issued to Dawson James Securities, Inc., dated February 26, 2014 (included as exhibit 4.3 to the Company's Current Report on Form 8-K filed February 26, 2014 and incorporated herein by reference).
- 4.19* Form of Warrant Agreement, including Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. for January 2015 public offering.
- 4.20 Form of Representative's Warrant to be issued to the Underwriters in connection with the January 2015 public offering (included as exhibit 4.20 to the Company's Amendment No. 1 to the Registration Statement on Form S-1 filed January 7, 2015 and incorporated herein by reference).
- 5.1* Opinion of Trombly Business Law, PC.
- 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 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).
- 10.3 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).
- 10.4 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).
- 10.5 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).
- 10.6 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).
- 10.7 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).
- 10.8 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).
- 10.9 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).
- 10.10 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).

- 10.11 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).
- 10.12 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).
- 10.13 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).
- 10.14 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).
- 10.15 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).
- 10.16 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).
- 10.17 Amended and Restated Oculus Innovative Sciences, Inc. 2006 Stock Incentive Plan and related form stock option plan agreements (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 2, 2007, and incorporated herein by reference).
- 10.18 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).
- 10.19 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).
- 10.20 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).
- 10.21 Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Non-Affiliated Investors, dated January 26, 2009 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 29, 2009, and incorporated herein by reference).
- 10.22 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).
- 10.23 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).
- 10.24 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).
- 10.25 Consultant Agreement by and between Oculus Innovative Sciences, Inc. and Robert C. Burlingame, dated April 1, 2009 (included as Exhibit 10.52 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference).
- 10.26 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).

- 10.27 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).
- 10.28 Engagement Agreement by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated April 10, 2009 (included as Exhibit 10.55 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
- 10.29 Amendment and Clarification of Engagement Letter by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 2, 2009 (included as Exhibit 10.56 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
- 10.30 Second Amendment and Clarification of Engagement Letter by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 10, 2009 (included as Exhibit 10.57 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
- 10.31† Warrant Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 13, 2009 (included as Exhibit 10.58 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
- 10.32 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 September 30, 2010 filed April 29, 2011, and incorporated herein by reference).
- 10.33 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).
- 10.34† 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).
- 10.35† 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).
- 10.36 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).
- 10.37 Continuous Offering Program Agreement between Oculus Innovative Sciences, Inc. and Rodman & Renshaw, LLC, dated September 3, 2010 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 17, 2010, and incorporated herein by reference).
- 10.38† 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).
- 10.39† 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).
- 10.40† 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).
- 10.41 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).

- 10.42 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).
- 10.43 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).
- 10.44 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).
- 10.45 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).
- 10.46 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).
- 10.47 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).
- 10.48 Intellectual Property Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated June 29, 2011 (included as Exhibit 10.6 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
- 10.49† 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).
- 10.50† 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).
- 10.51 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).
- 10.52† Securities Purchase Agreement by and between the Company 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).
- 10.53† Collaboration Agreement between Oculus Innovative Sciences, Inc. and AmDerma Pharmaceuticals, LLC, dated June 21, 2012 (included as Exhibit 10.53 to the Company's Annual Report on Form 10-K filed June 21, 2012 and incorporated herein by reference).
- 10.54† 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).
- 10.55 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).
- 10.56 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).
- 10.57 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).

- 10.58 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).
- 10.59 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).
- 10.60 Side Letter Agreement to the Stock Purchase Agreement dated April 22, 2012 by and between Oculus Innovative Sciences, Inc., on one hand, and Sabby Healthcare Volatility Master Fund, Ltd. and Sabby Volatility Warrant Master Fund, Ltd. on the other hand, dated October 29, 2012 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed November 1, 2012, and incorporated herein by reference).
- 10.61 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).
- 10.62 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).
- 10.63 License and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated May 23, 2013 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 7, 2013, and incorporated herein by reference).
- 10.64 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).
- 10.65 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).
- 10.66 Employment Agreement by and between Oculus Innovative Sciences, Inc. and Jim Schutz, dated June 20, 2013 (filed as Exhibit 10.68 to the Company's Annual Report on Form 10-K, filed June 25, 2013 and incorporated herein by reference).
- 10.67 Employment Agreement by and between Oculus Innovative Sciences, Inc. and Robert Miller, dated June 20, 2013 (filed as Exhibit 10.69 to the Company's Annual Report on Form 10-K, filed June 25, 2013 and incorporated herein by reference).
- 10.68 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).
- 10.69 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 10-Q filed November 19, 2013 and incorporated herein by reference).
- 10.70 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 10-Q filed November 19, 2013 and incorporated herein by reference).
- 10.71 Letter Agreement by and between Oculus Innovative Sciences, Inc., Venture Lending & Leasing V, Inc., and Venture Lending & Leasing VI, Inc., dated November 6, 2013 (filed as exhibit 10.66 to the Company's 10-Q filed November 19, 2013 and incorporated herein by reference).
- 10.72 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).
- 10.73 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).
- 10.74 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).
- 10.75 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).

10.76	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).
10.77	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).
10.79	Form of Securities Purchase Agreement by and between Oculus Innovative Sciences, Inc. and the Purchasers, dated February 21, 2014 (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed February 26, 2014 and incorporated herein by reference).
10.80	At-the-Market Issuance Sales Agreement, dated April 2, 2014, by and between Oculus Innovative Sciences, Inc. and MLV & Co. LLC (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed April 2, 2014 and incorporated herein by reference).
10.81	Lease Agreement by and between Oculus Innovative Sciences, Inc. and 2500 Investors, Inc., dated July 9, 2014 (included as Exhibit 10.82 to the Company's Quarterly Report on Form 10-Q, filed August 12, 2014, and incorporated herein by reference).
10.82	Securities Purchase Agreement, dated January 8, 2015, by and between Oculus Innovative Sciences, Inc. and two Investors, Ruthigen, Inc. and Dawson James Securities, Inc. (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed January 12, 2015 and incorporated herein by reference.)
21.1	List of Subsidiaries (included as Exhibit 21.1 to the Company's Annual Report on Form 10-K filed June 30, 2014, and incorporated herein by reference).
23.1*	Consent of Marcum LLP, independent registered public accounting firm.
23.2	Consent of Trombly Business Law, PC (included in Exhibit 5.1).
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.

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.

UNDERTAKINGS

- (a) The undersigned registrant hereby undertakes:
- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) of this chapter) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
 - (2) That, for the purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.
 - (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
 - (4) That, for the purposes of determining liability under the Securities Act of 1933 to any purchaser
- (i)(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) (§230.424(b)(3) of this chapter) shall be deemed to be part of this registration as of the date the filed prospectus was deemed part of and included in the registration statement; and
- (B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) (§230.424(b)(2), (b)(5), or (b)(7) of this chapter) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) (§230.415(a) (1)(i), (vii), or (x) of this chapter) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be a part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however;* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or
- (ii) Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A (§ 230.430A of this chapter), shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however;* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

- (5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§ 230.424 of this chapter);
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

- (6) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

- (7) The undersigned registrant hereby undertakes that:

- 1. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- 2. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

OCULUS INNOVATIVE SCIENCES, INC.

UNDERWRITING AGREEMENT

[_____] , 2015

MAXIM GROUP LLC
405 Lexington Avenue
New York, NY 10174

*As Representative of the Underwriters
named on Schedule A hereto*

Ladies and Gentlemen:

Oculus Innovative Sciences, Inc., a Delaware corporation (the “**Company**”), agrees, subject to the terms and conditions set forth herein, with each of the underwriters listed on Schedule A hereto (collectively, the “**Underwriters**”), for whom Maxim Group LLC is acting as representative (in such capacity, the “**Representative**”), to sell and issue to the Underwriters an aggregate of [_____] shares (the “**Shares**”) of common stock, par value \$0.0001 per share, of the Company (the “**Common Stock**”), together with [_____] warrants to purchase an aggregate of ___ shares of Common Stock at an exercise price equal to \$ ___ per share (each a “**Warrant**” and collectively, the “**Warrants**”). Each Share shall be sold together with a Warrant to purchase ___ of an additional share of Common Stock and the Shares and Warrants shall be separately transferable immediately upon issuance. The offering and sale of Shares and Warrants contemplated by this underwriting agreement (this “**Agreement**”) is referred to herein as the “**Offering**.” The Shares and Warrants, together with any Option Securities (defined below), are referred to herein as the “**Offered Securities**.”

1. Purchase, Sale and Delivery of Offered Securities.

(a) Purchase of Firm Securities. On the basis of the representations and warranties herein contained, and subject to the terms and conditions herein set forth, the Company agrees to issue and sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company, at a price of \$[] per Share together with one Warrant, at a price of \$0.01 per Warrant (which prices reflect the underwriting discount specified in Section 3(a)(i) below) (the “**Purchase Price**”), that number of Offered Securities set forth in Schedule A opposite the name of such Underwriter (the “**Firm Securities**”).

(b) Payment and Delivery of Firm Securities. Delivery of the Firm Securities in a form reasonably acceptable to the Representative against payment of the applicable purchase price in federal funds by wire transfer to an account at a bank designated by the Company shall be made at 10:00 a.m., New York City time, on the third Business Day following the effective date (the “**Effective Date**”) of the Registration Statement (as defined below) (or the fourth Business Day following the Effective Date, if the Registration Statement is declared effective after 4:30 p.m.) or at such other time and place as shall be agreed upon by the Representative and the Company. The hour and date of delivery and payment for the Firm Securities is called the “**First Closing Date**.”

(c) Purchase of Option Securities. Upon notice from the Representative given to the Company from time to time not more than 45 days subsequent to the date of the Final Prospectus (as defined below) the Underwriters may purchase up to an additional [____] Shares and/or [____] Warrants (the “**Option Securities**”) at a purchase price of \$[____] per Share and \$[____] per Warrant (which reflects the underwriting discount specified in Section 3(a)(ii)). The Company agrees to sell to the Underwriters the number of Option Securities (Shares and/or Warrants) specified in such notice and the Underwriters agree, severally and not jointly, to purchase such Option Securities. No Option Securities shall be sold or delivered unless the Firm Securities previously have been, or simultaneously are, sold and delivered. The right to purchase the Option Securities or any portion thereof (the “**Over-allotment Option**”) may be exercised from time to time and, to the extent not previously exercised, may be surrendered and terminated at any time upon notice by the Representative to the Company. The Underwriters will be under no obligation to purchase any of the Option Securities prior to the exercise of the Over-allotment Option.

The Over-allotment Option may be exercised by the giving of oral notice to the Company from the Representative, which must be confirmed in writing by overnight mail, facsimile transmission or electronic mail setting forth the number of Option Securities to be purchased. Each time for the delivery of and payment for the Option Securities, being referred to herein as the “**Option Closing Date**,” which may be the First Closing Date (the First Closing Date and each Option Closing Date, if any, being sometimes referred to as a “**Closing Date**”), shall be determined by the Representative but shall be no later than five Business Days after the written notice of the election to exercise the Over-allotment Option is given.

(d) Payment and Delivery of Option Securities. Delivery of the Option Securities in a form reasonably acceptable to the Representative against payment of the applicable purchase price in federal funds by wire transfer to an account at a bank designated by the Company shall be made on each Option Closing Date to or as instructed by the Representative for the accounts of the several Underwriters.

2. Offering by Underwriters. It is understood that the several Underwriters propose to offer the Firm Securities for sale to the public under the Securities Act of 1933, as amended (the “**Securities Act**”), upon the terms and conditions set forth in the Final Prospectus (as defined below). It is further understood that the Firm Securities are to be offered to the public initially at \$[] for each Share together with one Warrant. It is further understood that the Option Securities shall be offered to the public initially at \$[] per Share and \$[] per Warrant. The price at which the Offered Securities shall be offered to the public shall be referred to as the “**Public Offering Price**.”

3. Consideration; Payment of Expenses.

(a) In consideration of the services to be provided for hereunder, the Company shall pay to the Underwriters or their respective designees their pro rata portion (based on the number of Firm Securities purchased) of the following compensation with respect to the Offered Securities which they are offering:

- (i) An underwriting discount applied at each Closing equal to eight percent (8%) of the Public Offering Price; and

(ii) warrants, issued to the Representative or to such other parties designated by the Representative, to purchase up to an aggregate of [_____] shares of Common Stock (the “**Representative’s Warrants**”) equal to five percent (5%) of the total number of Shares sold in the Offering, including the Over-Allotment Option. The Representative’s Warrants shall not be redeemable. The Representative’s Warrants shall be exercisable, in whole or in part, commencing 180 days from the Effective Date and expiring on the five-year anniversary of the Effective Date at an initial exercise price of \$[_____] per share of Common Stock, which is equal to one hundred and ten percent (110%) of the Public Offering Price of the Offered Securities, and will have substantially similar terms as those Warrants sold in the offering, including any anti-dilution provisions. If no Warrants are sold in the offering, the Company may determine not to register such Representative’s Warrants. In such event, the Representative’s Warrants may be exercised as to all or a lesser number of shares of Common Stock, will provide for cashless exercise and will contain provisions for unlimited “piggyback” registration rights for a period of three years commencing six (6) months after the Effective Date at the Company’s expense. In addition, if the Registration Statement or any other registration statement registering the Representative’s Warrant and/or shares underlying such Representative’s Warrant is not effective at the time the Representative elects to exercise the Representative’s Warrants, then the Representative may exercise the Representative’s Warrants on a cashless basis.

The Representative’s Warrants and the shares of Common Stock issuable upon exercise of the Representative’s Warrants, are hereinafter referred to collectively as the “**Representative’s Securities**” and the Offered Securities and the Representative’s Securities are collectively referred to as the “**Securities**.”

(b) Whether or not the transactions contemplated by this Agreement are consummated, the Company hereby agrees to pay all actual costs and expenses incident to the Offering (less \$50,000, which amount was previously advanced to the Representative) (the “**Advance**”), including, without limitation:

(i) all fees and expenses in connection with the preparation, printing, formatting for EDGAR (including XBRL) and filing of the Registration Statement, Exchange Act Registration Statement, any Preliminary Prospectus (as defined below) and the Prospectus and any and all amendments and supplements thereto and other required filings with the Commission in connection with or as a result of the Offering, and the mailing and delivering of copies thereof to the Underwriters and dealers;

(ii) all fees and expenses in connection with filings with FINRA’s Public Offering System;

(iii) all fees, disbursements and expenses of the Company’s counsels and accountants in connection with the preparation and filing of the Registration Statement, the Exchange Act Registration Statement, the Preliminary Prospectus, the Disclosure Package, and the Final Prospectus prepared by or on behalf of, used by, or referred to by the Company and amendments and supplements to any of the foregoing;

(iv) all fees, expenses and disbursements relating to the registration or qualification of the Shares and Warrants for offering and sale under the “blue sky” securities laws of such states and other jurisdictions as the Representative may reasonably designate (including, without limitation, all filing and registration fees, and the fees and disbursements of Representative’s counsel with respect to such “blue sky” filings);

(v) all fees and expenses in connection with listing the Offered Securities on such stock exchange as the Company and Representative shall determine;

(vi) all fees, expenses and disbursements relating to background checks of the Company’s officers and directors;

(vii) the costs and expenses of the Company relating to investor presentations on any “road show” undertaken in connection with the marketing of the offering of the Offered Securities, including, without limitation, expenses associated with the preparation or dissemination of any electronic roadshow, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the representatives and officers of the Company and any such consultants in connection with the road show (“**Road Show Expenses**”);

(viii) any stock transfer taxes incurred in connection with this Agreement or the Offering;

(ix) the cost of preparing, printing and delivering certificates, if any, representing the Securities;

(x) the cost and charges of any transfer agent, warrant agent and/or registrar for the Securities;

(xi) stock transfer taxes, if any, payable upon the transfer of the Securities from the Company to the Representative;

(xii) the costs and expenses of a public relations firm as contemplated in Section 5(s) of this Agreement;

(xiii) the costs of all mailing and printing of the underwriting documents (including this Agreement, any Blue Sky Surveys and, if appropriate, any Agreement Among Underwriters, Selected Dealers’ Agreement, Underwriters’ Questionnaire and Power of Attorney);

(xiv) the legal fees for Representative’s legal counsel (other than the legal fees associated with “blue sky” filings, if any referenced in Section 3(b)(iv) above), which amount shall not exceed \$100,000;

(xv) the Representative’s accountable expenses including travel, lodging and other “road show” expenses, mailing, printing and reproduction expenses and expenses incurred in connection with due diligence (excluding fees payable to Representative’s legal counsel) not to exceed \$25,000; and

(xvi) all other costs and expenses incident to the performance of the Company obligations hereunder which are not otherwise specifically provided for in this Section 3.

(e) The Company grants the Representative the right of first refusal (“**Right of First Refusal**”) for a period of twelve (12) months from the date of commencement of sales of the Offering to act at very minimum as co-manager and co-book runner and/or co-placement agent, with at least 33.3% of the economics, for any and all future public and private equity financings of the Company or any successor to or any subsidiary of the Company (excluding (i) at-the-market offerings, (ii) funding from a strategic investor, or (iii) equity issued to purchase business assets or to acquire a strategic company). The Company shall provide written notice to Representative with terms of such offering and if Representative fails to accept in writing any such proposal for such public or private sale within 10 days after receipt of a written notice from the Company containing such proposal, then Representative will have no claim or right with respect to any such sale contained in any such notice. In the event the Company terminates this Agreement even though Maxim was prepared to proceed with the Offering, and the Company subsequently completes any public or private financing with any investor introduced to the Company by the Representative at any time during the nine (9) months after such termination, then the Representative shall be entitled to receive the compensation as set forth in Sections 3(a) and 3(b) hereto.

(d) The Representative reserves the right to reduce any item of compensation or adjust the terms thereof as specified herein in the event that a determination and/or suggestion shall be made by FINRA to the effect that the Underwriters' aggregate compensation is in excess of FINRA Rules or that the terms thereof require adjustment.

(e) In addition to the costs and expenses set forth in Section 3(b) above, the Company will be responsible for: (i) the cost of two (2) "tombstone" advertisements to be placed in appropriate daily or weekly periodicals of the Representative's choice (i.e., The Wall Street Journal and The New York Times) not to exceed \$5,000; and (ii) the cost of Offering commemorative lucite (or other reasonable form) memorabilia to be supplied to the Representative valued up to \$1,500, in such quantities as the Representative may reasonably request.

(f) It is understood, however, that except as provided in this Section 3, and Sections 7, 8 and 11(d) hereof, the Underwriters will pay all of their own costs and expenses. Notwithstanding anything to the contrary in this Section 3, in the event that this Agreement is terminated pursuant to Section 11(b) hereof, or subsequent to a Material Adverse Change, the Company will pay all out-of-pocket expenses of the Underwriters (including but not limited to fees and disbursements of Underwriters' Counsel and reasonable travel) incurred in connection herewith which shall be limited to expenses which are actually incurred as allowed under FINRA Rule 5110 and the aggregate amount of such expenses (including Underwriters' Counsel fees) to be reimbursed by the Company shall not exceed \$125,000, including the legal fees for Representative's legal counsel, which amount of legal fees shall not exceed \$100,000, less the \$50,000 Advance; and the Representative shall rebate any portion of the Advance to the extent it exceeds the Representative's actual out-of-pocket expenses.

4 . **Representations and Warranties of the Company.** The Company represents, warrants and covenants to, and agrees with, each of the Underwriters that, as of the date hereof and as of the Closing Date (for purposes of this Section 4, unless the context indicates otherwise, the "Company" includes the Company and its subsidiaries as set forth in Exhibit 21.1 to the Registration Statement, with the exception of Ruthigen, Inc. (the "**Subsidiaries**")):

(a) The Company has filed with the Commission a registration statement on Form S-1 (File No. 333-200461) covering the registration of the Securities under the Securities Act, including a related preliminary prospectus or prospectuses (a "**Preliminary Prospectus**"). At any particular time, such registration statement, in the form then on file with the Commission, including all information contained in the registration statement (if any) pursuant to Rule 462(b) of the Securities Act and then deemed to be a part of the initial registration statement, and all 430A Information and all 430C Information, that in any case has not then been superseded or modified, shall be referred to as the "**Initial Registration Statement**." The Company may also have filed, or may file with the Commission, a Rule 462(b) registration statement covering the registration of Offered Securities. At any particular time, this Rule 462(b) registration statement, in the form then on file with the Commission, including the contents of the Initial Registration Statement incorporated by reference therein and including all 430A Information and all 430C Information, that in any case has not then been superseded or modified, shall be referred to as the "**Additional Registration Statement**." The Company has also filed, in accordance with Section 12 of the Exchange Act, registration statements (the "**Exchange Act Registration Statements**") on Forms 8-A (File No. 001-33216 and File No. _____) under the Exchange Act to register, under Section 12(b) of the Exchange Act, the Offered Securities. For purposes of this Agreement, all references to the Initial Registration Statement, the Additional Registration Statement, the Exchange Act Registration Statement, any Preliminary Prospectus or any amendment or supplement, or the Final Prospectus (including any prospectus wrapper) to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("**EDGAR**").

As of the time of execution and delivery of this Agreement, the Initial Registration Statement has been declared effective under the Securities Act and is not proposed to be amended. Any Additional Registration Statement has or will become effective upon filing with the Commission pursuant to Rule 462(b) and is not proposed to be amended. The Securities all have been or will be duly registered under the Securities Act pursuant to the Initial Registration Statement and, if applicable, the Additional Registration Statement.

For purposes of this Agreement:

“**430A Information**”, with respect to any registration statement, means information included in a prospectus and retroactively deemed to be a part of such registration statement pursuant to Rule 430A(b).

“**430C Information**”, with respect to any registration statement, means information included in a prospectus then deemed to be a part of such registration statement pursuant to Rule 430C.

“**Applicable Time**” means [] [A.M.] (New York City time) on the date of this Agreement.

“**Closing Date**” has the meaning defined in Section 3 hereof.

“**Commission**” means the United States Securities and Exchange Commission.

“**Company’s knowledge**” means the knowledge of the officers and directors of the Company who are named in the Prospectus and General Counsel of the Company (however for purposes of clarity, the Company does not have a General Counsel), with the assumption that such individuals shall have made reasonable and diligent inquiry of the matters presented (with reference to what is customary and prudent for the applicable individuals in connection with the discharge by the applicable individuals of their respective duties as officers or directors. Similarly, the Company’s awareness, which is used in the form of “**aware**” or “**unaware**” depending on the context, means the knowledge of such individuals.

“**Effective Time**” with respect to the Initial Registration Statement or, if filed prior to the execution and delivery of this Agreement, the Additional Registration Statement, means the date and time as of which such Registration Statement was declared effective by the Commission or has become effective upon filing pursuant to Rule 462(c). If an Additional Registration Statement has not been filed prior to the execution and delivery of this Agreement but the Company has advised the Representative that it proposes to file one, “**Effective Time**” with respect to such Additional Registration Statement means the date and time as of which such Registration Statement becomes effective pursuant to Rule 462(b).

“**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended.

“**Final Prospectus**” means the Statutory Prospectus that discloses the Public Offering Price, other 430A Information and other final terms of the Securities and otherwise satisfies Section 10(a) of the Securities Act.

“**Issuer Free Writing Prospectus**” means any “issuer free writing prospectus,” as defined in Rule 433, relating to the Offered Securities in the form filed or required to be filed with the Commission or, if not required to be filed, in the form retained in the Company’s records pursuant to Rule 433(g) (For purposes of clarity, the Company does not meet the requirements to use an Issuer Free Writing Prospectus in this transaction pursuant to Rules 164(e)(2)(iii) and 405 of the Securities Act). The Company has made available a “bona fide electronic road show,” as defined in Rule 433, in compliance with Rule 433(d)(8)(ii) (the “**Bona Fide Electronic Road Show**”) such that no filing of any “road show” (as defined in Rule 433(h)) is required in connection with the offering of the Offered Securities.

“**Prospectus**” means the Preliminary Prospectus and the Final Prospectus, as the case may be.

The Initial Registration Statement and the Additional Registration Statement are referred to collectively as the “**Registration Statements**” and individually as a “**Registration Statement**”. A “**Registration Statement**” with reference to a particular time means the Initial Registration Statement and any Additional Registration Statement as of such time. A “**Registration Statement**” without reference to a time means such Registration Statement as of its Effective Time. For purposes of the foregoing definitions, 430A Information with respect to a Registration Statement shall be considered to be included in such Registration Statement as of the time specified in Rule 430A.

“**Rules and Regulations**” means the rules and regulations of the Commission.

“**Securities Laws**” means, collectively, the Sarbanes-Oxley Act of 2002 (“**Sarbanes-Oxley**”), the Securities Act, the Exchange Act, the Rules and Regulations, the auditing principles, rules, standards and practices applicable to auditors of “issuers” (as defined in Sarbanes-Oxley) promulgated or approved by the Public Company Accounting Oversight Board and, as applicable, the rules (the “**Trading Market Rules**”) of The Nasdaq Stock Market (the “**Trading Market**”).

“**Statutory Prospectus**” with reference to a particular time means the prospectus included in a Registration Statement immediately prior to that time, including any 430A Information or 430C Information with respect to such Registration Statement. For purposes of the foregoing definition, 430A Information shall be considered to be included in the Statutory Prospectus as of the actual time that form of prospectus is filed with the Commission pursuant to Rule 424(b) or Rule 462(c) and not retroactively.

Unless otherwise specified, a reference to a “**Rule**” is to the indicated rule under the Securities Act.

(b) (i) (A) At their respective Effective Times, (B) on the date of this Agreement and (C) on each Closing Date, each of the Initial Registration Statement, the Additional Registration Statement (if any), and any amendments and supplement thereto conformed and will conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and did not and will not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) on its date, at the time of filing of the Final Prospectus pursuant to Rule 424(b) or (if no such filing is required) at the Effective Time of the Additional Registration Statement in which the Final Prospectus is included, and on each Closing Date, the Final Prospectus will conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and will not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading. The preceding sentence does not apply to statements in or omissions from any such document based upon written information furnished to the Company by any Underwriter through the Representative specifically for use therein (the “**Underwriters’ Information**”).

(c) At the time of the filing of the Initial Registration Statement, the Company did not meet the requirements to use an Issuer Free Writing Prospectus in this transaction pursuant to Rules 164(e)(2)(iii) and 405 of the Securities Act.

(d) As of the Applicable Time, the Preliminary Prospectus, dated [], 2014 (which is the most recent Statutory Prospectus distributed to investors generally) and the other information, if any, stated in Schedule B to this Agreement, all considered together (collectively, the “**Disclosure Package**”), when considered together with the Disclosure Package, did not include any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The preceding sentence does not apply to statements in or omissions from any Statutory Prospectus in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representative specifically for use therein.

(e) The Company has not used, and will not use, an Issuer Free Writing Prospectus in connection with this Offering.

(f) The Registration Statements, the Statutory Prospectus, the Final Prospectus and the Exchange Act Registration Statements and the filing of the Registration Statements, the Statutory Prospectus, the Final Prospectus and the Exchange Act Registration Statements with the Commission have been duly authorized by and on behalf of the Company, and the Registration Statements and the Exchange Act Registration Statements have been duly executed pursuant to such authorization by and on behalf of the Company.

(g) The Company has not distributed and will not distribute, prior to the later of the latest Closing Date and the completion of the Underwriters’ distribution of the Offered Securities, any offering material in connection with the Offering, other than any Preliminary Prospectus and the Final Prospectus.

(h) The interactive data in the eXtensible Business Reporting Language (“**XBRL**”) included as an exhibit to, or incorporated by reference in, the Registration Statement fairly presents the information called for in all material respects and has been prepared in accordance with the Commission’s rules and guidelines applicable thereto.

(i) The Company has been duly incorporated and is existing in good standing under the laws of Delaware, with power and authority to own its properties and conduct its business as described in the Registration Statement and the Disclosure Package; and the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except to the extent that the failure to be so qualified or be in good standing (individually and in the aggregate) would not be likely to have a material adverse effect on: (i) the business, condition (financial or otherwise), results of operations, shareholders’ equity, properties or prospects of the Company and the Subsidiaries, taken as a whole; (ii) the long-term debt or capital stock of the Company; or (iii) the Offering or consummation of any of the other transactions contemplated by the Transaction Documents, the Registration Statement, Disclosure Package and Prospectus (any such effect being a “**Material Adverse Effect**”).

(j) The Company holds no ownership or other interest, nominal or beneficial, direct or indirect, in any corporation, partnership, joint venture or other business entity other than the Subsidiaries, with the exception of ownership interests in subsidiaries that are not operative.

(k) The Securities and all other outstanding capital stock of the Company have been duly authorized; the authorized capital stock of the Company conforms in all material respects to the description thereof set forth in the Registration Statement and the Disclosure Package; all outstanding capital stock of the Company are and, when the Securities sold by the Company have been delivered and paid for in accordance with this Agreement on each Closing Date, such Securities will be, validly issued, fully paid and nonassessable and issued in compliance with all applicable state, federal and foreign securities laws and conform in all material respects to the description of such Securities contained in the Registration Statement and Disclosure Package; except as disclosed in the Registration Statement and Disclosure Package, there are no outstanding rights (including, without limitation, preemptive rights), warrants or options to acquire, or instruments convertible into or exchangeable for, any common stock or other equity interest in the Company, or any contract, commitment, agreement, understanding or arrangement of any kind relating to the issuance of any common stock or other equity interest in the Company; the Securities to be sold by the Company, when issued and delivered against payment thereof, will be freely transferable by the Company to or for the account of the Underwriters and there are no restrictions on subsequent transfers of such Securities under the laws of Delaware or the United States.

(l) When the Warrants and Representative's Warrants have been delivered and paid for in accordance with this Agreement, as applicable, each will constitute valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally. The shares of Common Stock issuable upon exercise of the Warrants and the Representative's Warrants have been reserved for issuance upon the exercise of the Warrants and Representative's Warrants and, when issued in accordance with the terms thereof, will be duly and validly authorized, validly issued, fully paid and nonassessable and issued in compliance with all applicable state, federal and foreign securities laws.

(m) Since the end of the period covered by the latest audited and/or interim financial statements included in the Registration Statement and the Disclosure Package, except as disclosed in the Registration Statement and the Disclosure Package: (i) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of equity or repurchase or redemption by the Company of any class of equity; (ii) there has been no material adverse change (or, to the knowledge of the Company, any development which has a high probability of involving a material adverse change in the future), whether or not arising from transactions in the ordinary course of business, in or affecting: (A) the business, condition (financial or otherwise), results of operations, shareholders' equity, properties or prospects of the Company, taken as a whole; (B) the long-term debt or capital stock of the Company; or (C) the Offering or consummation of any of the other transactions contemplated by this Agreement, the Registration Statement and the Disclosure Package (a "**Material Adverse Change**"); (iii) there has been no development or event that would have a Material Adverse Effect; (iv) the Company has not entered into any material transaction or agreement or incurred any material liability or obligation, direct or contingent, that is not disclosed in the Registration Statement and Disclosure Package; and (v) the Company has not sustained any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Registration Statement and the Disclosure Package.

(n) All agreements between the Company and third parties expressly referenced in the Registration Statement and the Prospectus, other than such agreements that have expired by their terms or whose termination is disclosed in documents filed by the Company on EDGAR (the "**Material Agreements**"), are legal, valid and binding obligations of the Company enforceable in accordance with their respective terms, except to the extent that (i) enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general equitable principles, (ii) the indemnification provisions of certain agreements may be limited by federal or state securities laws or public policy considerations in respect thereof, and (iii) except for any unenforceability that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. The description of each of the Material Agreements in the Registration Statement and the Prospectus are accurate in all material respects.

(o) The Company has good and marketable title to all properties and assets owned by it which are material to the business of the Company in each case free from liens, charges, encumbrances and defects that would materially affect the value thereof or materially interfere with the use made or to be made thereof by the Company and any real property and buildings held under lease by the Company are held under valid and subsisting and, to the Company's knowledge, enforceable leases with such exceptions as are not material and do not interfere with the use made or proposed to be made of such property and buildings by the Company.

(p) The Company maintains such insurance covering its properties, operations, personnel and businesses as is customary for similar businesses in the jurisdictions in which it operates.

(q) The Company (i) possesses, and is in compliance with the terms of, all certificates, authorizations, franchises, licenses and permits and has made all declarations and filings with the appropriate governmental or regulatory authorities (collectively “**Licenses**”), except as such failure to possess or be in compliance with such Licenses would not be likely to have a Material Adverse Effect, and (ii) has not received any notice of proceedings relating to the revocation or modification of any Licenses that, if determined adversely to the Company could, individually or in the aggregate, have a Material Adverse Effect, except as described in the Registration Statement and the Prospectus.

(r) The Company is not (i) in violation of its constitutive documents; (ii) in violation of any applicable judgment, law or statute or any order, rule or regulation of any court or arbitrator or governmental or regulatory authority having jurisdiction over the Company or any of its assets or properties (including, without limitation, those promulgated by the Food and Drug Administration of the U.S. Department of Health and Human Services (the “**FDA**”) or by any foreign, federal, state or local regulatory authority performing functions similar to those performed by the FDA); (iii) in default (or with the giving of notice or lapse of time would be in default) under any existing obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the properties of the Company is subject, except such defaults under clauses (ii) and (iii) above that would not, individually or in the aggregate, result in a Material Adverse Effect.

(s) No consent, approval or authorization or order of or filing or registration with any person (including any governmental agency or body or any court) is required to be obtained or made by the Company for the consummation of the transactions contemplated by this Agreement, the agreement relating to the issuance of Warrants (the “**Warrant Agreement**”), and/or the Warrants (collectively the “**Transaction Documents**”) in connection with the issuance, offering and sale of the Offered Securities, except such as have been obtained or made and such as may be required under the applicable U.S. state securities laws, or by the by-laws and rules of the Financial Industry Regulatory Authority (“**FINRA**”), the Trading Market Rules, or the Securities Laws.

(t) The execution, delivery and performance of the Transaction Documents and the issuance and sale of the Securities hereunder by the Company and the consummation of the transactions contemplated by the Transaction Documents in connection with this Offering will not result in any violation of (i) any agreement or other instrument binding upon the Company; (ii) the provisions of any constitutive document of the Company; and (iii) any applicable judgment, law or statute or any order, rule or regulation of any court or arbitrator or governmental or regulatory authority having jurisdiction over the Company or any of its assets or properties, except, in the case of clauses (i) and (iii) above, for such violations that would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

(u) The Offered Securities have been approved for listing on the Trading Market.

(v) Except as disclosed in the Registration Statement and Disclosure Package, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act.

(w) Neither the Company nor, to the Company's knowledge, any of its directors, officers and affiliates, acting on its behalf, has taken, directly or indirectly, any action that is designed to or that has constituted or that would reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities.

(x) Any third-party statistical and market-related data included in the Registration Statement and Disclosure Package are based on or derived from sources that the Company believes to be reliable and accurate. The Company has obtained written consents for the use of such data for such sources to the extent required.

(y) Other than described in the Registration Statement and the Prospectus, to the Company's knowledge there are no pending actions, suits or proceedings (including any inquiries or investigations by any court or governmental agency or body) against or affecting the Company or any of its assets or properties that, if determined adversely to the Company, would individually or in the aggregate have a Material Adverse Effect or would materially and adversely affect the ability of the Company to perform its obligations under the Transaction Documents or which are otherwise material in the context in the sale of the Offered Securities.

(z) To the Company's knowledge, the Company's directors and executive officers are not a party to any legal, governmental or regulatory proceedings that would result in such director or officer to be unsuitable for his or her position on the Company's Board of Directors or in the Company, as applicable.

(aa) The Company is not and, after giving effect to the Offering and the application of the proceeds thereof as described in the Registration Statement and the Disclosure Package, will not be an "investment company" as defined in the Investment Company Act of 1940, as amended.

(bb) To the Company's knowledge, there are no statutes, regulations, contracts or other documents that are required to be described in the Registration Statement and Disclosure Package or to be filed as exhibits to the Registration Statement that are not described therein in all material respects or filed as required.

(cc) The Company owns, possesses and can acquire or license on reasonable terms all patents, patent applications, trademarks, trade names, copyrights, domain names, licenses, approvals, know-how and other intellectual property or similar rights, including registrations and applications for registration thereof (collectively, "**Intellectual Property Rights**") material to the conduct of the business now conducted by the Company, as described in the Registration Statement and Disclosure Package and the expected expiration of such Intellectual Property Rights would not, individually or in the aggregate, have a Material Adverse Effect. To the Company's knowledge, (i) there are no rights of third parties to any of the Intellectual Property Rights owned by the Company; (ii) there is no infringement, misappropriation, breach, default or other violation or the occurrence of any event that with notice or the passage of time would constitute any of the foregoing, by the Company or third parties of any of the Intellectual Property Rights of the Company; (iii) there is no pending or threatened action, suit, proceeding or claim by others challenging the validity, enforceability or scope of any such Intellectual Property Rights, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (iv) there is no pending or threatened action, suit, proceeding or claim by others that the Company infringes, misappropriates or otherwise violates or conflicts with any Intellectual Property Rights or other proprietary rights of others and the Company is unaware of any other facts which would form a reasonable basis for any such claim; and (v) none of the Intellectual Property Rights used by the Company in its business has been obtained or is being used by the Company in violation of any contractual obligation binding the Company or in violation of the rights of any persons, except such as would not, if determined adversely to the Company, individually or in the aggregate, have a Material Adverse Effect.

(dd) The Company has not sold, issued or distributed any Securities during the six-month period preceding the date hereof, including any sales pursuant to Rule 144A under, or Regulation D or S of, the Securities Act except as disclosed in the Registration Statement and Disclosure Package.

(ee) The financial statements (and the notes thereto) of the Company included in the Registration Statement and the Disclosure Package comply in all material respects with the applicable requirements of the Securities Act and fairly present in all material respects the financial position of the Company as of the dates specified and the results of operations and changes in financial position of the Company for the periods specified, and such financial statements have been prepared in conformity with United States generally accepted accounting principles (“GAAP”) applied on a consistent basis throughout the periods presented (except for (i) such adjustments to accounting standards and practices as are noted therein, (ii) in the case of unaudited interim financial statements, to the extent such financial statements may not include footnotes required by GAAP or may be condensed or summary statements and (iii) such adjustments which will not be material, either individually or in the aggregate); the summary and selected financial data and the unaudited financial results, including the quarterly financial results, included in the Registration Statement and the Disclosure Package comply in all material respects with the applicable requirements of the Securities Act, and present fairly the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included therein.

(ff) Marcum LLP, which has audited and reviewed certain financial statements of the Company, is an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the applicable rules and regulations thereunder adopted by the Commission and the Public Company Accounting Oversight Board (United States) (“PCAOB”).

(gg) The Company and the Board of Directors are in compliance with the provisions of the Sarbanes-Oxley Act and all rules of the Trading Market that are applicable to them as of the date of this Agreement. The Company maintains a system of internal controls, including, but not limited to, disclosure controls and procedures, internal controls over accounting matters and financial reporting and legal and regulatory compliance controls that are sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management’s general and specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management’s general and specific authorizations; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Since the end of the Company’s last audited financial statements included in the Registration Statement and Disclosure Package, there has been no (i) material weakness in the Company’s internal controls over financial reporting (whether or not remediated) and (ii) no change in the Company’s internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

(hh) The Company has no material obligation to provide or has made the required payment for retirement, healthcare, death or disability benefits to any of the present or past employees of the Company or to any other person.

(ii) No labor dispute with the employees of the Company exists or, to the Company's knowledge, is contemplated that is material to the Company. The Company is not aware of any existing, threatened or imminent labor disturbance by the employees of the Company that could have a Material Adverse Effect.

(jj) The Company is not in violation of any applicable statute, rule, regulation, decision or order of any governmental agency or body or court, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively "**Environmental Laws**"), is liable for any off-site disposal or contamination pursuant to any Environmental Laws or is subject to any claim relating to any Environmental Laws, which violation, contamination, liability or claim would, individually or in the aggregate, have a Material Adverse Effect.

(kk) The Company has filed all tax returns required to be filed through the date of this Agreement or has requested extensions thereof, except for those tax returns the failure to file of which does not and would not be likely to have a Material Adverse Effect, and all taxes (whether imposed directly or through withholding) including any interest, additions to tax or penalties applicable thereto due or claimed to be due have been paid, other than those being contested in good faith and for which adequate reserves have been provided.

(ll) Except as set forth in the Registration Statement or Disclosure Package, the Company is not a party to an "employee benefit plan," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974 ("**ERISA**") which: (i) is subject to any provision of ERISA and (ii) is or was at any time maintained, administered or contributed to by the Company and covers any employee or former employee of the Company or any ERISA Affiliate (as defined hereafter). These plans are referred to collectively herein as the "**Employee Plans**." For purposes of this Section, "**ERISA Affiliate**" of any person or entity means any other person or entity which, together with that person or entity, could be treated as a single employer under Section 414(m) of the Internal Revenue Code of 1986, as amended (the "**Code**"), or is an "affiliate," whether or not incorporated, as defined in Section 407(d)(7) of ERISA, of the person or entity.

(mm) Except for which such disclosure is not required to be disclosed in the Registration Statement or Disclosure Package, the Registration Statement or Disclosure Package identify each employment, severance or other similar agreement, arrangement or policy and each material plan or arrangement providing for insurance coverage (including any self-insured arrangements), workers' compensation, disability benefits, severance benefits, supplemental unemployment benefits, vacation benefits, retirement benefits or for deferred compensation, profit-sharing, bonuses, stock options, stock appreciation or other forms of incentive compensation, or post-retirement insurance, compensation or benefits which: (i) is not an Employee Plan, (ii) is entered into, maintained or contributed to, as the case may be, by the Company or any ERISA Affiliates, and (iii) covers any officer or director or former officer or director of the Company or any of its ERISA Affiliates. These contracts, plans and arrangements are referred to collectively in this Agreement as the "**Benefit Arrangements**." Each Benefit Arrangement has been maintained in compliance with its terms and with requirements prescribed by any and all statutes, orders, rules and regulations that are applicable to that Benefit Arrangement except where non-compliance would not reasonably be expected to result in a Material Adverse Effect.

(nn) Except as set forth in the Registration Statement, the Disclosure Package or the Prospectus, there is no material liability in respect of post-retirement health and medical benefits for retired employees of the Company or any of their respective ERISA Affiliates other than medical benefits required to be continued under applicable law, determined using assumptions that are reasonable in the aggregate, over the fair market value of any fund, reserve or other assets segregated for the purpose of satisfying such liability (including for such purposes any fund established pursuant to Section 401(h) of the Code). With respect to any of the Company's Employee Plans which are "group health plans" under Section 4980B of the Code and Section 607(1) of ERISA, there has been material compliance with all requirements imposed thereunder such that the Company or its ERISA Affiliates have no (and will not incur any) loss, assessment, tax penalty, or other sanction with respect to any such plan.

(oo) Except as set forth in the Registration Statement or the Disclosure Package, the Company is not a party to or subject to any employment contract or arrangement providing for annual future compensation, or the opportunity to earn annual future compensation (whether through fixed salary, bonus, commission, options or otherwise) of more than \$120,000 to any named executive officer or director.

(pp) None of the execution of the Transaction Documents or consummation of the Offering constitute a triggering event under any Employee Plan or any other employment contract, whether or not legally enforceable, which (either alone or upon the occurrence of any additional or subsequent event) will or may result in any payment (of severance pay or otherwise), acceleration, increase in vesting, or increase in benefits to any current or former participant, employee or director of the Company other than an event that is not material to the financial condition or business of the Company.

(qq) No "prohibited transaction" (as defined in either Section 406 of the ERISA or Section 4975 of Code), "accumulated funding deficiency" (as defined in Section 302 of ERISA) or other event of the kind described in Section 4043(b) of ERISA (other than events with respect to which the 30-day notice requirement under Section 4043 of ERISA has been waived) has occurred with respect to any employee benefit plan for which the Company would have any material liability; each employee benefit plan of the Company is in compliance in all material respects with applicable law, including (without limitation) ERISA and the Code; the Company has not incurred and does not expect to incur liability under Title IV of ERISA with respect to the termination of, or withdrawal from any "pension plan"; and each employee benefit plan of the Company that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or by failure to act, which could cause the loss of such qualification.

(rr) Except as described in the Registration Statement, Disclosure Package and Final Prospectus, there are no claims, payments, arrangements, agreements or understandings relating to the payment of a finder's, consulting or origination fee by the Company or any officer, director or stockholder of the Company (each, an "Insider") with respect to the sale of the Securities hereunder or any other arrangements, agreements or understandings of the Company or, to the Company's knowledge, any of its shareholders that may affect the Underwriter's compensation, as determined by FINRA. Except as described in the Registration Statement, Disclosure Package and Final Prospectus, the Company has not made and will not make any direct or indirect payments (in cash, securities or otherwise) to: (i) any person, as a finder's fee, consulting fee or otherwise, in consideration of such person raising capital for the Company or introducing to the Company persons who raised or provided capital to the Company within the 180 days prior to the initial filing of the Registration Statement for the Offering through the date that is 90 days after the Effective Date (however, for purposes of clarity, the Company has paid compensation to MLV & Co. LLC pursuant to the At-the-Market Issuance Sales Agreement between the Company and MLV & Co. LLC dated April 2, 2014 (it being noted that MLV & Co. LLC is not participating in the Offering) and the Company agreed to pay compensation to Dawson James in the event the Company sells the shares it holds in Ruthigen); (ii) to any FINRA member; or (iii) to any person or entity that has any direct or indirect affiliation or association with any FINRA member participating in the Offering, within the 180 days prior to the initial filing of the Registration Statement for the Offering through the date that is 90 days after the Effective Date. None of the net proceeds of the Offering will be paid by the Company to any participating FINRA member or its affiliates, except as specifically authorized herein. No officer, director or, to the Company's knowledge, any beneficial owner of the Company's securities (whether debt or equity, registered or unregistered, regardless of the time acquired or the source from which derived) (any such individual or entity, a "Company Affiliate") has any direct or indirect affiliation or association with any FINRA member (as determined in accordance with the rules and regulations of FINRA); no Company Affiliate is an owner of stock or other securities of any member of FINRA (other than securities purchased on the open market); no Company Affiliate has made a subordinated loan to any member of FINRA; and no proceeds from the sale of Securities (excluding underwriting compensation as disclosed in the Registration Statement, Disclosure Package or Final Prospectus) will be paid to any FINRA member, or any persons associated with or affiliated with any member of FINRA. Except as disclosed in the Registration Statement or the Prospectus, the Company has not issued any warrants or other securities or granted any options, directly or indirectly, to anyone who is a potential underwriter in the offering or a related person (as defined by FINRA rules) of such an underwriter within the 180-day period prior to the initial filing date of the Registration Statement through the 90-day period after the Effective Date; no person to whom securities of the Company have been privately issued within 180-day period prior to the initial filing date of the Registration Statement through the 90-day period after the Effective Date has any relationship or affiliation or association with any member of FINRA participating in the Offering; and no FINRA member participating in the offering has a conflict of interest with the Company. For this purpose, a "conflict of interest" exists when a member of FINRA and/or its associated persons, parent or affiliates in the aggregate beneficially own 10% or more of the Company's outstanding subordinated debt or common equity, or 10% or more of the Company's preferred equity. "FINRA member participating in the offering" includes any associated person of a FINRA member that is participating in the Offering, any member of such associated person's immediate family and any affiliate of a FINRA member that is participating in the Offering.

(ss) Neither the Company nor any of its directors or officers or, to the knowledge of the Company, any employees, agents or representatives of the Company acting on behalf of the Company, has taken any action in furtherance of an offer, payment, promise to pay, or authorization or approval of the payment or giving of money, property, gifts or anything else of value, directly or indirectly, to any "government official" (including any officer or employee of a government or government-owned or controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any of the foregoing, or any political party or party official or candidate for political office) to corruptively influence official action or secure an improper advantage for the Company; and the Company has conducted its business in compliance in all material respects with applicable anti-corruption laws and has instituted and maintained and will continue to maintain policies and procedures designed to promote and achieve compliance with such laws in all material respects.

(tt) The operations of the Company are and have been conducted in compliance in all material respects with applicable financial recordkeeping and reporting requirements and the applicable anti-money laundering statutes of all applicable jurisdictions where the Company conducts business, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively the "Anti-Money Laundering Laws"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company with respect to the Anti-Money Laundering Laws is pending or, to the Company's knowledge, threatened.

(uu) Neither the Company, its directors or officers nor, to the knowledge of the Company, any of its employees, agents, affiliates or representatives, is an individual or entity (each a “**Person**”) that is, or is owned or controlled by a Person that is: (i) the subject or target of any sanctions administered or enforced by the U.S. Department of Treasury’s Office of Foreign Assets Control, the United Nations Security Council, the European Union, Her Majesty’s Treasury or any orders or licenses issued pursuant to the Iran Threat Reduction and Syria Human Rights Act, the National Defense Authorization Act for Fiscal Year 2012, the Iran Freedom and Counter-Proliferation Act of 2012, the U.S. Trading With the Enemy Act, the U.S. International Emergency Economic Powers Act or the U.S. Syria Accountability and Lebanese Sovereignty Act (collectively, “**Sanctions**”), nor (ii) located, organized or resident in a country or territory that is the subject or target of Sanctions (including, without limitation, Cuba, Iran, Russia, North Korea, Sudan and Syria).

(vv) The Company has the power to submit, and pursuant to Section 14 of this Agreement has legally, validly, effectively and irrevocably submitted, to the personal jurisdiction of each New York State and United States Federal court sitting in The City of New York (each, a “**New York Court**”) and has validly and irrevocably waived any objection to the laying of venue of any suit, action or proceeding brought in any such court; and the Company has the power to designate, appoint and empower, and pursuant to Section 14 of this Agreement has legally, validly, effectively and irrevocably designated, appointed and empowered, an authorized agent for service of process in any action arising out of or relating to the Transaction Documents, the Disclosure Package, the Registration Statement, or the Offering in any New York Court, and service of process in any manner permitted by applicable laws effected on such authorized agent will be effective to confer valid personal jurisdiction over the Company as provided herein.

(ww) Each of the Transaction Documents has been, or will be prior to the execution thereof, duly authorized, and has been or will be duly executed and delivered by the Company and each of the other parties thereto and, is or will be a legal, valid and binding agreement of the Company, enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws relating to or affecting creditors’ rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(xx) All information contained in the questionnaires completed by each of the Company’s executive officers and directors immediately prior to the Offering and provided to the Representative as well as the biographies of such individuals in the Registration Statement are true and correct in all material respects and the Company has not become aware of any information which would cause the information disclosed in the questionnaires completed by the directors and executive officers or the biographies of such individuals in the Registration Statement to become inaccurate and incorrect.

(yy) No director or officer of the Company is subject to any non-competition agreement or non-solicitation agreement with any employer or prior employer which could materially affect his ability to be and act in his respective capacity of the Company.

(zz) No relationship, direct or indirect, exists between or among any of the Company or any Affiliate of the Company, on the one hand, and any director, officer, shareholder, customer or supplier of the Company or any Affiliate of the Company, on the other hand, which is required by the Securities Act, the Exchange Act or the Rules and Regulations to be described in the Registration Statement, the Disclosure Package or the Prospectus which is not so described as required. There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company to or for the benefit of any of the officers or directors of the Company or any of their respective family members, except as described in the Registration Statement, Disclosure Package and Prospectus.

(aaa) Except as would not, individually or in the aggregate, result in a Material Adverse Change, (i) there is (A) no unfair labor practice complaint pending or, to the best of the Company's knowledge, threatened against the Company before the National Labor Relations Board, and no grievance or arbitration proceeding arising out of or under collective bargaining agreements pending, or to the best of the Company's knowledge, threatened, against the Company, (B) no strike, labor dispute, slowdown or stoppage pending or, to the best of the Company's knowledge, threatened against the Company and (C) no union representation question existing with respect to the employees of the Company and, to the best of the Company's knowledge, no union organizing activities taking place and (ii) there has been no violation of any federal, state or local law relating to discrimination in hiring, promotion or pay of employees or of any applicable wage or hour laws.

(bbb) The Company is in compliance in all material respects with the applicable requirements of the U.S. Federal Trade Commission (the "FTC") and equivalent foreign commissions and agencies governing advertising, product promotion and with other applicable provisions of federal, state, local and other U.S. and foreign laws and regulations applicable to their businesses as presently conducted.

(ccc) The Company has not offered, or caused the Underwriters to offer, the Securities to any Person or entity with the intention of unlawfully influencing: (i) a customer or supplier of the Company to alter the customer's or supplier's level or type of business with the Company or (ii) a journalist or publication to write or publish favorable information about the Company or its products or services.

(ddd) As of the date hereof and as of the Closing Date, and except as contemplated by this Agreement, the Company does not operate within the United States or any state or territory thereof in such a manner so as to subject the Company or its operations or businesses to registration as a foreign company doing business in any state within the United States or to any of the following laws in any material respect: (i) the Bank Secrecy Act, as amended, (ii) the Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as amended, (iii) the Foreign Corrupt Practices Act of 1977, as amended, (iv) the Currency and Foreign Transactions Reporting Act of 1970, as amended, (v) the rules and regulations promulgated under any such law, or any successor law, or any judgment, decree or order of any applicable administrative or judicial body relating to such law, and (vi) any corresponding law, rule, regulation, ordinance, judgment, decree or order of any state or territory of the United States or any administrative or judicial body thereof.

(eee) As used in this Agreement, references to matters being "**material**" with respect to the Company shall mean a material event, change, condition, status or effect related to the condition (financial or otherwise), properties, assets (including intangible assets), liabilities, business, prospects, operations or results of operations of the Company or any of its Subsidiaries.

(fff) Any certificate signed by or on behalf of the Company and delivered to the Underwriters or to Ellenoff Grossman & Schole LLP ("**Underwriters' Counsel**") shall be deemed to be a representation and warranty by the Company to each Underwriter listed on Schedule A hereto as to the matters covered thereby.

(ggg) The disclosures in the Registration Statement and the Prospectus concerning the federal, state, local or foreign regulations applicable to the Offering and the Company's business are correct in all material respects and no other such regulations are required to be disclosed in the Registration Statement and the Prospectus which are not so disclosed.

(hhh) The preclinical studies and contemplated clinical trials (collectively, “**Studies**”) that are described in, or the results of which are referred to in, the Registration Statement, the Disclosure Package or the Prospectus were and, if still pending, are being conducted in all material respects in accordance with the protocols, procedures and controls designed for such Studies and with standard medical and scientific research procedures. Each description of the results of such Studies is accurate and complete in all material respects and fairly presents the data derived from such Studies, and the Company has no knowledge of any other studies the results of which are materially inconsistent with the results described or referred to in the Registration Statement, the Disclosure Package and the Prospectus. Except as set forth in the Registration Statement, the Disclosure Package and the Prospectus, the Company has not received any notice of, or correspondence from, the FDA or any other governmental authority requiring the termination, hold, suspension or material modification of any Studies that are described or referred to in the Registration Statement.

5. Covenants of the Company. The Company acknowledges, covenants and agrees with the Underwriters that:

(a) Unless filed pursuant to Rule 462(c) as part of the Additional Registration Statement in accordance with the next sentence, the Company will file the Final Prospectus, in a form approved by the Representative, with the Commission pursuant to and in accordance with subparagraph (1) (or, if applicable and if consented to by the Representative, subparagraph (4)) of Rule 424(b) not later than the earlier of (i) the second Business Day following the execution and delivery of this Agreement or (ii) the fifteenth Business Day after the Effective Time of the Initial Registration Statement. The Company will advise the Representative promptly of any such filing pursuant to Rule 424(b) and provide satisfactory evidence to the Representative of such timely filing. If an Additional Registration Statement is necessary to register a portion of the Securities under the Securities Act but the Effective Time thereof has not occurred as of the execution and delivery of this Agreement, the Company will file the Additional Registration Statement or, if filed, will file a post-effective amendment thereto with the Commission pursuant to and in accordance with Rule 462(b) on or prior to [10:00 P.M.], New York City time, on the date of this Agreement or, if earlier, on or prior to the time the Final Prospectus is finalized and distributed to any Underwriter, or will make such filing at such later date as shall have been consented to by the Representative.

(b) The Company will promptly advise the Representative of any proposal to amend or supplement at any time the Initial Registration Statement, any Additional Registration Statement or any Statutory Prospectus and will not effect such amendment or supplementation without the Representative’s consent; and the Company will also advise the Representative promptly of (i) the effectiveness of any Additional Registration Statement (if its Effective Time is subsequent to the execution and delivery of this Agreement), (ii) the time and date of any filing of any post-effective amendment to the Registration Statement or any amendment or supplement to any prospectus or the Prospectus, (iii) the time and date that any post-effective amendment to the Registration Statement becomes effective, (iv) any amendment or supplementation of a Registration Statement or any Statutory Prospectus, (v) any request by the Commission or its staff for any amendment to any Registration Statement, for any supplement to any Statutory Prospectus or for any additional information (the Representative acknowledges such information may be considered material inside information), (vi) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto or of any order preventing or suspending its use or the use of any prospectus or the Prospectus, or of any proceedings to remove, suspend or terminate from listing the Common Stock or Warrants from any securities exchange upon which it is listed for trading, or of the threatening or initiation of any proceedings for any of such purposes, and (vii) the receipt by the Company of any notification with respect to the suspension of the qualification of the Offered Securities in any jurisdiction or the institution or threatening of any proceedings for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order or the suspension of any such qualification and, if issued, to obtain as soon as possible the withdrawal thereof. Additionally, the Company agrees that it shall comply with the provisions of Rules 424(b), 430A and 430B, as applicable, under the Securities Act and will use its reasonable best efforts to confirm that any filings made by the Company under Rule 424(b) or Rule 433 were received in a timely manner by the Commission (without reliance on Rule 424(b)(8) or Rule 164(b)).

(c) At any time when a prospectus relating to the Offered Securities is (or but for the exemption in Rule 172 would be) required to be delivered under the Securities Act by any Underwriter or dealer, the Company will comply as far as it is able with all requirements imposed upon it by the Securities Act, as now and hereafter amended, and by the Rules and Regulations, as from time to time in force, and by the Exchange Act so far as necessary to permit the continuance of sales of or dealings in the Securities as contemplated by the provisions hereof, the Registration Statement, Disclosure Package and Final Prospectus. If during such period any event occurs as a result of which the Final Prospectus (or if the Final Prospectus is not yet available to prospective purchasers, the Disclosure Package) would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances then existing, not misleading, or if during such period it is necessary or appropriate in the opinion of the Company or its counsel or the Representative or Underwriters' Counsel to amend the Registration Statement or supplement the Final Prospectus (or if the Final Prospectus is not yet available to prospective purchasers, the Disclosure Package) in order to comply with the Securities Laws, the Company will promptly prepare and file with the Commission and furnish, at its own expense, to the Underwriters and the dealers and any other dealers upon request of the Representative, an amendment or supplement so that the statements in the Final Prospectus as so amended or supplemented will comply with applicable law and will not be misleading in the light of the circumstances under which they were made when the Final Prospectus is delivered to a prospective purchaser. Neither the Representative's consent to, nor the Underwriters' delivery of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 6 hereof.

(d) As soon as practicable, the Company will make generally available to its security holders an earnings statement covering a period of at least 12 months beginning with the first fiscal quarter of the Company occurring after the date of this Agreement which will satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 under the Securities Act.

(e) The Company will promptly deliver to the Representative and Underwriters' Counsel a signed copy of the Registration Statement, as initially filed and all amendments thereto, including all consents and exhibits filed therewith, and will maintain in the Company's files manually signed copies of such documents for at least five (5) years after the date of filing thereof. The Company will promptly deliver to each of the Underwriters such number of copies of any Preliminary Prospectus, the Prospectus, the Registration Statement, and all amendments of and supplements to such documents, if any, and all documents which are exhibits to the Registration Statement and Prospectus or any amendment thereof or supplement thereto, as the Representative may reasonably request. Prior to 10:00 a.m., New York time, on the Business Day next succeeding the date of this Agreement and from time to time thereafter, the Company will furnish the Underwriters with copies of the Prospectus in New York City in such quantities as the Representative may reasonably request in writing. Representative will make such request sufficiently in advance of such time to give the Company time to comply.

(f) The Company will arrange for the qualification of the Offered Securities for sale under the laws of such jurisdictions as the Representative designates and will continue such qualifications in effect so long as required for the distribution.

(g) For the period specified below (the “**Lock-Up Period**”), the Company will not, directly or indirectly, take any of the following actions with respect to its shares of Common Stock, or any securities convertible into or exchangeable or exercisable for any of its Common Stock (“**Lock-Up Securities**”): (i) offer, sell, pledge, contract to sell or otherwise dispose of Lock-Up Securities, (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-Up Securities, (iii) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in Lock-Up Securities within the meaning of Section 16 of the Exchange Act or (iv) file with the Commission a registration statement under the Securities Act relating to Lock-Up Securities, other than (A) registration statements on Form S-8 relating to the issuance, vesting, exercise or settlement of equity awards granted or to be granted pursuant to any employee benefit plan or employment agreement described in the Final Prospectus or (B) registration statement(s) relating to any underwritten public offering of equity securities of the Company by the Company or (C) registration statement(s) on Form S-4; provided, however, that the Company shall be permitted during the Lock-Up Period to (1) sell the Offered Securities to be sold hereunder, (2) issue shares of Common Stock or the grant of options to purchase shares of Common Stock or restricted share units or other securities under the Company’s share incentive plans, as such plans may be amended from time to time, including any increases to shares issuable under such plans pursuant to “evergreen” provisions in such plans after a period of six (6) months from the Effective Date, (3) issue securities upon the exercise of an option or a warrant, the vesting of a restricted share unit or the conversion of a security, (4) issue any securities by the Company in connection with the Company’s acquisition of one or more businesses, products or technologies, joint ventures, commercial relationships or other strategic corporate transactions, (5) issue and sell equity securities in an underwritten public offering pursuant to the registration statement(s) described in clause (iv)(B) of this paragraph, provided that the purchase or underwriting agreement for any such issuance is executed no earlier than 150 days after the date of the Final Prospectus, (6) shares of Common Stock and warrants to purchase shares of Common Stock the Company is obliged to issue on a contractual basis based on contracts executed on or prior to the date of the Final Prospectus as described in the Final Prospectus and additional warrants as compensation to the Company’s contract sales organization, and (7) during the period from three (3) months from the Effective Date until six (6) months from the Effective Date, issue and sell equity securities by the Company pursuant to the At-the-Market Issuance Sales Agreement between the Company and MLV & Co. LLC dated April 2, 2014 at prices greater than the Purchase Price. The initial Lock-Up Period will commence on the date hereof and continue for 180 days after the date of the Final Prospectus or such earlier date that Maxim Group LLC acting on behalf of the Underwriters consents to in writing; provided, however, that if (x) during the last 17 days of the initial Lock-Up Period the Company releases earnings results or announces material news or a material event, or (y) prior to the expiration of the initial Lock-Up Period, the Company announces that it will release earnings results during the 15-day period following the last day of the initial Lock-Up Period, then in each case the Lock-Up Period will be automatically extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the announcement of the material news or material event, as applicable, unless the Representative waives, in writing, such extension. The Company shall provide the Representative and each shareholder subject to the Lock-Up Period pursuant to the lock-up letters described in Section 6(h) with prior notice of any such announcement that gives rise to an extension of the initial Lock-up Period.

(h) The Company will use its best efforts to maintain the listing of the Offered Securities on the Trading Market.

(i) If, during such period after the first date of the public offering of the Offered Securities as in the opinion of counsel for the Underwriters the Final Prospectus (or in lieu thereof the notice referred to in Rule 173(a) of the Securities Act) is required by law to be delivered in connection with sales by an Underwriter or dealer (the “**Prospectus Delivery Period**”), any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Final Prospectus in order to make the statements therein, in the light of the circumstances when the Final Prospectus (or in lieu thereof the notice referred to in Rule 173(a) of the Securities Act) is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Final Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to the dealers (whose names and addresses the Representative will furnish to the Company) to which Offered Securities may have been sold by the Representative on behalf of the Underwriters and to any other dealers upon reasonable request, either amendments or supplements to the Final Prospectus so that the statements in the Final Prospectus as so amended or supplemented will not, in the light of the circumstances when the Final Prospectus (or in lieu thereof the notice referred to in Rule 173(a) of the Securities Act) is delivered to a purchaser, be misleading or so that the Final Prospectus, as amended or supplemented, will comply with applicable law.

(j) Upon reasonable request of any Underwriter in writing, the Company will furnish, or cause to be furnished, to such Underwriter an electronic version of the Company’s patents, trademarks, service marks and corporate logo for use on the website, if any, operated by such Underwriter solely for the purpose of facilitating the offering of the Offered Securities.

(k) The Company agrees (A) to apply the net proceeds to the Company from the sale of the Offered Securities in the manner set forth under the heading “Use of Proceeds” in the Registration Statement, the Disclosure Package and the Final Prospectus and to file such reports with the Commission with respect to the sale of the Offered Securities and the application of the proceeds therefrom as may be required by Rule 463 under the Securities Act; (B) not to use the proceeds to pay principal on outstanding loans from officers, directors or stockholders other than as described in the Prospectus, (C) not to invest, or otherwise use the proceeds received by the Company from its sale of the Offered Securities in such a manner as would require the Company to register as an investment company under the Investment Company Act; and (D) not to, directly or indirectly, use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person in any manner that will result in a violation of Sanctions (defined below) by any Person (including any Person participating in the offering, whether as underwriter, advisor, investor or otherwise). Except as disclosed in the Registration Statement, the Disclosure Package and the Final Prospectus, the Company does not have any material lending or other relationship with any bank or lending affiliate of any Underwriter. For purposes of clarity, the Company has an ongoing relationship with MLV & Co. LLC and the Company agreed to pay compensation to Dawson James in the event the Company sells the shares of Ruthigen that it currently holds.

(l) The Company will comply with and will require the Company’s directors and executive officers, in their capacities as such, to comply with all applicable Securities Laws, rules and regulations, including, without limitation, the Sarbanes-Oxley Act.

(m) With the prior written consent of the Company, the Representative acting on behalf of the Underwriters may release or waive the restrictions set forth in a lock-up letter described in Section 6(h) for any party thereunder. If the Representative, with prior written consent of the Company, agrees to release or waive the restrictions set forth in a lock-up letter described in Section 6(h) hereof for an officer or director of the Company and provide the Company with notice of the impending release or waiver at least three Business Days before the effective date of the release or waiver, the Company agrees to announce the impending release or waiver by a press release substantially in the form of Exhibit B hereto through a major news service at least two Business Days before the effective date of the release or waiver.

(n) The Company agrees not to, at any time at or after the execution of this Agreement, directly or indirectly, offer or sell any Offered Securities by means of any “prospectus” (within the meaning of the Securities Act), or use any “prospectus” (within the meaning of the Securities Act) in connection with the offer or sale of the Offered Securities, in each case other than the Final Prospectus.

(o) The Company consents to the use and delivery of the Preliminary Prospectus by the Underwriters in accordance with Rule 430 and Section 5(b) of the Securities Act.

(p) If the Company fails to maintain the listing of its shares of Common Stock or Warrants on the Trading Market, for a period of three (3) years from the Effective Date, the Company, at its expense, shall obtain and keep current a listing in the Standard & Poor’s Corporation Records Services or the Moody’s Industrial Manual; provided that Moody’s OTC Industrial Manual is not sufficient for these purposes.

(q) During the period of three (3) years from the Effective Date, the Company will make available to the Representative copies of all reports or other communications (financial or other) furnished to security holders or from time to time published or publicly disseminated by the Company, and will deliver to the Representative: (i) as soon as they are available, copies of any reports, financial statements and proxy or information statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as the Representative may from time to time reasonably request (such financial information to be on a consolidated basis to the extent the accounts of the Company and the Subsidiaries are consolidated in reports furnished to its security holders generally or to the Commission); provided, that any such item which is available on the EDGAR system (or successor thereto) need not be furnished in physical form.

(r) The Company will not issue press releases or engage in any other publicity, without the Representative’s prior written consent, for a period ending at 5:00 p.m. Eastern time on the first Business Day following the forty-fifth (45th) day following the later of the Closing Date or the completion of the distribution of the Securities within the meaning of the Securities Act, other than normal and customary releases issued in the ordinary course of the Company’s business, or as required by law.

(s) As of the Closing, the Company shall continue to engage a financial public relations firm reasonably acceptable to the Representative, which firm shall be experienced in assisting issuers in public offering of securities and in their relations with their security holders, and continuing to retain such firm for a period of two (2) years following the Closing.

(t) The Company shall continue to retain a transfer agent and shall retain a warrant agent (the “**Warrant Agent**”) reasonably acceptable to the Representative for a period of three (3) years following the Closing Date.

(u) For so long as the Warrants are outstanding, the Company shall maintain the Warrant Agreement in full force and effect with the Warrant Agent.

(v) The Company, during the period when the Final Prospectus is required to be delivered under the Securities Act or the Exchange Act, will file all documents required to be filed with the Commission pursuant to the Securities Act, the Exchange Act and the Rules and Regulations within the time periods required thereby.

(w) The Company will use its best efforts to do and perform all things required to be done or performed under this Agreement by the Company prior to the Closing Date, and to satisfy all conditions precedent to the delivery of the Securities.

(x) The Company will not take, and will cause its affiliates not to take, directly or indirectly, any action which constitutes or is designed to cause or result in, or which could reasonably be expected to constitute, cause or result in, the stabilization or manipulation of the price of any security to facilitate the sale or resale of the Securities.

(y) The Company shall cause to be prepared and delivered to the Representative, at its expense, within one (1) Business Day from the effective date of this Agreement, an Electronic Prospectus to be used by the Underwriters in connection with the Offering. As used herein, the term “**Electronic Prospectus**” means a form of prospectus, and any amendment or supplement thereto, that meets each of the following conditions: (i) it shall be encoded in an electronic format, satisfactory to the Representative, that may be transmitted electronically by the other Underwriters to offerees and purchasers of the Offered Securities for at least the period during which a Prospectus relating to the Securities is required to be delivered under the Securities Act; (ii) it shall disclose the same information as the paper prospectus and prospectus filed pursuant to EDGAR, except to the extent that graphic and image material cannot be disseminated electronically, in which case such graphic and image material shall be replaced in the electronic prospectus with a fair and accurate narrative description or tabular representation of such material, as appropriate; and (iii) it shall be in or convertible into a paper format or an electronic format, satisfactory to the Representative, that will allow recipients thereof to store and have continuously ready access to the prospectus at any future time, without charge to such recipients (other than any fee charged for subscription to the Internet as a whole and for on-line time).

(z) The Company shall maintain, for a period of no less than three (3) years from the Closing Date, a liability insurance policy affording no less than \$5 million in coverage for the acts of its officers and directors.

6 . Conditions of Underwriters’ Obligations. The obligations of the Underwriters to purchase and pay for the Firm Securities or Option Securities, as the case may be, as provided herein shall be subject to: (i) the accuracy of the representations and warranties of the Company herein contained, as of the date hereof and as of the Closing Date, (ii) the absence from any certificates, opinions, written statements or letters furnished to the Representative or to Underwriters’ Counsel pursuant to this Section 6 of any misstatement or omission, (iii) the performance by the Company of its obligations under the Transaction Documents, and (iv) each of the following additional conditions. For purposes of this Section 6, the terms “Closing Date” and “Closing” shall refer to the Closing Date for the Firm Securities or Option Securities, as the case may be, and each of the foregoing and following conditions must be satisfied as of each Closing.

(a) The Registration Statement shall have become effective and all necessary regulatory or listing approvals shall have been received not later than 5:30 p.m., New York time, on the date of this Agreement, or at such later time and date as shall have been consented to in writing by the Representative. If the Company shall have elected to rely upon Rule 430A under the Securities Act, the Prospectus shall have been filed with the Commission in a timely fashion in accordance with the terms hereof and a form of the Prospectus containing information relating to the description of the Securities and the method of distribution and similar matters shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period; and, at or prior to the Closing Date or the actual time of the Closing, no stop order suspending the effectiveness of the Registration Statement or any part thereof, or any amendment thereof, nor suspending or preventing the use of the Prospectus, shall have been issued; no proceedings for the issuance of such an order shall have been initiated or threatened; any request of the Commission for additional information (to be included in the Registration Statement, the Disclosure Package, the Prospectus or otherwise) shall have been complied with to the Representative’s satisfaction; and FINRA shall have raised no objection to the fairness and reasonableness of the underwriting terms and arrangements.

(b) The Representative shall not have reasonably determined, and advised the Company, that the Registration Statement, the Disclosure Package or the Final Prospectus, or any amendment thereof or supplement thereto, contains an untrue statement of fact which, in the Representative's reasonable opinion, is material, or omits to state a fact which, in the Representative's reasonable opinion, is material and is required to be stated therein or necessary to make the statements therein not misleading.

(c) The Representative shall have received the favorable written opinion (and as to the Option Closing Date, if any, a bring-down opinion), including, without limitation, a negative assurance letter of Trombly Business Law, PC, the legal counsel for the Company, dated as of the Closing Date addressed to the Underwriters relating to corporate and securities matters in the form attached hereto as Annex III.

(d) The Representative shall have received the written opinion and negative assurance statement of Jim Schutz, for the Company, dated as of the Closing Date, addressed to the Representative relating to regulatory matters, in a customary form reasonably satisfactory to the Representative and Underwriters' Counsel.

(e) The Representative shall have received a certificate of the Chief Executive Officer and Chief Financial Officer of the Company, dated as of each Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, Disclosure Package and Prospectus and any amendment or supplement thereto, as well as each Bona Fide Electronic Road Show used in connection with the Offering of the Securities, and this Agreement and that: (i) the condition set forth in subsection (a) of this Section 6 has been satisfied, (ii) as of the date hereof and as of the applicable Closing Date, the representations and warranties of the Company set forth in Section 4 hereof are accurate, (iii) as of the applicable Closing Date, all agreements, conditions and obligations of the Company to be performed or complied with hereunder on or prior thereto have been duly performed or complied with, (iv) the Company has not sustained any material loss or interference with its business, whether or not covered by insurance, or from any labor dispute or disruption or any legal or governmental proceeding, (v) no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereof has been issued and no proceedings therefor have been initiated or threatened by the Commission, (vi) there are no pro forma or as adjusted financial statements that are required to be included or incorporated by reference in the Registration Statement, Disclosure Package and Final Prospectus pursuant to the Rules and Regulations which are not so included or incorporated by reference, and (vii) subsequent to the respective dates as of which information is given in the Registration Statement, Disclosure Package and Prospectus there has not been any Material Adverse Change or any event that is reasonably likely to result in a Material Adverse Change, whether or not arising from transactions in the ordinary course of business.

(f) On the date of this Agreement and on the Closing Date, the Representative shall have received a "comfort" letter from Marcum LLP (and as to any Option Closing Date, a bring-down letter) as of the date of delivery and addressed to the Underwriters and in form and substance satisfactory to the Representative and Underwriters' Counsel, confirming that they are independent certified public accountants with respect to the Company within the meaning of the Securities Act and the Rules and Regulations and the applicable rules and regulations adopted by the PCAOB, and stating, as of the date of delivery (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five (5) days prior to the date of such letter), the conclusions and findings of such firm with respect to the financial information and other matters relating to the Registration Statement covered by such letter.

(g) Subsequent to the execution and delivery of this Agreement or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any post-effective amendment thereof) and the Prospectus (exclusive of any supplement thereto), there shall not have been any material change in the capital stock or long-term debt of the Company or any change or development involving a change, whether or not arising from transactions in the ordinary course of business, in the business, condition (financial or otherwise), results of operations, shareholders' equity, properties or prospects of the Company, including but not limited to any negative developments between the Company and the FDA or the occurrence of any fire, flood, storm, explosion, accident, act of war or terrorism or other calamity, the effect of which, in any such case described above, is, in the sole judgment of the Representative, so material and adverse as to make it impracticable or inadvisable to proceed with the Offering on the terms and in the manner contemplated in the Prospectus (exclusive of any supplement).

(h) The Representative shall have received a lock-up agreement from each party listed on Annex I (each, a "Lock-Up Party"), duly executed by the applicable Lock-Up Party, in each case substantially in the form attached as Annex II.

(i) The Common Stock and Warrants are registered under the Exchange Act and, as of the Closing Date, the Shares and Warrants shall be listed and admitted and authorized for trading on the Trading Market and satisfactory evidence of such action shall have been provided to the Representative. The Company shall have taken no action designed to, or likely to have the effect of terminating the registration of the Common Stock or Warrants under the Exchange Act or delisting or suspending from trading the Common Stock or Warrants from the Trading Market, nor has the Company received any information suggesting that the Commission or the Trading Market is contemplating terminating such registration or listing. The Shares, the Warrants, the Representative's Warrants and shares of Common Stock underlying the Warrants and the Representative's Warrants shall be DTC eligible.

(j) FINRA shall have confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements. In addition, the Company shall, if requested by the Representative, make or authorize the Underwriters' Counsel to make on the Company's behalf, an Issuer Filing with the FINRA Corporate Financing Department pursuant to FINRA Rule 2710 with respect to the Registration Statement and pay all filing fees required in connection therewith.

(k) No action shall have been taken and no statute, rule, regulation or order shall have been enacted, adopted or issued by any federal, state or foreign governmental or regulatory authority that would, as of the Closing Date, prevent the issuance or sale of the Securities; and no injunction or order of any federal, state or foreign court shall have been issued that would, as of the Closing Date, prevent the issuance or sale of the Securities or materially and adversely affect or potentially materially and adversely affect the business or operations of the Company.

(l) The Company shall have furnished the Underwriters and Underwriters' Counsel with such other certificates, opinions or other documents as they may have reasonably requested.

(m) Prior to the Closing, the Company shall have procured and shall covenant to maintain “key man” life insurance (in amounts set forth in the Prospectus and with the Company as the sole beneficiary thereof) with an insurer rated at least AA or better in the most recent edition of “Best’s Life Reports” on the lives of to be determined executive officer or officers of the Company.

(n) The Company shall have delivered to the Representative or its designees the Representative’s Warrant, duly executed by the Company.

If any of the conditions specified in this Section 6 shall not have been fulfilled when and as required by this Agreement, or if any of the certificates, opinions, written statements or letters furnished to the Representative or to Underwriters’ Counsel pursuant to this Section 6 shall not be reasonably satisfactory in form and substance to the Representative and to Underwriters’ Counsel, all obligations of the Underwriters hereunder may be cancelled by the Representative at, or at any time prior to, the consummation of the Closing. Notice of such cancellation shall be given to the Company in writing or by telephone. Any such telephone notice shall be confirmed promptly thereafter in writing.

7. **Indemnification.**

(a) The Company agrees to indemnify and hold harmless each of the Underwriters and each Person, if any, who controls each Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, against any losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to reasonable attorneys’ fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon (i) an untrue statement or alleged untrue statement of a material fact contained in (A) the Registration Statement, including the information deemed to be a part of the Registration Statement at the time of effectiveness and at any subsequent time pursuant to Rules 430A and 430B of the Rules and Regulations, the Disclosure Package, the Prospectus, or any amendment or supplement thereto (including any documents filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus), (B) any materials or information provided to investors by, or with the approval of, the Company in connection with the marketing of the offering of the Securities (“**Marketing Materials**”), including any road show or investor presentations made to investors by the Company (whether in person or electronically) or (C) any reports filed by the Company under the Exchange Act (the “**SEC Reports**”) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse such indemnified party for any legal or other expenses reasonably incurred by it in connection with investigating or defending against such loss, claim, damage, liability or action; or (ii) in whole or in part upon any inaccuracy in the representations and warranties of the Company contained herein; or (iii) in whole or in part upon any failure of the Company to perform its obligations under each of the Transaction Documents to which it is a party or under law; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Disclosure Package, the Prospectus, or any such amendment or supplement, or in any Marketing Materials or in any SEC Report, in reliance upon and in conformity with the Underwriters’ Information.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company, each of the directors of the Company, each of the officers of the Company who shall have signed the Registration Statement, and each other Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, against any losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, as originally filed or any amendment thereof, or any related Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that any such loss, liability, claim, damage or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with the Underwriters' Information; *provided, however*, that in no case shall any Underwriter be liable or responsible for any amount in excess of the underwriting discount applicable to the Securities to be purchased by such Underwriter hereunder. The parties agree that such information provided by or on behalf of any Underwriter through the Representative consists solely of the material referred to in the last sentence of Section 4(b) of this Agreement.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of any claims or the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify each party against whom indemnification is to be sought in writing of the claim or the commencement thereof (but the failure so to notify an indemnifying party shall not relieve the indemnifying party from any liability which it may have under this Section 7 to the extent that it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability that such indemnifying party may have otherwise than on account of the indemnity agreement hereunder). In case any such claim or action is brought against any indemnified party, and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate, at its own expense in the defense of such action, and to the extent it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel satisfactory to such indemnified party; provided however, that counsel to the indemnifying party shall not (except with the written consent of the indemnified party) also be counsel to the indemnified party. Notwithstanding the foregoing, the indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the employment of such counsel shall have been authorized in writing by one of the indemnifying parties in connection with the defense of such action, (ii) the indemnifying parties shall not have employed counsel to have charge of the defense of such action within a reasonable time after notice of commencement of the action, (iii) the indemnifying party does not diligently defend the action after assumption of the defense, or (iv) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to one or all of the indemnifying parties (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the indemnifying parties. No indemnifying party shall, without the prior written consent of the indemnified parties, effect any settlement or compromise of, or consent to the entry of judgment with respect to, any pending or threatened claim, investigation, action or proceeding in respect of which indemnity or contribution may be or could have been sought by an indemnified party under this Section 7 or Section 8 hereof (whether or not the indemnified party is an actual or potential party thereto), unless (x) such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such claim, investigation, action or proceeding and (ii) does not include a statement as to or an admission of fault, culpability or any failure to act, by or on behalf of the indemnified party, and (y) the indemnifying party confirms in writing its indemnification obligations hereunder with respect to such settlement, compromise or judgment.

8 . Contribution. In order to provide for contribution in circumstances in which the indemnification provided for in Section 7 is for any reason held to be unavailable from any indemnifying party or is insufficient to hold harmless a party indemnified thereunder, the Company and the Underwriters shall contribute to the aggregate losses, claims, damages, liabilities and expenses of the nature contemplated by such indemnification provision (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting in the case of losses, claims, damages, liabilities and expenses suffered by the Company, any contribution received by the Company from Persons, other than the Underwriters, who may also be liable for contribution, including Persons who control the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, officers of the Company who signed the Registration Statement and directors of the Company) as incurred to which the Company and one or more of the Underwriters may be subject, in such proportions as is appropriate to reflect the relative benefits received by the Company and the Underwriters from the Offering or, if such allocation is not permitted by applicable law, in such proportions as are appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and the Underwriters in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Underwriters shall be deemed to be in the same proportion as (x) the total proceeds from the Offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company bears to (y) the underwriting discount or commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of each of the Company and of the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 8 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any judicial, regulatory or other legal or governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this Section 8: (i) no Underwriter shall be required to contribute any amount in excess of the amount by which the discounts and commissions applicable to the Securities underwritten by it and distributed to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission and (ii) no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each Person, if any, who controls an Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Underwriter, and each Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to clauses (i) and (ii) of the immediately preceding sentence. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties, notify each party or parties from whom contribution may be sought, but the omission to so notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any obligation it or they may have under this Section 8 or otherwise. The obligations of the Underwriters to contribute pursuant to this Section 8 are several in proportion to the respective number of Securities to be purchased by each of the Underwriters hereunder and not joint.

9. Underwriter Default.

(a) If any Underwriter or Underwriters shall default in its or their obligation to purchase the Shares and Warrants, and if the securities with respect to which such default relates (the “**Default Securities**”) do not (after giving effect to arrangements, if any, made by the Representative pursuant to subsection (b) below) exceed in the aggregate 10% of the number of Shares and Warrants, each non-defaulting Underwriter, acting severally and not jointly, agrees to purchase from the Company that number of Default Securities that bears the same proportion of the total number of Default Securities then being purchased as the number of Shares and Warrants set forth opposite the name of such Underwriter on Schedule A hereto bears to the aggregate number of Shares and Warrants set forth opposite the names of the non-defaulting Underwriters, subject, however, to such adjustments to eliminate fractional shares as the Representative in its sole discretion shall make.

(b) In the event that the aggregate number of Default Securities exceeds 10% of the number of Shares and Warrants, the Representative may in its discretion arrange for itself or for another party or parties (including any non-defaulting Underwriter or Underwriters who so agree) to purchase the Default Securities on the terms contained herein. In the event that within five (5) calendar days after such a default the Representative does not arrange for the purchase of the Default Securities as provided in this Section 9, this Agreement shall thereupon terminate, without liability on the part of the Company with respect thereto (except in each case as provided in Sections 5, 7, 8, 9 and 11(d)) or the Underwriters, but nothing in this Agreement shall relieve a defaulting Underwriter or Underwriters of its or their liability, if any, to the other Underwriters and the Company for damages occasioned by its or their default hereunder.

(c) In the event that any Default Securities are to be purchased by the non-defaulting Underwriters, or are to be purchased by another party or parties as aforesaid, the Representative or the Company shall have the right to postpone the Closing Date for a period, not exceeding five (5) Business Days, in order to effect whatever changes may thereby be necessary in the Registration Statement or the Prospectus or in any other documents and arrangements, and the Company agrees to file promptly any amendment or supplement to the Registration Statement or the Prospectus which, in the reasonable opinion of Underwriters’ Counsel, may thereby be made necessary or advisable. The term “Underwriter” as used in this Agreement shall include any party substituted under this Section 9 with like effect as if it had originally been a party to this Agreement with respect to such Shares and Warrants.

10. Survival of Representations and Agreements. All representations and warranties, covenants and agreements of the Company and the Underwriters contained in this Agreement or in certificates of officers of the Company submitted pursuant hereto, including the agreements contained in Section [], the indemnity agreements contained in Section 7 and the contribution agreements contained in Section 8 hereof, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling Person thereof or by or on behalf of the Company, any of its officers and directors or any controlling Person thereof, and shall survive delivery of and payment for the Securities to and by the Underwriters. The covenants and agreements contained in Sections [], 7, 8, this Section 10 and Sections 13 and 14 hereof shall survive any termination of this Agreement, including termination pursuant to Section 9 or 11 hereof. The representations and covenants contained in Sections [] and [] hereof shall survive termination of this Agreement if any Shares and Warrants are purchased pursuant to this Agreement.

11. Effective Date of Agreement; Termination.

(a) This Agreement shall become effective upon the later of: (i) receipt by the Representative and the Company of notification of the effectiveness of the Registration Statement or (ii) the execution of this Agreement. Notwithstanding any termination of this Agreement, the provisions of this Section 11 and of Sections [], 7, 8, 10, 13 and 14, inclusive, shall remain in full force and effect at all times after the execution hereof. If this Agreement is terminated after any Shares and Warrants have been purchased hereunder, the provisions of Sections 3 and 4 hereof shall survive termination of this Agreement.

(b) The Representative shall have the right to terminate this Agreement at any time prior to the consummation of the Closing if: (i) any domestic or international event or act or occurrence has materially disrupted, or in the opinion of the Representative will in the immediate future materially disrupt, the market for the Company's securities or securities in general; or (ii) trading on the Trading Market shall have been suspended or been made subject to material limitations, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required, on the Trading Market or by order of the Commission, FINRA or any other governmental authority having jurisdiction; or (iii) a banking moratorium has been declared by any state or federal authority or if any material disruption in commercial banking or securities settlement or clearance services shall have occurred; or (iv) (A) there shall have occurred any outbreak or escalation of hostilities or acts of terrorism involving the United States or there is a declaration of a national emergency or war by the United States or (B) there shall have been any other calamity or crisis or any change in political, financial or economic conditions if the effect of any such event in (A) or (B), in the judgment of the Representative, is so material and adverse that such event makes it impracticable or inadvisable to proceed with the offering, sale and delivery of the Shares and Warrants on the terms and in the manner contemplated by the Prospectus (exclusive of any amendment or supplement thereto).

(c) Any notice of termination pursuant to this Section 11 shall be in writing.

(d) If this Agreement shall be terminated pursuant to any of the provisions hereof (other than pursuant to Sections 9(b), 11(b)(i) relating to disruptions in the market for non-Company securities, 11(b)(ii) or 11(b)(iii) hereof), or if the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth herein is not satisfied or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof, the Company will, subject to demand by the Representative, reimburse the Underwriters for only those out-of-pocket expenses (not to exceed \$125,000, which amount includes the reasonable fees and expenses of their counsel up to \$100,000), actually incurred by the Underwriters in connection herewith, less any Advance previously paid by the Company.

12. Notices. All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing, and:

(a) if sent to the Representative or any Underwriter, shall be mailed, delivered, or faxed and confirmed in writing, to Maxim Group LLC, 405 Lexington Avenue, New York, New York 10174, Attention: Clifford A. Teller, Executive Managing Director of Investment Banking, with a copy to Underwriters' Counsel at Ellenoff Grossman & Schole LLP, 1345 Avenue of the Americas, 11th Floor, New York, New York 10105, Attention: Barry I. Grossman, Esq.; and

(b) if sent to the Company, shall be mailed, delivered, or faxed and confirmed in writing to the Company and its counsel at the addresses set forth in the Registration Statement;

provided, however, that any notice to an Underwriter pursuant to Section 7 shall be delivered or sent by mail or facsimile transmission to such Underwriter at its address set forth in its acceptance facsimile to the Representative, which address will be supplied to any other party hereto by the Representative upon request. Any such notices and other communications shall take effect at the time of receipt thereof.

13 . Parties; Limitation of Relationship. This Agreement shall inure solely to the benefit of, and shall be binding upon, the Underwriters, the Company and the controlling Persons, directors, officers, employees and agents referred to in Sections 7 and 8 hereof, and their respective successors and assigns, and no other Person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the parties hereto and said controlling Persons and their respective successors, officers, directors, heirs and legal representative, and it is not for the benefit of any other Person. The term “successors and assigns” shall not include a purchaser, in its capacity as such, of Securities from any of the Underwriters.

14. Governing Law. This Agreement shall be deemed to have been executed and delivered in New York and both this Agreement and the transactions contemplated hereby shall be governed as to validity, interpretation, construction, effect, and in all other respects by the laws of the State of New York, without regard to the conflicts of laws principals thereof (other than Section 5-1401 of The New York General Obligations Law). Each of the Underwriters and the Company: (a) agrees that any legal suit, action or proceeding arising out of or relating to this Agreement and/or the transactions contemplated hereby shall be instituted exclusively in the Supreme Court of the State of New York, New York County, or in the United States District Court for the Southern District of New York, (b) waives any objection which it may have or hereafter to the venue of any such suit, action or proceeding, and (c) irrevocably consents to the jurisdiction of Supreme Court of the State of New York, New York County, or in the United States District Court for the Southern District of New York in any such suit, action or proceeding. Each of the Underwriters and the Company further agrees to accept and acknowledge service of any and all process which may be served in any such suit, action or proceeding in the Supreme Court of the State of New York, New York County, or in the United States District Court for the Southern District of New York and agrees that service of process upon the Company mailed by certified mail to the Company’s address or delivered by Federal Express via overnight delivery shall be deemed in every respect effective service of process upon the Company, in any such suit, action or proceeding, and service of process upon the Underwriters mailed by certified mail to the Underwriters’ address or delivered by Federal Express via overnight delivery shall be deemed in every respect effective service process upon the Underwriter, in any such suit, action or proceeding. **THE COMPANY (ON BEHALF OF ITSELF AND, TO THE FULLEST EXTENT PERMITTED BY LAW, ON BEHALF OF ITS RESPECTIVE EQUITY HOLDERS AND CREDITORS) HEREBY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED UPON, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, THE REGISTRATION STATEMENT, DISCLOSURE PACKAGE AND PROSPECTUS.**

15 . Entire Agreement. This Agreement, together with the schedules and annexes attached hereto and as the same may be amended from time to time in accordance with the terms hereof, contains the entire agreement among the parties hereto relating to the subject matter hereof and supersedes any prior agreements or understandings among or between the parties hereto, including the Letter of Engagement dated September 30, 2014 relating to the Offering (except as specifically set forth therein).

16. **Severability.** If any term or provision of this Agreement or the performance thereof shall be invalid or unenforceable to any extent, such invalidity or unenforceability shall not affect or render invalid or unenforceable any other provision of this Agreement and this Agreement shall be valid and enforced to the fullest extent permitted by law.

17. **Amendment.** This Agreement may only be amended by a written instrument executed by each of the parties hereto.

18. **Waiver, etc.** The failure of any of the parties hereto to at any time enforce any of the provisions of this Agreement shall not be deemed or construed to be a waiver of any such provision, nor to in any way effect the validity of this Agreement or any provision hereof or the right of any of the parties hereto to thereafter enforce each and every provision of this Agreement. No waiver of any breach, non-compliance or non-fulfillment of any of the provisions of this Agreement shall be effective unless set forth in a written instrument executed by the party or parties against whom or which enforcement of such waiver is sought; and no waiver of any such breach, non-compliance or non-fulfillment shall be construed or deemed to be a waiver of any other or subsequent breach, non-compliance or non-fulfillment.

19. **No Fiduciary Relationship.** The Company hereby acknowledges that the Underwriters are acting solely as underwriters in connection with the Offering. The Company further acknowledges that the Underwriters are acting pursuant to a contractual relationship created solely by this Agreement entered into on an arm's length basis and in no event do the parties intend that the Underwriters act or be responsible as a fiduciary to the Company, its management, shareholders, creditors or any other person in connection with any activity that the Underwriters may undertake or have undertaken in furtherance of the Offering, either before or after the date hereof. The Underwriters hereby expressly disclaim any fiduciary or similar obligations to the Company, either in connection with the transactions contemplated by this Agreement or any matters leading up to such transactions, and the Company hereby confirms its understanding and agreement to that effect. The Company hereby further confirms its understanding that no Underwriter has assumed an advisory or fiduciary responsibility in favor of the Company with respect to the Offering contemplated hereby or the offering process leading thereto, including any negotiation related to the pricing of the Securities; and the Company has consulted its own legal and financial advisors to the extent it has deemed appropriate in connection with this Agreement and the Offering. The Company and the Underwriters agree that they are each responsible for making their own independent judgments with respect to any such transactions, and that any opinions or views expressed by the Underwriters to the Company regarding such transactions, including but not limited to any opinions or views with respect to the price or market for the Company's securities, do not constitute advice or recommendations to the Company. The Company hereby waives and releases, to the fullest extent permitted by law, any claims that the Company may have against the Underwriters with respect to any breach or alleged breach of any fiduciary or similar duty to the Company in connection with the transactions contemplated by this Agreement or any matters leading up to such transactions.

20. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument. Delivery of a signed counterpart of this Agreement by facsimile transmission shall constitute valid and sufficient delivery thereof.

21. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

22. Time is of the Essence. Time shall be of the essence of this Agreement. As used herein, the term “**Business Day**” shall mean any day other than a Saturday, Sunday or any day on which the major stock exchanges in New York, New York are not open for business.

[Signature Pages Follow]

If the foregoing correctly sets forth your understanding, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among us.

Very truly yours,

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: Jim Schutz
Title: President and Chief Executive Officer

Accepted by the Representative, acting for themselves and as Representative of the Underwriters named on Schedule A attached hereto, as of the date first written above:

MAXIM GROUP LLC

By: _____
Name: Clifford A. Teller
Title: Executive Managing Director, Investment
Banking

SCHEDULE A

Name of Underwriter	Number of Firm Shares	Number of Warrants
Maxim Group LLC	[]	[]
Dawson James Securities, Inc.	[]	[]
Total	[]	[]

SCHEDULE B

Disclosure Package Materials

NONE

ANNEX I

List of Lock-Up Parties

Jim Schutz

Robert Miller

Bruce Thornton

Sharon Barbari

Jay Birnbaum

Russell Harrison

Jerry McLaughlin

ANNEX II

ANNEX III

Form of Legal Opinion

EXHIBIT B

Press Release

OCULUS INNOVATIVE SCIENCES, INC.

And

COMPUTERSHARE INC.

And

COMPUTERSHARE TRUST COMPANY, N.A.

WARRANT AGREEMENT

Dated as of [____], 2015

THIS WARRANT AGREEMENT (this “*Agreement*”), dated as of [____], 2015 is by and between Oculus Innovative Sciences, Inc., a Delaware corporation (the “*Company*”), and Computershare Inc., a Delaware corporation, and its wholly-owned subsidiary, Computershare Trust Company, N.A., a federally chartered trust company, collectively as warrant agent (the “*Warrant Agent*”, also collectively referred to herein as the “*Transfer Agent*,” and subject to the appointment of a successor Warrant Agent pursuant to Section 7.3.).

WHEREAS, the Company is engaged in a public offering (the “*Offering*”) of the Company’s Common Stock (as defined below) together with Warrants (as defined below) to purchase Common Stock and, in connection therewith, has determined to issue and deliver up to [____] Warrants (including up to [____] Warrants subject to the Over-allotment Option, as defined in the Underwriting Agreement between the Company and Maxim Group LLC, as the representative of the underwriters, dated _____, 2015) to investors in the Offering (the “*Warrants*”). Each Warrant entitles the holder thereof to purchase [____] of one share of common stock of the Company, par value \$0.0001 per share (“*Common Stock*” and, together with the Warrants and the shares of Common Stock underlying the Warrants, the “*Securities*”), for \$[] per share, subject to adjustment as described herein; and

WHEREAS, the Company has filed with the Securities and Exchange Commission (the “*Commission*”) a registration statement on Form S-1, No. 333-200461 (the “*Registration Statement*”) and prospectus (the “*Prospectus*”), for the registration, under the Securities Act of 1933, as amended (the “*Securities Act*”), of the Securities; and

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing to so act, in connection with the issuance, registration, transfer, exchange, redemption and exercise of the Warrants; and

WHEREAS, the Company desires to provide for the form and provisions of the Warrants, the terms upon which they shall be issued and exercised, and the respective rights, limitation of rights, and immunities of the Company, the Warrant Agent, and the holders of the Warrants; and

WHEREAS, all acts and things have been done and performed which are necessary to make the Warrants, when executed on behalf of the Company and countersigned by or on behalf of the Warrant Agent, as provided herein, the valid, binding and legal obligations of the Company, and to authorize the execution and delivery of this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereto agree as follows:

1. Appointment of Warrant Agent. The Company hereby appoints the Warrant Agent to act as agent for the Company for the Warrants, and the Warrant Agent hereby accepts such appointment and agrees to perform the same in accordance with the terms and conditions set forth in this Agreement.

2. Warrants.

2.1. Form of Warrant. Each Warrant shall be issued in registered form only and shall be in substantially the form of Exhibit A hereto, the provisions of which are incorporated herein, and shall be signed by, or bear the facsimile signature of, the Chairman of the Board, President, Chief Executive Officer, Chief Financial Officer, Secretary or other authorized officer of the Company. In the event the person whose facsimile signature has been placed upon any Warrant shall have ceased to serve in the capacity in which such person signed the Warrant before such Warrant is issued, it may be issued with the same effect as if he or she had not ceased to be such at the date of issuance.

2.2. Effect of Countersignature. Unless and until countersigned by, or bear the facsimile signature of, the Warrant Agent pursuant to this Agreement, a Warrant shall be invalid and of no effect and may not be exercised by the holder thereof.

2.3. Registration.

2.3.1. Warrant Register. The Warrant Agent shall maintain books (the "**Warrant Register**") for the registration of original issuance and the registration of transfer of the Warrants. Upon the initial issuance of the Warrants, the Warrant Agent shall issue and register the Warrants in the names of the respective holders thereof in such denominations and otherwise in accordance with instructions delivered to the Warrant Agent by the Company or its representatives.

2.3.2. Registered Holder. Prior to due presentment to the Warrant Agent for registration of transfer of any Warrant, the Company and the Warrant Agent may deem and treat the person in whose name such Warrant is registered in the Warrant Register (the "**Registered Holder**") as the absolute owner of such Warrant and of each Warrant represented thereby (notwithstanding any notation of ownership or other writing on the Warrant Certificate (as defined below) made by anyone other than the Company or the Warrant Agent), for the purpose of any exercise thereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

3. Terms and Exercise of Warrants.

3.1. Warrant Price. Each Warrant shall, when countersigned by the Warrant Agent, entitle the Registered Holder thereof, subject to the provisions of such Warrant and of this Agreement, to purchase from the Company the number of shares of Common Stock stated therein, at the price of \$[] per share, subject to the adjustments provided in Section 4 hereof and in the last sentence of this Section 3.1. The term "**Warrant Price**" as used in this Agreement shall mean the price per share at which shares of Common Stock may be purchased at the time a Warrant is exercised. The Company in its sole discretion may lower the Warrant Price at any time prior to the Expiration Date (as defined below) for a period of not less than twenty (20) Business Days; provided, that the Company shall provide at least twenty (20) days prior written notice of such reduction to Registered Holders of the Warrants and provided further that any such reduction shall be identical among all of the Warrants. For purposes of the Agreement, "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the City of New York are authorized or obligated by law or executive order to close.

3.2. Duration of Warrants. A Warrant may be exercised only during the period (the “**Exercise Period**”) commencing immediately following the closing of the Offering and terminating at 5:00 p.m., New York City time on the Expiration Date; provided, however, that the exercise of any Warrant shall be subject to the satisfaction of any applicable conditions set forth in subsection 3.3.3 below with respect to an effective registration statement. For purposes of this Agreement, the “**Expiration Date**” shall mean the date that is five (5) years after the closing of the Offering. Each Warrant not exercised on or before the Expiration Date shall become void, and all rights thereunder and all rights in respect thereof under this Agreement shall cease at 5:00 p.m. New York City time on the Expiration Date. The Company in its sole discretion may extend the duration of the Warrants by delaying the Expiration Date; provided, that the Company shall provide at least twenty (20) days prior written notice of any such extension to Registered Holders of the Warrants and, provided further that any such extension shall be identical in duration among all the Warrants.

3.3. Exercise of Warrants.

3.3.1. Payment. Subject to the provisions of the Warrant and this Agreement, a Warrant countersigned by the Warrant Agent may be exercised by the Registered Holder thereof by surrendering it, at the office of the Warrant Agent, or at the office of its successor as Warrant Agent, in the City of New York in the State of New York, with the subscription form, as set forth in the Warrant, duly executed, and by paying in full the Warrant Price for each full share of Common Stock as to which the Warrant is exercised and any and all applicable taxes due in connection with the exercise of the Warrant. The aggregate Warrant Price shall be paid (a) in lawful money of the United States in good certified check or good bank draft payable to the order of the Warrant Agent; or

(b) as provided in Section 3.3.2 hereof.

3.3.2. Cashless Exercise. Notwithstanding anything contained herein to the contrary, if and only if an effective registration statement covering the issuance of the Warrant Shares (as defined below) is not available, the Registered Holder may exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the aggregate Warrant Price, and elect instead to receive upon such exercise the “**Net Number**” of shares of Common Stock determined according to formula below (a “**Cashless Exercise**”). In that case, the Registered Holder shall deliver to the Company a duly executed facsimile copy of the Notice of Exercise form annexed hereto (the “**Exercise Notice**”). In no event shall the Company be required to net cash settle the Warrant exercise. In case of a Cashless Exercise, the following formula applies:

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A = the total number of shares with respect to which this Warrant is then being exercised.

B = the arithmetic average of the Closing Sale Prices (as defined below) of the Common Stock for the five (5) consecutive trading days ending on the date immediately preceding the date of the Exercise Notice.

C = the Warrant Price then in effect for the applicable shares of Common Stock at the time of such exercise.

The term “*Closing Sale Price*” means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the NASDAQ Capital Market, as reported by Bloomberg, or, if the NASDAQ Capital Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or the last trade price, respectively, of such security prior to 4:00:00 p.m., New York time, as reported by Bloomberg, or, if the NASDAQ Capital Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the OTC Link or “pink sheets” by OTC Markets Group Inc. (formerly Pink OTC Markets Inc.). If the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Sale Price of such security on such date shall be the fair market value as mutually determined by the Company and the Registered Holder. If the Company and the Registered Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 8.3 hereof. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

For purposes of Rule 144(d) promulgated under the Securities Act, as in effect on the date hereof, assuming the Registered Holder is not an affiliate of the Company, the shares of Common Stock issued in a Cashless Exercise shall be deemed to have been acquired by the Registered Holder, and the holding period for the shares of Common Stock shall be deemed to have commenced, on the date this Warrant was originally issued.

Upon receipt of an election to purchase for a Cashless Exercise, the Company shall calculate and transmit to the Warrant Agent, and the Warrant Agent shall have no obligation under this Warrant Agreement to calculate, confirm or verify the accuracy or the correctness of, the number of Warrant Shares issuable in connection with the Cashless Exercise.

3.3.3. Issuance of Shares of Common Stock on Exercise. As soon as practicable after the exercise of any Warrant and the clearance of the funds in payment of the Warrant Price (if payment is pursuant to subsection 3.3.1(a)), the Company shall issue to the Registered Holder of such Warrant a certificate or certificates for the number of full shares of Common Stock to which he, she or it is entitled, registered in such name or names as may be directed by him, her or it, and if such Warrant shall not have been exercised in full, a new countersigned Warrant for the number of shares as to which such Warrant shall not have been exercised. Notwithstanding the foregoing, the Company shall not be obligated to deliver any shares of Common Stock pursuant to the exercise of a Warrant and shall have no obligation to settle such Warrant exercise unless a registration statement under the Securities Act with respect to the shares of Common Stock underlying the Warrants (the “*Warrant Shares*”) is then effective and a prospectus relating thereto is current, except with respect to the Company’s satisfying its obligations under Section 6.4. Unless otherwise advised in writing by the Company, the Warrant Agent shall always be entitled to assume that such conditions precedent are in effect and shall incur no liability in making such assumption. No Warrant shall be exercisable and the Company shall not be obligated to issue shares of Common Stock upon exercise of a Warrant unless the Common Stock issuable upon such Warrant exercise has been registered, qualified or deemed to be exempt under the securities laws of the state of residence of the Registered Holder of the Warrants. In the event that the conditions in the two (2) immediately preceding sentences are not satisfied with respect to a Warrant, the holder of such Warrant shall not be entitled to exercise such Warrant and such Warrant may have no value and expire worthless. Subject to Section 4.5 of this Agreement, a Registered Holder of Warrants may exercise its Warrants only for a whole number of shares of Common Stock. In no event will the Company be required to net cash settle the Warrant. If, by reason of any exercise of warrants, the holder of any Warrant would be entitled, upon the exercise of such Warrant, to receive a fractional interest in a share, the Company shall either (i) round up to the nearest whole number, the number of shares to be issued to such holder or (ii) pay such holder cash for such fractional share in the Company’s sole discretion. In the event of a cash exercise, the Company hereby instructs the Transfer Agent to record cost basis for newly issued shares as the Warrant Price paid for the share(s).

3.3.4. Valid Issuance. All shares of Common Stock issued upon the proper exercise of a Warrant in conformity with this Agreement shall be validly issued, fully paid and nonassessable.

3.3.5. Date of Issuance. Each person in whose name any certificate for shares of Common Stock is issued shall for all purposes be deemed to have become the holder of record of such shares of Common Stock on the date on which the Warrant was surrendered and payment of the Warrant Price was made, irrespective of the date of delivery of such certificate, except that, if the date of such surrender and payment is a date when the share transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the share transfer books are open.

3.3.6. Share Delivery Failure. If the Company shall fail, for any reason or for no reason, to issue to the Registered Holder within three (3) trading days after receipt of the applicable Exercise Notice (the “**Share Delivery Deadline**”), a certificate for the number of Warrant Shares to which the Registered Holder is entitled upon such Registered Holder’s exercise of a Warrant or credit such Registered Holder’s balance account with The Depository Trust Company (“**DTC**”) for such number of Warrant Shares to which such Registered Holder is entitled upon such Registered Holder’s exercise of the Warrant (as the case may be, but in each case without a restrictive legend) (a “**Delivery Failure**”), and if on such or after such Share Delivery Deadline the Registered Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Registered Holder of all or any portion of the number of Warrant Shares issuable upon such exercise that the Registered Holder so anticipated receiving from the Company, then, in addition to all other remedies available to it, the Company shall, within three (3) Business Days after the Registered Holder’s request and in the Registered Holder’s discretion, either (i) pay cash to the Registered Holder in an amount equal to 100% of the Registered Holder’s total purchase price (including brokerage commissions and other out-of-pocket expenses, if any) for the shares of Common Stock so purchased (including, without limitation, by any other person in respect, or on behalf, of the Registered Holder) (the “**Buy-In Price**”), at which point the Company’s obligation to so issue and deliver such certificate or credit the Registered Holder’s balance account with DTC for the number of Warrant Shares to which the Registered Holder is entitled upon the Holder’s exercise hereunder (as the case may be) (and to issue such Warrant Shares) shall terminate, or (ii) promptly honor its obligation to so issue and deliver to the Registered Holder a certificate or certificates representing such Warrant Shares or credit the Registered Holder’s balance account with DTC for the number of Warrant Shares to which the Registered Holder is entitled upon the Registered Holder’s exercise hereunder (as the case may be) and pay cash to the Registered Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of Common Stock multiplied by (B) the lowest Closing Sale Price of the shares of Common Stock on any trading day during the period commencing on the date of the applicable Exercise Notice and ending on the date immediately preceding the date of such issuance and payment under this clause (ii). The Warrant Agent shall have no duties, responsibilities or obligations to take any action under this paragraph without clear and precise instructions from the Company.

3.3.7. Maximum Percentage. A holder of a Warrant may notify the Company in writing in the event such holder elects to be subject to the provisions contained in this subsection 3.3.7.; however, no holder of a Warrant shall be subject to this subsection 3.3.7. unless he, she or it makes such election. If the election is made by a holder, the Warrant Agent shall not effect the exercise of the holder's Warrant, and such holder shall not have the right to exercise such Warrant, to the extent that after giving effect to such exercise, such person (together with such person's affiliates), to the Warrant Agent's actual knowledge, would beneficially own in excess of 9.9% (the "Maximum Percentage") of the shares of Common Stock outstanding immediately after giving effect to such exercise. For purposes of the foregoing sentence, the aggregate number of shares of Common Stock beneficially owned by such person and its affiliates shall include the number of shares of Common Stock issuable upon exercise of the Warrant with respect to which the determination of such sentence is being made, but shall exclude shares of Common Stock that would be issuable upon (x) exercise of the remaining, unexercised portion of the Warrant beneficially owned by such person and its affiliates and (y) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company beneficially owned by such person and its affiliates (including, without limitation, any convertible notes or convertible preferred stock or warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this paragraph, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Solely the holder of the Warrant shall determine the extent to which the Warrant is exercisable in accordance with this Section 3.3.7., and neither the Company nor the Transfer Agent shall have any obligation to verify or confirm the accuracy of such determination. For purposes of the Warrant, in determining the number of outstanding shares of Common Stock, the holder may rely on the number of outstanding shares of Common Stock as reflected in (1) the Company's most recent annual report on Form 10-K, quarterly report on Form 10-Q, current report on Form 8-K or other public filing with the Commission as the case may be, (2) a more recent public announcement by the Company or (3) any other notice by the Company or the Transfer Agent (or its successor) setting forth the number of shares of Common Stock outstanding. For any reason at any time, upon the written request of the holder of the Warrant, the Company shall, within two (2) Business Days, confirm orally and in writing to such 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 equity securities of the Company by the holder and its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. By written notice to the Company, the holder of a Warrant may from time to time increase or decrease the Maximum Percentage applicable to such holder to any other percentage specified in such notice; provided, however, that any such increase shall not be effective until the sixty-first (61st) day after such notice is delivered to the Company.

4. Adjustments.

4.1. Stock Dividends.

4.1.1. Split-Ups. If after the date hereof, and subject to the provisions of Section 4.5 below, the number of outstanding shares of Common Stock is increased by a stock dividend payable in shares of Common Stock on Common Stock, or by a split-up of shares of Common Stock or other similar event, then, on the effective date of such stock dividend, split-up or similar event, the number of shares of Common Stock issuable on exercise of each Warrant shall be increased in proportion to such increase in the outstanding shares of Common Stock. A rights offering to holders of the Common Stock entitling holders to purchase shares of Common Stock at a price less than the "Fair Market Value" (as defined below) shall be deemed a stock dividend of a number of shares of Common Stock equal to the product of (i) the number of shares of Common Stock actually sold in such rights offering (or issuable under any other equity securities sold in such rights offering that are convertible into or exercisable for the Common Stock) multiplied by (ii) one (1) minus the quotient of (x) the price per share of Common Stock paid in such rights offering divided by (y) the Fair Market Value. For purposes of this subsection 4.1.1., (i) if the rights offering is for securities convertible into or exercisable for Common Stock, in determining the price payable for Common Stock, there shall be taken into account any consideration received for such rights, as well as any additional amount payable upon exercise or conversion and (ii) "Fair Market Value" means the volume weighted average price of the Common Stock as reported during the ten (10) trading day period ending on the trading day prior to the first date on which the shares of Common Stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive such rights.

4.1.2. Extraordinary Dividends. If the Company, at any time while the Warrants are outstanding and unexpired, shall pay a dividend or make a distribution in cash, securities or other assets to the holders of the Common Stock as a class on account of such shares of Common Stock (or other shares of the Company's capital stock into which the Warrants are convertible), other than as described in subsection 4.1.1 (any such non-excluded event being referred to herein as an "*Extraordinary Dividend*"), then the Warrant Price shall be decreased, effective immediately after the effective date of such Extraordinary Dividend, by the amount of cash and/or the fair market value (as determined by the Board, in good faith) of any securities or other assets paid on each share of Common Stock (or other shares of the Company's capital stock into which the Warrants are convertible) in respect of such Extraordinary Dividend.

4.2. Aggregation of Shares. If after the date hereof, and subject to the provisions of Section 4.5 hereof, the number of outstanding shares of Common Stock is decreased by a consolidation, combination, reverse stock split or reclassification of shares of Common Stock or other similar event, then, on the effective date of such consolidation, combination, reverse stock split, reclassification or similar event, the number of shares of Common Stock issuable on exercise of each Warrant shall be decreased in proportion to such decrease in outstanding shares of Common Stock.

4.3. Adjustments in Warrant Price. Whenever the number of shares of Common Stock purchasable upon the exercise of the Warrants is adjusted, as provided in subsection 4.1.1 or 4.2 above, the Warrant Price shall be adjusted (to the nearest cent) by multiplying such Warrant Price immediately prior to such adjustment by a fraction (x) the numerator of which shall be the number of shares of Common Stock purchasable upon the exercise of the Warrants immediately prior to such adjustment, and (y) the denominator of which shall be the number of shares of Common Stock so purchasable immediately thereafter.

4.4. Notices of Changes in Warrant. Upon every adjustment of the Warrant Price or the number of shares issuable upon exercise of a Warrant, the Company shall give reasonable written notice thereof to the Warrant Agent, which notice shall state the Warrant Price and any new or amended terms resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of a Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Upon every adjustment of the Warrant Price or the number of shares issuable upon exercise of a Warrant, the Company shall give written notice of the occurrence of such event to each holder of a Warrant, at the last address set forth for such holder in the Warrant Register, of the record date or the effective date of the event. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such event. The Warrant Agent shall have no duty or obligation under this Agreement to determine whether any event requiring adjustment under this Section 4 has occurred or are scheduled or contemplated to occur or to calculate any of the adjustments set forth herein.

4.5. No Fractional Shares or Scrip. Notwithstanding any provision contained in this Agreement to the contrary, the Company shall not issue fractional shares or scrip representing fractional shares upon the exercise of Warrants. As to any fraction of a share which the holder of any Warrant would be entitled to purchase upon exercise of such Warrant, the Company shall, at its election, either (i) pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Warrant Price, or (ii) round up to the nearest whole number the number of shares of Common Stock to be issued to such holder.

4.6. Form of Warrant. The form of Warrant need not be changed because of any adjustment pursuant to this Section 4, and Warrants issued after such adjustment may state the same Warrant Price and the same number of shares as is stated in the Warrants initially issued pursuant to this Agreement; provided, however, that the Company may at any time in its sole discretion make any change in the form of Warrant that the Company may deem appropriate and that does not affect the substance thereof, and any Warrant thereafter issued or countersigned, whether in exchange or substitution for an outstanding Warrant or otherwise, may be in the form as so changed.

5. Transfer and Exchange of Warrants.

5.1. Registration of Transfer. The Warrant Agent shall register the transfer, from time to time, of any outstanding Warrant upon the Warrant Register, upon surrender of such Warrant for transfer, properly endorsed with signatures properly guaranteed by an eligible guarantor institution participating in a signature guarantee program approved by the Securities Transfer Association, and accompanied by appropriate instructions for transfer. Upon any such transfer, a new Warrant representing an equal aggregate number of Warrants shall be issued and the old Warrant shall be cancelled by the Warrant Agent. The Warrants so cancelled shall be delivered by the Warrant Agent to the Company from time to time upon request.

5.2. Procedure for Surrender of Warrants. Warrants may be surrendered to the Warrant Agent, together with a written request for exchange or transfer, and thereupon the Warrant Agent shall issue in exchange therefor one or more new Warrants as requested by the Registered Holder of the Warrants so surrendered, representing an equal aggregate number of Warrants.

5.3. Fractional Warrants. The Warrant Agent shall not be required to effect any registration of transfer or exchange which shall result in the issuance of a warrant certificate for a fraction of a warrant.

5.4. Service Charges. No service charge shall be made for any exchange or registration of transfer of Warrants.

5.5. Warrant Execution and Countersignature. The Warrant Agent is hereby authorized to countersign and to deliver, in accordance with the terms of this Agreement, the Warrants required to be issued pursuant to the provisions of this Section 5, and the Company, whenever required by the Warrant Agent, shall supply the Warrant Agent with Warrants duly executed on behalf of the Company for such purpose.

6. Other Provisions Relating to Rights of Holders of Warrants.

6.1. No Rights as Stockholder. A Warrant does not entitle the Registered Holder thereof to any of the rights of a stockholder of the Company, including, without limitation, the right to receive dividends, or other distributions, exercise any preemptive rights to vote or to consent or to receive notice as stockholders in respect of the meetings of stockholders or the election of directors of the Company or any other matter.

6.2. Lost, Stolen, Mutilated, or Destroyed Warrants. If any Warrant is lost, stolen, mutilated or destroyed, absent notice to the Company or Warrant Agent that such certificates have been acquired by a protected purchaser, the Company may, upon receipt by Warrant Agent of an open penalty surety bond satisfactory to the Warrant Agent and holding it and Company harmless, issue, in a form mutually agreed to by Warrant Agent and the Company, a new Warrant of like denomination, tenor and date as the Warrant so lost, stolen, mutilated or destroyed, and countersigned by the Warrant Agent. Any such new Warrant shall constitute a substitute contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone. The Warrant Agent may, at its option, countersign replacement Warrants for mutilated certificates upon presentation thereof without such indemnity.

6.3. Reservation of Common Stock. The Company shall at all times reserve and keep available a number of its authorized but unissued shares of Common Stock that shall be sufficient to permit the exercise in full of all outstanding Warrants issued pursuant to this Agreement. The Company further covenants that its issuance of Warrants 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 the Warrants. The Company will take all such commercially 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 the Warrants will, upon exercise of the purchase rights represented by the Warrants 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).

6.4. Registration of Common Stock. The Company registered the Warrants and the Warrant Shares in the Registration Statement. The Company will use its reasonable best efforts to maintain the effectiveness of such Registration Statement and the current status of the Prospectus or to file and maintain the effectiveness of another registration statement and another current prospectus covering the Warrants and the Warrant Shares at any time that the Warrants are exercisable. In addition, the Company agrees to use its reasonable best efforts to register the Warrants and Warrant Shares under the blue sky laws of the states of residence of the Registered Holders to the extent an exemption from such registration is not available. If at any time the Company does not have an effective registration statement covering the Warrant Shares, and Rule 144 is not available to cover the Warrant Shares due to the failure of the Company to be currently reporting under the Exchange Act (“**Public Information Failure**”), then the Company shall pay in cash by wire transfer of immediately available funds an amount per month equal to 1% of the aggregate volume weighted average price of the Warrant Shares into which a Warrant is converted which are not able to be delivered without legend because of such Public Information Failure to the Registered Holder thereof until such Warrant Shares are able to be delivered without legend (to be pro-rated for any periods which are less than one month).

7. Concerning the Warrant Agent and Other Matters.

7.1. Bank Accounts. All funds received by Warrant Agent under this Agreement that are to be distributed or applied by Warrant Agent in the performance of services to be provided hereunder (the “**Funds**”) shall be held by Computershare Inc. as agent for the Company and deposited in one or more bank accounts to be maintained by Computershare Inc. in its name as agent for the Company. Until paid pursuant to the terms of this Agreement, Computershare Inc. will hold the Funds through such accounts in: deposit accounts of commercial banks with Tier 1 capital exceeding \$1 billion or with an average rating above investment grade by S&P (LT Local Issuer Credit Rating), Moody’s (Long Term Rating) and Fitch Ratings, Inc. (LT Issuer Default Rating) (each as reported by Bloomberg Finance L.P.). Computershare Inc. shall have no responsibility or liability for any diminution of the Funds that may result from any deposit made by Computershare Inc. in accordance with this paragraph, including any losses resulting from a default by any bank, financial institution or other third party. Computershare Inc. may from time to time receive interest, dividends or other earnings in connection with such deposits. Computershare Inc. shall not be obligated to pay such interest, dividends or earnings to the Company, any holder or any other party.

7.2. Payment of Taxes. The Company shall from time to time promptly pay all taxes and charges that may be imposed upon the Company or the Warrant Agent in respect of the issuance or delivery of the Warrant Shares, but neither the Company nor the Warrant Agent shall be obligated to pay any transfer taxes in respect of the Warrants or Warrant Shares. The Warrant Agent shall not register any transfer or issue or deliver any Warrants or Warrant Shares unless or until the persons requesting the registration or issuance shall have paid to the Warrant Agent for the account of the Company the amount of such tax, if any, or shall have established to the reasonable satisfaction of the Company and the Warrant Agent that such tax, if any, has been paid.

7.3. Resignation, Consolidation, or Merger of Warrant Agent

7.3.1. Appointment of Successor Warrant Agent. The Warrant Agent, or any successor to it hereafter appointed, may resign its duties and be discharged from all further duties and liabilities hereunder after giving thirty (30) days' notice in writing to the Company. If the office of the Warrant Agent becomes vacant by resignation or incapacity to act or otherwise, the Company shall appoint in writing a successor Warrant Agent in place of the Warrant Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after it has been notified in writing of such resignation or incapacity by the Warrant Agent or by the holder of a Warrant (who shall, with such notice, submit his Warrant for inspection by the Company), then the holder of any Warrant may apply to the Supreme Court of the State of New York for the County of New York for the appointment of a successor Warrant Agent at the Company's cost. Any successor Warrant Agent, whether appointed by the Company or by such applicable court, shall be a corporation organized and existing under the laws of the State of New York, in good standing and having its principal office in the City and State of New York, and authorized under such laws to exercise the powers of a transfer agent and subject to supervision or examination by federal or state authority. After appointment, any successor Warrant Agent shall be vested with all the authority, powers, rights, immunities, duties, and obligations of its predecessor Warrant Agent with like effect as if originally named as Warrant Agent hereunder, without any further act or deed; but, if for any reason it becomes necessary or appropriate, at the expense of the Company, the predecessor Warrant Agent shall deliver and transfer to the successor Warrant Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for such purpose.

7.3.2. Notice of Successor Warrant Agent. In the event a successor Warrant Agent shall be appointed, the Company shall give notice thereof to the predecessor Warrant Agent and the Transfer Agent for the Common Stock not later than the effective date of any such appointment.

7.3.3. Merger or Consolidation of Warrant Agent. Any entity into which the Warrant Agent may be merged or with which it may be consolidated or any entity resulting from any merger or consolidation to which the Warrant Agent shall be a party shall be the successor Warrant Agent under this Agreement without any further act.

7.4. Fees and Expenses of Warrant Agent

7.4.1. Remuneration. The Company agrees to pay the Warrant Agent reasonable remuneration for its services as such Warrant Agent hereunder and shall, pursuant to its obligations under this Agreement, reimburse the Warrant Agent upon demand for all expenditures that the Warrant Agent may reasonably incur in the execution of its duties hereunder.

7.4.2. Further Assurances. The Company agrees to perform, execute, acknowledge, and deliver or cause to be performed, executed, acknowledged, and delivered all such further and other acts, instruments, and assurances as may reasonably be required by the Warrant Agent for the carrying out or performing of the provisions of this Agreement.

7.4.3 Cash Reserve. The Company shall provide an initial funding of [\$1,000] for the purpose of issuing cash in lieu of fractional shares. From time to time thereafter, the Warrant Agent may request additional funding to cover fractional payments in writing. The Warrant Agent shall have no obligation to make such fractional payments unless the Company shall have provided the necessary funds to pay in full all amounts due and payable with respect thereto.

7.5. Liability of Warrant Agent

7.5.1. Reliance on Company Statement. Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a statement signed by the Chief Executive Officer or other authorized officer of the Company and delivered to the Warrant Agent. The Warrant Agent may rely upon such statement for any action taken or suffered in good faith by it pursuant to the provisions of this Agreement.

7.5.2. Indemnity. The Company covenants and agrees to indemnify and to hold the Warrant Agent harmless against any costs, expenses (including reasonable fees of its legal counsel), losses or damages, which may be paid, incurred or suffered by or to which it may become subject, arising from or out of, directly or indirectly, any claims or liability resulting from its actions or omissions as Warrant Agent pursuant hereto; provided, that such covenant and agreement does not extend to, and the Warrant Agent shall not be indemnified with respect to, such costs, expenses, losses and damages incurred or suffered by the Warrant Agent as a result of, or arising out of, its gross negligence, bad faith, or willful misconduct (each as determined in a final judgment by a court of competent jurisdiction).

7.5.3. Exclusions. The Warrant Agent shall have no responsibility with respect to the validity of this Agreement or with respect to the validity or execution of any Warrant (except its countersignature thereof). The Warrant Agent shall not be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant. The Warrant Agent shall not be responsible to make any adjustments required under the provisions of Section 4 hereof or responsible for the manner, method, or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock to be issued pursuant to this Agreement or any Warrant or as to whether any Warrant Shares, when issued, be valid and fully paid and nonassessable.

7.5.4. Limitation of Liability. Notwithstanding anything contained herein to the contrary, the Warrant Agent's aggregate liability during any term of this Agreement with respect to, arising from, or arising in connection with this Agreement, or from all services provided or omitted to be provided under this Agreement, whether in contract, or in tort, or otherwise, is limited to, and shall not exceed, the amounts paid hereunder by the Company to the Warrant Agent as fees and charges, but not including reimbursable expenses, during the twelve (12) months immediately preceding the event for which recovery from Warrant Agent is being sought.

7.6. Instructions; Certifications. From time to time, the Company may provide the Warrant Agent with instructions or certifications concerning or related to the services performed by the Warrant Agent hereunder. In addition, at any time the Warrant Agent may apply to any officer of the Company for instruction, and may consult with legal counsel for the Warrant Agent or the Company with respect to any matter arising in connection with the services to be performed by the Warrant Agent under this Agreement. The Warrant Agent and its employees, agents and subcontractors shall not be liable and shall be indemnified by the Company for any action taken or omitted by Warrant Agent, its employees, agents and subcontractors in reliance upon any Company instructions, certifications or upon the advice or opinion of such counsel. The Warrant Agent shall not be held to have notice of any change of authority of any person, until receipt of written notice thereof from the Company.

7.7. Rights and Duties of Warrant Agent (a) The Warrant Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Warrant Agent as to any action taken or omitted by it in accordance with such opinion.

(b) The Warrant Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Warrants (except its countersignature thereof) or be required to verify the same, and all such statements and recitals are and shall be deemed to have been made by the Company only.

(c) The Warrant Agent shall not have any duty or responsibility in the case of the receipt of any written demand from any holder of Warrants with respect to any action or default by the Company, including, without limiting the generality of the foregoing, any duty or responsibility to initiate or attempt to initiate any proceedings at law or otherwise or to make any demand upon the Company.

(d) The Warrant Agent and any stockholder, director, officer or employee of the Warrant Agent may buy, sell or deal in any of the Warrants or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

(e) The Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorney or agents, and the Warrant Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorney or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, absent gross negligence, bad faith or willful misconduct (each as determined by a final judgment of a court of competent jurisdiction) in the selection and continued employment thereof.

(f) The Warrant Agent may rely on and shall be held harmless and protected and shall incur no liability for or in respect of any action taken, suffered or omitted to be taken by it in reliance upon any certificate, statement, instrument, opinion, notice, letter, facsimile transmission, telegram or other document, or any security delivered to it, and believed by it to be genuine and to have been made or signed by the proper party or parties, or upon any written or oral instructions or statements from the Company with respect to any matter relating to its acting as Warrant Agent hereunder.

(g) The Warrant Agent shall not be obligated to expend or risk its own funds or to take any action that it believes would expose or subject it to expense or liability or to a risk of incurring expense or liability, unless it has been furnished with assurances of repayment or indemnity satisfactory to it.

(h) The Warrant Agent shall not be liable or responsible for any failure of the Company to comply with any of its obligations relating to any registration statement filed with the Commission or this Agreement, including without limitation obligations under applicable regulation or law.

(i) The Warrant Agent shall not be accountable or under any duty or responsibility for the use by the Company of any Warrants authenticated by the Warrant Agent and delivered by it to the Company pursuant to this Agreement or for the application by the Company of the proceeds of the issue and sale, or exercise, of the Warrants.

(j) The Warrant Agent shall act hereunder solely as agent for the Company, and its duties shall be determined solely by the express provisions hereof (and no duties or obligations shall be inferred or implied). The Warrant Agent shall not assume any obligations or relationship of agency or trust with any of the owners or holders of the Warrants.

(k) The Warrant Agent may rely on and be fully authorized and protected in acting or failing to act upon (a) any guaranty of signature by an “eligible guarantor institution” that is a member or participant in the Securities Transfer Agents Medallion Program or other comparable “signature guarantee program” or insurance program in addition to, or in substitution for, the foregoing; or (b) any law, act, regulation or any interpretation of the same even though such law, act, or regulation may thereafter have been altered, changed, amended or repealed.

(l) In the event the Warrant Agent believes any ambiguity or uncertainty exists hereunder or in any notice, instruction, direction, request or other communication, paper or document received by the Warrant Agent hereunder, the Warrant Agent, may, in its sole discretion, refrain from taking any action, and shall be fully protected and shall not be liable in any way to Company, the holder of any Warrant or any other person or entity for refraining from taking such action, unless the Warrant Agent receives written instructions signed by the Company which eliminates such ambiguity or uncertainty to the satisfaction of Warrant Agent.

7.8. Delivery of Exercise Price. The Warrant Agent shall forward funds received for warrant exercises under this Agreement in a given month by the 5th Business Day of the following month by wire transfer to an account designated by the Company.

7.9. Acceptance of Agency. The Warrant Agent hereby accepts the agency established by this Agreement and agrees to perform the same upon the express terms and conditions herein set forth and among other things, shall account to the Company with respect to Warrants exercised and concurrently account for, and pay to the Company, all monies received by the Warrant Agent for the purchase of Warrant Shares.

7.10. Opinion of Counsel. The Company shall provide an opinion of counsel prior to the effective date of this Agreement to set up a reserve of warrants and related Common Stock. The opinion shall state that all warrants or Common Stock, as applicable, are: (1) registered under the Securities Act or are exempt from such registration, and all appropriate state securities law filings have been made with respect to the warrants or shares; and (2) validly issued, fully paid and non-assessable.

7.11. Confidentiality. The Warrant Agent and the Company agree that all books, records, information and data pertaining to the business of the other party, including *inter alia*, personal, non-public Warrant holder information, which are exchanged or received pursuant to the negotiation or the carrying out of this Agreement including the compensation for services performed hereunder shall remain confidential, and shall not be voluntarily disclosed to any other person, except as may be required by law, including, without limitation, pursuant to subpoenas from state or federal government authorities (e.g., in divorce and criminal actions).

7.12. Consequential Damages. Neither party to this Agreement shall be liable to the other party for any consequential, indirect, punitive, special or incidental damages under any provisions of this Agreement or for any consequential, indirect, punitive, special or incidental damages arising out of any act or failure to act hereunder even if that party has been advised of or has foreseen the possibility of such damages.

8. Miscellaneous Provisions.

8.1. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns.

8.2. Notices. All notices, requests, demands and other communications from the Company to the Warrant Agent or vice-versa, or the holders of warrants to the Warrant Agent or the Company made under or by reason of the provisions of this Agreement shall be in writing and shall be given by hand delivery, certified or registered mail, return receipt requested, or nationally recognized overnight courier, addressed as follows:

If to the Company:

Oculus Innovative Sciences, Inc.
Attn.: Secretary
1129 N. McDowell Blvd.
Petaluma, CA 94954

If to the Warrant Agent:

[Computershare Inc.
250 Royall Street
Canton Massachusetts 02021
Attention: General Counsel]

All notices, requests, demands and other communications made under or by reason of the provisions of this Agreement shall be effective when sent.

8.3. Applicable Law, Submission to Jurisdiction, Trial by Jury. The validity, interpretation, and performance of this Agreement and of the Warrants shall be governed in all respects by the laws of the State of California, without giving effect to conflicts of law principles that would result in the application of the substantive laws of another jurisdiction, except that the rights, duties, and obligations of the Warrant Agent under this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. Each of the Company and the holders hereby agrees that any action, proceeding or claim against it arising out of or relating in any way to this Agreement shall be brought and enforced in the courts of the State of California or the United States District Court for the Northern District of California, and irrevocably submits to such jurisdiction, which jurisdiction shall be exclusive. The Warrant Agent hereby agrees that any action, proceeding or claim against it arising out of or relating in any way to this Agreement shall be brought and enforced in the courts of the State of New York or the United States District Court for the Southern District of New York, and irrevocably submits to such jurisdiction, which jurisdiction shall be exclusive. Each of the Company and the Warrant Agent hereby waives any objection to such exclusive jurisdiction, as applicable, and that such courts represent an inconvenient forum. The Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates), the Warrant Agent and the Holders hereby irrevocably waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

8.4. Persons Having Rights under this Agreement. Nothing in this Agreement shall be construed to confer upon, or give to, any person or entity other than the parties hereto and the Registered Holders of the Warrants any right, remedy, or claim under or by reason of this Agreement or of any covenant, condition, stipulation, promise, or agreement hereof. All covenants, conditions, stipulations, promises, and agreements contained in this Agreement shall be for the sole and exclusive benefit of the parties hereto and their successors and assigns and of the Registered Holders of the Warrants.

8.5. Examination of the Warrant Agreement. A copy of this Agreement shall be available at all reasonable times at the office of the Warrant Agent at the office of the Warrant Agent designated for such purpose, for inspection by the Registered Holder of any Warrant. The Warrant Agent may require any such holder to submit his Warrant for inspection by it.

8.6. Counterparts. This Agreement may be executed in any number of original or facsimile counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. A signature to this Agreement transmitted electronically shall have the same authority, effect, and enforceability as an original signature.

8.7. Effect of Headings. The section headings herein are for convenience only and are not part of this Agreement and shall not affect the interpretation thereof.

8.8. Amendments. This Agreement may be amended by the parties hereto without the consent of any Registered Holder for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained herein or adding or changing any other provisions with respect to matters or questions arising under this Agreement as the parties may deem necessary or desirable and that the parties deem shall not adversely affect the interest of the Registered Holders. All other modifications or amendments, including any amendment to increase the Warrant Price or shorten the Exercise Period, shall require the vote or written consent of the Registered Holders of at least 65% of the then outstanding Warrants. Notwithstanding the foregoing, the Company may lower the Warrant Price or extend the duration of the Exercise Period pursuant to Sections 3.1 and 3.2, respectively, without the consent of the Registered Holders. No consideration shall be offered by the Company to any Registered Holder in connection with a modification, amendment or waiver of this Agreement or any Warrant without also offering the same consideration to all Registered Holders. As a condition precedent to the Warrant Agent's execution of any amendment, the Company shall deliver to the Warrant Agent a certificate from a duly authorized officer of the Company that states that the proposed amendment is in compliance with the terms of this Section 8.8.

8.9. Severability. This Agreement shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible and be valid and enforceable.

8.10. Survival. The provisions of Sections 7 shall survive any termination of this Agreement and the resignation, removal or replacement of the Warrant Agent.

8.11. Force Majeure. Notwithstanding anything to the contrary contained herein, the Warrant Agent will not be liable for any delays or failures in performance resulting from acts beyond its reasonable control including, without limitation, acts of God, terrorist acts, shortage of supply, breakdowns or malfunctions, interruptions or malfunction of computer facilities, or loss of data due to power failures or mechanical difficulties with information storage or retrieval systems, labor difficulties, war, or civil unrest.

8.12. USA PATRIOT Act Notice. The Warrant Agent hereby notifies the Company that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), it must obtain, verify and record certain information that identifies the Company, which information includes the name and address of the Company and other information that will allow the Warrant Agent to identify the Company in accordance with the Patriot Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: Jim Schutz
Title: President and Chief Executive
Officer

COMPUTERSHARE, INC.
as Warrant Agent

By: _____
Name:
Title:

COMPUTERSHARE TRUST COMPANY, N.A.
As Warrant Agent

By: _____
Name:
Title:

[Signature Page to Warrant Agreement]

EXHIBIT A

[Form of Warrant Certificate]

[FACE]

Number

Warrants

**THIS WARRANT SHALL BE VOID IF NOT EXERCISED PRIOR TO
THE EXPIRATION OF THE EXERCISE PERIOD PROVIDED FOR
IN THE WARRANT AGREEMENT DESCRIBED BELOW**

OCULUS INNOVATIVE SCIENCES, INC.
Incorporated Under the Laws of the State of Delaware

CUSIP []

Warrant Certificate

This Warrant Certificate certifies that _____, or registered assigns, is the registered holder of warrant(s) (the “*Warrants*” and each, a “*Warrant*”) to purchase shares of Common Stock, \$0.0001 par value per share (“*Common Stock*”), of Oculus Innovative Sciences, Inc., a Delaware corporation (the “*Company*”). Each Warrant entitles the holder, upon exercise during the period set forth in the Warrant Agreement referred to below, to receive from the Company that number of fully paid and nonassessable shares of Common Stock as set forth below, at the exercise price (the “*Exercise Price*”) as determined pursuant to the Warrant Agreement, payable in lawful money (or through “*cashless exercise*” as provided for in the Warrant Agreement) of the United States of America upon surrender of this Warrant Certificate and payment of the Exercise Price at the office or agency of the Warrant Agent referred to below, subject to the conditions set forth herein and in the Warrant Agreement. Defined terms used in this Warrant Certificate but not defined herein shall have the meanings given to them in the Warrant Agreement (as defined on the reverse hereof).

Each Warrant is initially exercisable for ___ of a fully paid and non-assessable share of Common Stock. The number of the shares of Common Stock issuable upon exercise of the Warrants is subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

The initial Exercise Price per share of Common Stock for any Warrant is equal to \$_____ per share. The Exercise Price is subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

Subject to the conditions set forth in the Warrant Agreement, the Warrants may be exercised only during the Exercise Period and to the extent not exercised by the end of such Exercise Period, such Warrants shall become void.

Reference is hereby made to the further provisions of this Warrant Certificate set forth on the reverse hereof and such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall not be valid unless countersigned by the Warrant Agent, as such term is used in the Warrant Agreement.

[Signature Page to Warrant Certificate]

This Warrant Certificate shall be governed by and construed in accordance with the internal laws of the State of New York, without regard to conflicts of laws principles thereof.

OCULUS INNOVATIVE SCIENCES, INC.

By: _____
Name: Jim Schutz
Title: President and Chief Executive Officer

COMPUTERSHARE, INC.
as Warrant Agent

By: _____
Name:
Title:

COMPUTERSHARE TRUST COMPANY, N.A.
as Warrant Agent

By: _____
Name:
Title:

[Signature Page to Warrant Certificate]

[Form of Warrant Certificate]

[Reverse]

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants entitling the holder on exercise to receive shares of Common Stock and are issued or to be issued pursuant to a Warrant Agreement dated as of [_____], 2015 (the “*Warrant Agreement*”), duly executed and delivered by the Company to Computershare Inc., a Delaware corporation, and its wholly-owned subsidiary, Computershare Trust Company, N.A., a federally chartered trust company, collectively as warrant agent (the “*Warrant Agent*”), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Warrant Agent, the Company and the holders (the words “*holders*” or “*holder*” meaning the Registered Holders or Registered Holder) of the Warrants. A copy of the Warrant Agreement may be obtained by the holder hereof upon written request to the Company. Defined terms used in this Warrant Certificate but not defined herein shall have the meanings given to them in the Warrant Agreement.

Warrants may be exercised at any time during the Exercise Period set forth in the Warrant Agreement. The holder of Warrants evidenced by this Warrant Certificate may exercise them by surrendering this Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Exercise Price as specified in the Warrant Agreement (or through “*cashless exercise*” as provided for in the Warrant Agreement) at the office of the Warrant Agent designated for such purpose. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his, her or its assignee, a new Warrant Certificate evidencing the number of Warrants not exercised.

Notwithstanding anything else in this Warrant Certificate or the Warrant Agreement, no Warrant may be exercised unless at the time of exercise (i) a registration statement covering the shares of Common Stock to be issued upon exercise is effective under the Securities Act and (ii) a prospectus thereunder relating to the shares of Common Stock is current, except through “*cashless exercise*” as provided for in the Warrant Agreement.

The Warrant Agreement provides that upon the occurrence of certain events the number of shares of Common Stock issuable upon exercise of the Warrants set forth on the face hereof may, subject to certain conditions, be adjusted. If, upon exercise of a Warrant, the holder thereof would be entitled to receive a fractional interest in a share of Common Stock, the Company shall, upon exercise, round up to the nearest whole number of shares of Common Stock to be issued to the holder of the Warrant.

Warrant Certificates, when surrendered at the office of the Warrant Agent designated for such purposes by the Registered Holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of Warrants.

Upon due presentation for registration of transfer of this Warrant Certificate at the office of the Warrant Agent, a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company and the Warrant Agent may deem and treat the Registered Holder(s) hereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary. Neither the Warrants nor this Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

Election to Purchase

(To Be Executed Upon Exercise of Warrant)

The undersigned hereby irrevocably elects to exercise the rights represented by this Warrant Certificate with respect to _____ shares of Common Stock, to receive shares of Common Stock and herewith tenders payment for such shares to the order of Oculus Innovative Sciences, Inc. (the "*Company*") in the amount of \$ _____ in accordance with the terms hereof. The undersigned requests that a certificate for such shares be registered in the name of _____, whose address is _____ and that such shares be delivered to whose address is _____. If said number of shares is less than all of the shares of Common Stock purchasable hereunder, the undersigned requests that a new Warrant Certificate representing the remaining balance of such shares be registered in the name of _____, whose address is _____, and that such Warrant Certificate be delivered to _____, whose address is _____.

In the event that the Warrant may be exercised, to the extent allowed by the Warrant Agreement, through cashless exercise, (i) the number of shares that this Warrant is exercisable for would be determined in accordance with section 3.3.2 of the Warrant Agreement which allows for such cashless exercise and (ii) the holder hereof shall complete the following:

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, through the cashless exercise provisions of the Warrant Agreement, to receive shares of Common Stock. If said number of shares is less than all of the shares of Common Stock purchasable hereunder (after giving effect to the cashless exercise), the undersigned requests that a new Warrant Certificate representing the remaining balance of such shares be registered in the name of _____, whose address is _____, and that such Warrant Certificate be delivered to _____, whose address is _____.

Date: _____, 20

(Signature)

(Address)

(Tax Identification Number)

Signature Guaranteed:

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15).

NOTICE OF EXERCISE

TO: **OCULUS INNOVATIVE SCIENCES, INC.**

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant, dated _____, 2015, and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

- in lawful money of the United States by wire transfer or cashier's check drawn on a United States bank; or
- if permitted by the terms of the Warrant, the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in Section 3.3.2, to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in Section 3.3.2.

(3) Please issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

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

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____

Signature of Authorized Signatory of Investing Entity: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____



1434 Spruce Street, Suite 100
Boulder, CO 80302

Phone: 617-243-0060
Fax: 617-243-0066

January 13, 2015

Oculus Innovative Sciences, Inc.
1129 N. McDowell Blvd.
Petaluma, CA 94954

Re: Registration Statement on Form S-1

Ladies and Gentlemen:

I have acted as counsel for Oculus Innovative Sciences, Inc., a Delaware corporation (the "Company"), in connection with the preparation and filing with the Securities and Exchange Commission of a Registration Statement on Form S-1 (the "Registration Statement") in connection with a proposed maximum aggregate offering of \$9,200,000, pursuant to which the Company is registering under the Securities Act of 1933, as amended, shares of the Company's common stock, par value \$0.0001 per share (the "Shares"), including Shares issuable upon the exercise of an over-allotment option granted by the Company to the underwriters to purchase additional shares (the "Over-Allotment"), and warrants to purchase shares of common stock of the Company (the "Warrants"), and warrants to purchase shares of common stock of the Company to be issued to the representative of the underwriters as additional compensation (the "Representative's Warrant"), and the shares of common stock issuable from time to time upon exercise of the Warrants and the Representative's Warrant (the "Warrant Shares"). The Shares and Warrants are to be sold by the Company pursuant to an underwriting agreement (the "Underwriting Agreement") to be entered into by and among the Company and Maxim Group LLC, the form of which has been filed as Exhibit 1.1. to the Registration Statement.

The Warrant Shares may be offered from time to time on a delayed or continuous basis pursuant to Rule 415 under the Securities Act. This opinion is being rendered in connection with the filing of the Registration Statement. All capitalized items used herein and not otherwise defined shall have the respective meanings given to them in the Registration Statement. As of the date of this opinion, the Company currently is authorized to issue up to 30,000,000 shares of common stock. Taking into account the number of shares currently issued and issuable, the Company cannot issue more than 16,500,707 Shares in this offering including Warrant Shares issuable upon the exercise of the Warrants and the Representative's Warrant.

In connection with this opinion, I have examined the Company's Restated Certificate of Incorporation, Amended and Restated Bylaws, as amended, both as currently in effect, and such other records of the corporate proceedings of the Company and certificates of the Company's officers as I deemed relevant, as well as the Registration Statement and the exhibits thereto. In my examination, I have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to me as originals, the conformity to original documents of all documents submitted to me as certified or photostatic copies and the authenticity of the originals of such copies.

Based on the foregoing, and subject to the limitations set forth above and below, I am of the opinion that (i) the Shares have been duly authorized for issuance and, when issued, delivered and paid for in accordance with the terms of the Underwriting Agreement, the Shares will be validly issued, fully paid and non-assessable; (ii) the Warrants have been duly authorized for issuance and, when issued, delivered and paid for in accordance with the terms of the Underwriting Agreement, the Warrants will be validly issued and will constitute a valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, moratorium and similar laws affecting creditors' rights generally and equitable principles of general applicability; (iii) the Warrant Shares, when issued and sold by the Company and delivered by the Company against receipt of the exercise price therefor, in accordance with and in the manner described in the Registration Statement and the Warrants, will be validly issued, fully paid and non-assessable; (iv) the Representative's Warrant, when executed and delivered by the Company in accordance with and in the manner described in the Registration Statement and the Underwriting Agreement, will be validly issued and will constitute a valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, moratorium and similar laws affecting creditors' rights generally and equitable principles of general applicability; and (v) the Representative's Warrant Shares, when issued and sold by the Company and delivered by the Company upon valid exercise thereof and against receipt of the exercise price therefor, in accordance with and in the manner described in the Registration Statement and the Representative's Warrant, will be validly issued, fully paid and non-assessable.



1434 Spruce Street, Suite 100
Boulder, CO 80302

Phone: 617-243-0060
Fax: 617-243-0066

My opinion is limited to the Delaware General Corporation Law (including the statutory provisions and reported judicial decisions interpreting those laws) and federal securities laws of the United States and I express no opinion with respect to the laws of any other jurisdiction. No opinion is expressed herein with respect to the qualification of the Shares under the securities or blue sky laws of any state or any foreign jurisdiction.

I understand that you wish to file this opinion as an exhibit to the Registration Statement, and I hereby consent thereto.

Regards,

/s/ Amy M. Trombly, Esq.
Amy M. Trombly, Esq.

cc: Mr. Jim Schutz, Chief Executive Officer

EXHIBIT 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the inclusion in this Registration Statement of Oculus Innovative Sciences, Inc. on Amendment No. 2 to Form S-1 (File No. 333-200461) of our report dated June 30, 2014 with respect to our audits of the consolidated financial statements of Oculus Innovative Sciences, Inc. and Subsidiaries as of March 31, 2014 and 2013 and for the years then ended, which report appears in the Prospectus, which is part of this Registration Statement. We also consent to the reference to our Firm under the heading "Experts" in such Prospectus.

/s/ Marcum LLP

Marcum LLP
New York, NY
January 13, 2015