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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from _____ to _____

Commission File Number 001-33216

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

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

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

(707) 782-0792
Registrant's telephone number, including area code

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

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

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

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

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

As of August 5, 2010 the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 26,277,458.

OCULUS INNOVATIVE SCIENCES, INC.

Index

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

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

	June 30, 2010 (Unaudited)	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,667	$ 6,258
Accounts receivable, net	1,464	1,416
Inventories, net	529	565
Prepaid expenses and other current assets	630	811
Total current assets	9,290	9,050
Property and equipment, net	1,016	1,108
Other assets	68	60
Total assets	$ 10,374	$ 10,218
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 826	$ 981
Accrued expenses and other current liabilities	1,172	1,078
Current portion of long-term debt, net of discount	207	204
Derivative liability	384	472
Total current liabilities	2,589	2,735
Deferred revenue	181	328
Long-term debt, net of discount, less current portion	1,559	110
Put warrant liability	500	—
Total liabilities	4,829	3,173
Commitments and Contingencies		
Stockholders' Equity:		
Convertible preferred stock, $0.0001 par value; 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2010 (unaudited) and March 31, 2010	—	—
Common stock, $0.0001 par value; 100,000,000 shares authorized, 26,277,458 and 26,161,428 shares issued and outstanding at June 30, 2010 (unaudited) and March 31, 2010, respectively	3	3
Additional paid-in capital	128,044	127,067
Accumulated other comprehensive loss	(3,090)	(2,988)
Accumulated deficit	(119,412)	(117,037)
Total stockholders' equity	5,545	7,045
Total liabilities and stockholders' equity	$ 10,374	$ 10,218

See accompanying notes

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

	Three Months Ended June 30,	
	2010	**2009**
Revenues		
Product	$ 2,045	$ 1,567
Service	219	280
Total revenues	2,264	1,847
Cost of revenues		
Product	696	527
Service	179	215
Total cost of revenues	875	742
Gross profit	1,389	1,105
Operating expenses		
Research and development	396	721
Selling, general and administrative	3,389	2,685
Total operating expenses	3,785	3,406
Loss from operations	(2,396)	(2,301)
Interest expense	(59)	(4)
Interest income	—	1
Change in fair value of derivative liability	88	(1,208)
Other income (expense), net	(8)	(29)
Net loss	$ (2,375)	$ (3,541)
Net loss per common share: basic and diluted	$ (0.09)	$ (0.18)
Weighted-average number of shares used in per common share calculations:		
Basic and diluted	26,215	19,388
Other comprehensive loss, net of tax		
Net loss	$ (2,375)	$ (3,541)
Foreign currency translation adjustments	(102)	71
Other comprehensive loss	$ (2,477)	$ (3,470)

See accompanying notes

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

	Three Months Ended June 30,	
	2010	**2009**
Cash flows from operating activities:		
Net loss	$ (2,375)	$ (3,541)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	95	123
Stock-based compensation	968	465
Change in fair value of derivative liability	(88)	1,208
Non-cash interest expense	24	—
Foreign currency transaction gains	(35)	(16)
Loss on disposal of assets	4	—
Changes in operating assets and liabilities:		
Accounts receivable	(96)	(306)
Inventories	12	2
Prepaid expenses and other current assets	171	114
Accounts payable	(146)	(273)
Accrued expenses and other liabilities	(28)	530
Net cash used in operating activities	(1,494)	(1,694)
Cash flows from investing activities:		
Change in long-term deposits	(10)	(26)
Purchases of property and equipment	(18)	(15)
Net cash used in investing activities	(28)	(41)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of offering costs	—	2,000
Proceeds from the exercise of common stock options and warrants	9	—
Deferred offering costs	—	(54)
Proceeds from issued debt	2,000	—
Principal payments on debt	(71)	(89)
Payments on capital lease obligations	—	(2)
Net cash provided by financing activities	1,938	1,855
Effect of exchange rate on cash and cash equivalents	(7)	12
Net increase in cash and cash equivalents	409	132
Cash and equivalents, beginning of period	6,258	1,921
Cash and equivalents, end of period	$ 6,667	$ 2,053
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 35	$ 4

See accompanying notes

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Oculus Innovative Sciences, Inc. (the "Company") was incorporated under the laws of the State of California in April, 1999 and was reincorporated under the laws of the State of Delaware in December, 2006. The Company's principal office is located in Petaluma, California. The Company develops, manufactures and markets a family of tissue care products to treat infections and, through a separate mechanism of action, enhance healing while reducing the need for antibiotics. The Company's platform technology, called Microcyn®, is a proprietary solution of electrically charged oxychlorine small molecules designed to treat a wide range of organisms that cause disease (pathogens). The Company conducts its business worldwide, with significant subsidiaries in Europe and Mexico.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of June 30, 2010 and for the three months then ended have been prepared in accordance with the accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission ("SEC") and on the same basis as the annual audited consolidated financial statements. The unaudited condensed consolidated balance sheet as of June 30, 2010, condensed consolidated statements of operations for the three months ended June 30, 2010 and 2009, and the condensed consolidated statements of cash flows for the three months ended June 30, 2010 and 2009 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 months ended June 30, 2010 are not necessarily indicative of results to be expected for the year ending March 31, 2011 or for any future interim period. The condensed consolidated balance sheet at March 31, 2010 has been derived from audited consolidated financial statements. However, it does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended March 31, 2010, and notes thereto included in the Company's Form 10-K, which was filed with the SEC on June 8, 2010.

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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Periodically, the Company evaluates and adjusts estimates accordingly. The allowance for uncollectible accounts receivable balances amounted to $71,000 and $96,000, which are included in accounts receivable, net in the accompanying June 30, 2010 and March 31, 2010 condensed consolidated balance sheets, respectively.

Foreign Currency Reporting

The Company's subsidiary in Mexico uses the local currency (Mexican Pesos) as its functional currency and the Company's subsidiary in 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 June 30, 2010 and March 31, 2010.

Foreign currency transaction gains (losses) relate primarily to trade payables and receivables between the Company's subsidiaries in Mexico and Europe. These transactions are expected to be settled in the foreseeable future. The Company recorded foreign currency transaction gains of $35,000 and $16,000 for the three months ended June 30, 2010 and 2009, respectively. The related gains were recorded in other income and expense, net, in the accompanying condensed consolidated statements of operations.

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 months ended June 30, 2010 and 2009 excludes potentially dilutive securities because their inclusion would be anti-dilutive.

The following securities were excluded from basic and diluted net loss per share calculation because their inclusion would be anti-dilutive (in thousands):

	June 30, 2010	2009
Options to purchase common stock	4,461	3,929
Restricted stock units	—	30
Warrants to purchase common stock	9,297	9,407
	13,758	13,366

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 as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement), or (iii) contracts that contain reset provisions. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that its freestanding derivatives, which principally consist of warrants to purchase common stock, satisfied the criteria for classification as equity instruments at June 30, 2010, other than certain warrants that contain reset provisions that the Company classified as derivative liabilities as more fully described in Note 5.

Fair Value of Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents, 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 fair value of capital lease obligations and equipment loans approximates their carrying amounts as a market rate of interest is attached to their repayment.

The Company measures the fair value of financial assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company uses three levels of inputs that may be used to measure fair value:

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

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

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

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

	Fair value measurements (in thousands) at June 30, 2010 using			
	June 30, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities:				
Fair value of warrant obligations (Note 5)	$ 384	—	—	$ 384

Subsequent Events

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

Recent Accounting Pronouncements

In March 2010, the FASB issued ASU No. 2010-17, “Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition.” This standard provides that the milestone method is a valid application of the proportional performance model for revenue recognition if the milestones are substantive and there is substantive uncertainty about whether the milestones will be achieved. Determining whether a milestone is substantive requires judgment that should be made at the inception of the arrangement. To meet the definition of a substantive milestone, the consideration earned by achieving the milestone (1) would have to be commensurate with either the level of effort required to achieve the milestone or the enhancement in the value of the item delivered, (2) would have to relate solely to past performance, and (3) should be reasonable relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement. The new standard is effective for interim and annual periods beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this standard did not have any impact on the Company’s consolidated financial position and results of operations.

In May 2010, the FASB issued Accounting Standards Update No. 2010-19, "Foreign Currency Issues: Multiple Foreign Currency Exchange Rates." The guidance provides clarification of accounting treatment when reported balances in an entity's financial statements differ from their underlying U.S. dollar denominated values due to different rates being used for remeasurement and translation. The guidance indicates that upon adopting highly inflationary accounting for Venezuela, since the U.S. dollar is now the functional currency of a Venezuelan subsidiary, there should no longer be any differences between the amounts reported for financial reporting purposes and the amount of any underlying U.S. dollar denominated value held by the subsidiary. Therefore, any differences between these should either be recognized in the income statement or as a cumulative translation adjustment, if the difference was previously recognized as a cumulative translation adjustment. The adoption of this standard is not expected to have any impact on the Company's consolidated financial position and results of operations.

Other accounting standards that have been issued or proposed by the FASB and 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 2. Liquidity and Financial Condition

The Company incurred a net loss of $2,375,000 for the three months ended June 30, 2010. At June 30, 2010, the Company's accumulated deficit amounted to $119,412,000. During the three months ended June 30, 2010, net cash used in operating activities amounted to $1,494,000. At June 30, 2010, the Company's working capital amounted to $6,701,000. The Company may 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 raise additional capital to pursue its product development initiatives, penetrate markets for the sale of its products and continue as a going concern.

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, Inc. to borrow up to an aggregate of up to $3,000,000 (collectively, the "Agreements"). The Agreements provide for a first tranche of $2,000,000 and, upon meeting certain financial milestones, the Company may borrow a second tranche of $1,000,000. The loan is secured by the all assets of the Company excluding intellectual property under certain circumstances. On May 3, 2010, the Company borrowed $2,000,000 on the first tranche. The effective interest rate on the loan is 13.3%. For the first eight payments, the Company will make monthly payments of interest only set at $16,660 through December 1, 2010. Thereafter, the Company will make interest and principal payments of $75,000 per month through June 1, 2013. Additionally, the Company will make a final balloon payment of $132,340 on June 1, 2013 (Note 3).

For the three months ended June 30, 2010, the Company received $9,000 in connection with the exercise of 20,547 stock options.

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 through at least July 1, 2011. 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. The Company may raise additional capital to pursue its product development initiatives and penetrate markets for the sale of its products.

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 needed. If the Company is unable to secure additional capital, it may be required to curtail its research and development initiatives and take additional measures to reduce costs in order to conserve its cash.

Note 3. Condensed Consolidated Balance Sheets

Inventories

Inventories consisted of the following (in thousands):

	June 30, 2010	March 31, 2010
	(unaudited)	
Raw materials	$ 396	$ 406
Finished goods	252	302
	648	708
Less: inventory allowances	(119)	(143)
	$ 529	$ 565

Notes Payable

On January, 28, 2006 and on March 14, 2006, the Company issued notes for aggregate principal amounting to $47,000 with interest rates ranging from 4.9% to 14.4% per annum. These notes were issued in connection with the purchase of two automobiles. The Company made principal payments on these notes of $2,000 for the three months ended June 30, 2010 and 2009. Aggregate interest expense under these obligations amounted to $1,000 for the three months ended June 30, 2010 and 2009. These notes are payable in aggregate monthly installments of $3,000 including interest through March 14, 2011. The remaining balance of these notes amounted to $7,000 at June 30, 2010, which is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

On August 29, 2009, the Company entered into a note agreement for principal amounting to $100,000 with an interest rate of 2.90% per annum. This instrument was issued in connection with financing an automobile. During the three months ended June 30, 2010, the Company made principal and interest payments related to this note in the amounts of $5,000 and $1,000, respectively. The remaining balance of this note amounted to $84,000 at June 30, 2010 of which $19,000 is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

On October 7, 2009, the Company entered into a note agreement for principal amounting to $57,000 with an interest rate of 0.90% per annum. This instrument was issued in connection with financing an automobile. During the three months ended June 30, 2010 the Company made principal payments related to this note in the amounts of $3,000 and negligible interest payments. The remaining balance of this note amounted to $48,000 at June 30, 2010 of which $11,000 is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

On March 16, 2010, the Company entered into a note agreement for $184,000 with an interest rate of 4.0% per annum. The note was used to finance insurance premiums. The note is payable in monthly installments of $20,800 through November 16, 2010. During the three months ended June 30, 2010, the Company made principal and interest payments related to this note of $61,000 and $1,000, respectively. The remaining balance of this note amounted to $103,000 at June 30, 2010 which is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

On May 1, 2010, the Company entered into a Loan and Security Agreement and a Supplement to the Loan and Security Agreement with Venture Lending & Leasing V, Inc. to borrow up to an aggregate of $3,000,000 (collectively, the "Agreements"). The Agreements provide for a first tranche of $2,000,000 and, upon meeting certain financial milestones, the Company may borrow a second tranche of $1,000,000. The loan is secured by the assets of the Company excluding intellectual property under certain circumstances. On May 3, 2010, the Company borrowed $2,000,000 on the first tranche. For the first eight payments, the Company will make monthly interest only payments set at $16,660 through December 1, 2010. Thereafter, the Company will make interest and principal payments of $75,000 per month through June 1, 2013. Additionally, the Company will make a final balloon payment of $132,340 on June 1, 2013, resulting in an effective interest rate of 13.3%. If the Company becomes eligible to draw the second tranche, and borrows additional funds pursuant to the second tranche, the Company will make interest-only payments for 6 months following the commencement of the second tranche. Following the interest only period, the second tranche will be amortized over 30 months, with a final payment due equal to 6.617% of the original principal balance. During the three months ended June 30, 2010, the Company made interest payments of $32,000.

Additionally, in connection with the Agreements, the Company issued a warrant to Venture Lending & Leasing, Inc. for the purchase of 166,667 shares of the Company's common stock. If the Company becomes eligible to draw the second tranche of the loan, and borrows additional funds pursuant to the second tranche, the Company will be obligated to issue a second warrant for the purchase of an additional 83,333 shares of its common stock (collectively, the "Warrants"). The Warrants may be exercised for a cash payment of $2.00 per share of common stock, subject to adjustment for stock splits, dividends, a change in control or similar transactions. The Warrants also have a cashless exercise feature. The Warrants expire on November 30, 2017. The Warrants may be put back to the Company for $500,000 cash, plus an additional $250,000 if the Company becomes eligible and draws the second tranche of the loan. The put feature is available to the holder for 60 days after the first of the following to occur: i) a change of control of the Company, ii) the closing of at least $15,000,000 of additional equity financing, or iii) March 31, 2014. The $500,000 cash value of the warrant was recorded as a put warrant liability and a corresponding amount of $500,000 was recorded as a discount on the note payable. The discount will be accreted to non-cash interest expense over the term of the loan using the effective interest method. During the three months ended June 30, 2010, the Company recorded $24,000 of non-cash interest expense which is included in the accompanying condensed consolidated statement of operations. The remaining balance of this note amounted to $2,000,000, and the carrying value, net of $476,000 discount, amounted to $1,524,000, at June 30, 2010, of which $67,000, net of $148,000 discount, is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

Note 4. Commitments and Contingencies

Legal Matters

In February 2007, the Company's Mexico subsidiary served Quimica Pasteur ("QP"), a former distributor of the Company's products in Mexico, with a claim alleging breach of contract under a note made by QP. A trial date has not yet been set.

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 operations.

Employment Agreements

As of June 30, 2010, the Company had employment agreements with five of its key executives. The agreements provide, among other things, for the payment of six to twenty-four months of severance compensation for terminations under certain circumstances. With respect to these agreements, at June 30, 2010, potential severance benefits amounted to $1,864,000 and aggregated annual salaries amounted to $1,350,000.

Commercial Agreements

On May 8, 2007, and June 11, 2007, the Company entered into separate commercial agreements with two unrelated customers granting such customers the exclusive right to sell the Company's products in specified territories or for specified uses. Both customers are required to maintain certain minimum levels of purchases of the Company's products in order to maintain the exclusive right to sell the Company's products. Up-front payments amounting to $625,000 were paid under these agreements and were recorded as deferred revenue. On April 16, 2010 the Company terminated the exclusive agreement with one of the customers. Accordingly, the Company recorded the remaining balance of the unamortized upfront fees as revenue which amounted to $210,000. For the three months ended June 30, 2010 and 2009, the Company recorded revenues of $217,000 and $24,000, respectively, related to the upfront payments. These amounts were included in product revenue in the accompanying condensed consolidated statements of operations. At June 30, 2010, deferred revenue related to the remaining agreement amounted to $181,000 of which $28,000 was short-term and is included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet. The remaining up-front fee will be amortized on a straight-line basis over the term of the underlying agreement.

Agreements with Related Party

On January 26, 2009, the Company entered into a commercial agreement with VetCure, Inc., a California corporation, to market and sell our Vetericyn products. VetCure, Inc. later changed its name to Vetericyn, Inc. This agreement was amended on February 24, 2009 and on July 24, 2009. At the time of each of these transactions, Vetericyn was wholly-owned by Robert Burlingame, who was a Director at the time of the transactions. Mr. Burlingame resigned from the Board on February 10, 2010. Pursuant to the agreement, the Company provides Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Vetericyn Inc. products. The Company receives a fixed amount for each bottle of Vetericyn sold by Vetericyn, Inc. In addition, once certain financial milestones are met by Vetericyn, Inc., the Company shares revenue generated by Vetericyn, Inc. related to Vetericyn sales.

On February 24, 2009, the Company entered into a Purchase Agreement with certain investors, including Robert Burlingame, who was a Director at the time of the transaction. Mr. Burlingame resigned from the Board on February 10, 2010. Pursuant to the terms of the Purchase Agreement, the investors agreed to make a $3,000,000 investment in the Company. The investors paid $1,000,000 (net proceeds of $948,000 after deducting offering expenses) for 854,701 shares of common stock on February 24, 2009 and paid $2,000,000 for 1,709,402 shares of common stock on June 1, 2009. In addition, the Company issued to the investors Series A Warrants to purchase a total of 1,500,000 shares of common stock pro rata to the number of shares of common stock issued on each closing date at an exercise price of $1.87 per share. The Series A Warrants became exercisable after six months and have a five year term. The Company also issued to the investors Series B Warrants to purchase a total of 2,000,000 shares of common stock pro rata to the number of shares of common stock issued on each closing date at an exercise price of $1.13 per share. The Series B Warrants became exercisable after six months and have a three year term. In addition, for every two shares of common stock the investor purchases upon exercise of a Series B Warrant, the investor will receive an additional Series C Warrant to purchase one share of common stock. The Series C Warrant shall be exercisable after six months and will have an exercise price of $1.94 per share and a five year term. The Company will only be obligated to issue Series C Warrants to purchase up to 1,000,000 shares of common stock.

On September 15, 2009, the Company entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell the Microcyn over-the-counter liquid and gel products on a non-exclusive basis. V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was a Director at the time of the transaction. V&M Industries, Inc. subsequently changed its name to Innovacyn, Inc. On June 1, 2010, Innovacyn and the Company amended this agreement. Once certain milestones are met the Company will share profits related to Vetericyn and Microcyn over-the-counter sales.

The Company currently manufactures all Microcyn over-the-counter products and bears all inventory and collection risks related to the over-the-counter sales and incurs costs associated with Innovacyn's sales and marketing efforts. Accordingly, the Company records over-the-counter related revenue on the gross basis and records expenses related to Innovacyn's sales and marketing efforts in selling, general and administrative expenses. During the three months ended June 30, 2010, the Company recorded revenue related to these agreements in the amounts of $361,000 and $24,000, respectively. The revenue is recorded in product revenues in the accompanying condensed consolidated statements of operations.

Other Matters

On September 16, 2005, the Company entered into a series of agreements with QP, a Mexico-based company engaged in the business of distributing pharmaceutical products to hospitals and health care entities owned or operated by the Mexican Ministry of Health. These agreements provided, among other things, for QP to act as the Company's exclusive distributor of Microcyn to the Mexican Ministry of Health for a period of three years. In connection with these agreements, the Company was concurrently granted an option to acquire all except a minority share of the equity of QP directly from its principals in exchange for 150,000 shares of common stock, contingent upon QP's attainment of certain financial milestones. The Company's distribution and related agreements were cancelable by the Company on thirty days' notice without cause and included certain provisions to hold the Company harmless from debts incurred by QP outside the scope of the distribution and related agreements. The Company terminated these agreements on March 26, 2006 without having exercised the option.

Due to its liquidity circumstances, QP was unable to sustain operations without the Company's subordinated financial and management support. Accordingly, QP was deemed to be a variable interest entity in accordance with FIN 46(R) and its results were consolidated with the Company's consolidated financial statements for the period of September 16, 2005 through March 26, 2006, the effective termination date of the distribution and related agreement, without such option having been exercised.

Subsequent to having entered into the agreements with QP, the Company became aware of an alleged tax avoidance scheme involving the principals of QP. The audit committee of the Company's Board of Directors engaged an independent counsel, as well as tax counsel in Mexico to investigate this matter. The audit committee of the Board of Directors was advised that QP's principals could be liable for up to $7,000,000 of unpaid taxes; however, the Company is unlikely to have any loss exposure with respect to this matter because the alleged tax omission occurred prior to the Company's involvement with QP. The Company has not received any communications to date from Mexican tax authorities with respect to this matter.

Based on an opinion of Mexican counsel, the Company's management and the audit committee of the Board of Directors do not believe that the Company is likely to experience any loss with respect to this matter. However, there can be no assurance that the Mexican tax authorities will not pursue this matter and, if pursued, that it would not result in a material loss to the Company.

Note 5. Derivative Liability

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 derivative instruments and classified as equity and have since been re-characterized as derivative liabilities. Accordingly, the fair value of the derivative liabilities is re-measured at the end of every reporting period with the change in value reported in the statement of operations.

The derivative liability was valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

	June 30, 2010	March 31, 2010
Expected life	2.12 years	2.37 years
Risk-free interest rate	0.61%	1.02%
Dividend yield	0.00%	0.00%
Volatility	84%	84%
Warrants outstanding	724,188	724,188
Fair value of warrants	$ 384,000	$ 472,000

The Company recorded a gain of $88,000 and a loss of $1,208,000 due to a change in the fair value of the Company's derivative liability for the three months ended June 30, 2010 and 2009, respectively. These amounts are included as a change in the fair value of derivative instruments in the accompanying condensed consolidated statements of operations.

Note 6. Stockholders' Equity

Common Stock Issued to Director

On April 1, 2009, the Company entered into a six month agreement with Mr. Bob Burlingame, who was a Director at the time of the transaction. Pursuant to the agreement, Mr. Burlingame provided the Company with sales and marketing expertise and services as part of another revenue sharing agreement. In consideration of his services, on June 12, 2009, the Company issued Mr. Burlingame 435,897 unregistered shares of its common stock. The shares were fully vested and non-forfeitable at the time of issuance. The fair value of the common stock was more readily determinable than the fair value of the services rendered. The Company has amortized the fair value of the warrants over the six month term of the consulting agreement which is consistent with its treatment of similar cash transactions. Accordingly, the Company recorded $476,000 of stock compensation expense related to this agreement which was recognized on a straight-line basis over the six month term of the agreement (April 1, 2009 to October 1, 2009). The Company recorded $238,000 of compensation expense related to this agreement. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statement of operations for the three months ended June 30, 2009.

Common Stock Issued to Service Providers

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 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 shares of common stock each month as compensation for its services. During the three months ended June 30, 2010 and 2009, the Company issued 10,255 and 24,500 shares of common stock, respectively, in connection with this agreement. The Company has determined that the fair value of the common stock, which was calculated as shares were issued, was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. The expense will be recognized as the shares of stock are earned. During the three months ended June 30, 2010 and 2009, the Company recorded $22,000 and $26,000 of compensation expense, respectively. These expenses were recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

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, common stock valued at $30,000. The Company determined 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 three months ended June 30, 2010, the Company issued 15,288 share of common stock. The Company recorded $30,000 of expense related to this agreement which was recorded as selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

On May 19, 2010, the Company issued common stock to Life Tech Capital, a Division of Aurora Capital, LLC, for providing financial advisory services. The Company agreed to pay Life Tech Capital, a Division of Aurora Capital, LLC, 20,000 shares of common stock for the services provided. The Company determined the fair value of the common stock was more readily determinable than the fair value of the services rendered. The aggregate fair value of the common stock amounted to $44,000. Accordingly, during the three months ended June 30, 2010, the Company recorded $44,000 of expense related to this agreement which was recorded as selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

On May 19, 2010, the Company issued common stock to Acute Care Partners, Inc., for providing recruiting and other management services. The Company agreed to pay Acute Care Partners, Inc. 50,000 shares of common stock for the 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. The aggregate fair value of common stock amounted to $111,000. Accordingly, during the three months ended June 30, 2010, the Company recorded $111,000 of expense related to this agreement which was recorded as selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

Note 7. 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 (in thousands):

	Three Months Ended June 30,	
	2010	2009
Cost of service revenue	$ 15	$ 4
Research and development	51	29
Selling, general and administrative	695	160
Total stock-based compensation	$ 761	$ 193

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

The Company estimated the fair value of employee stock awards 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 period of the awards. The fair value of employee stock options granted during the three months ended June 30, 2010 was estimated using the following weighted-average assumptions: expected term of 5.6 years, risk-free interest rate of 1.95%, and dividend yield of 0.00% and volatility of 84%. The weighted-average fair value of options granted during the three months ended June 30, 2010 was $1.36. The options were granted to the Company's executive officers. There were no options granted during the three months ended June 30, 2009.

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 Staff Accounting Bulletin No. 107 for "plain vanilla" options. The expected stock price volatility for the Company's stock options was determined by examining the historical volatilities for industry peers and using an average of the historical volatilities of the Company's industry peers as well as the trading history for the Company's common stock. 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 becomes 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 three months ended June 30, 2010 was 4.6%.

At June 30, 2010, there were unrecognized compensation costs of $2,211,000 related to stock options which is expected to be recognized over a weighted-average amortization period of 2.16 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.

A summary of all option activity as of June 30, 2010 and changes during the three months then ended is presented below:

	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value ($000)
Options				
Outstanding at April 1, 2010	3,987	$ 2.96		
Granted	500	1.97		
Exercised	(21)	0.42		
Forfeited or expired	(5)	13.33		
Outstanding at June 30, 2010	4,461	$ 2.84	7.78	$ 2,176
Exercisable at June 30, 2010	2,204	$ 3.95	6.50	$ 834

The aggregate intrinsic value is calculated as the difference between the exercise price of the stock options and the underlying fair value of the Company's common stock ($2.04) for stock options that were in-the-money as of June 30, 2010.

As provided under the Company's 2006 Stock Incentive Plan (the "2006 Plan"), the aggregate number of shares authorized for issuance as awards under the 2006 Plan automatically increased on April 1, 2010 by 1,308,071 shares (which number constitutes 5% of the outstanding shares on the last day of the year ended March 31, 2010).

Note 8. 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, that 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 the financial reporting and income tax purposes for the quarter ended June 30, 2010. 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.

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 financial statements.

The Company has identified its federal tax return and its state tax return in California as major tax jurisdictions. The Company is also subject to certain other foreign jurisdictions, principally Mexico and The Netherlands. The Company's evaluation of uncertain tax matters was performed for tax years ended through March 31, 2010. Generally, the Company is subject to audit for the years ended March 31, 2009, 2008 and 2007 and may be subject to audit for amounts relating to net operating loss carryforwards generated in periods prior to March 31, 2007. 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.

Note 9. Segment and Geographic Information

The Company generates revenues from wound care products which are sold into the human and animal health care markets and the Company generates revenues from laboratory testing services which are provided to medical device manufacturers. The Company operates a single segment business which consists of three geographical sales territories as follows (in thousands):

	Three Months Ended June 30,	
	2010	**2009**
U.S.	$ 522	$ 131
Mexico	998	1,208
Europe and other	525	228
	$ 2,045	$ 1,567

The Company's service revenues amounted to $219,000 and $280,000 for the three months ended June 30, 2010 and 2009.

Note 10. Subsequent Events

On August 5, 2010, the Company granted a one-time cash bonus of $83,000 to Hojabr Alimi, the Company's Chairman of the Board of Directors and Chief Executive Officer.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes to those statements included elsewhere in this Quarterly Report on Form 10-Q as of June 30, 2010 and our audited consolidated financial statements for the year ended March 31, 2010 included in our report on Form 10-K, that was filed with the Securities and Exchange Commission on June 8, 2010.

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

Forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to the risks described in our Annual Report on Form 10-K including our ability to become profitable; the effect of the general decline in the economy on our business; the progress and timing of our development programs and regulatory approvals for our products; the benefits and effectiveness of our products; the ability of our products to meet existing or future regulatory standards; the progress and timing of clinical trials and physician studies; our expectations related to the use of our cash reserves; our expectations and capabilities relating to the sales and marketing of our current products and our product candidates; our ability to gain sufficient reimbursement from third-party payors; our ability to compete with other companies that are developing or selling products that are competitive with our products; the establishment of strategic partnerships for the development or sale of products; the risk our research and development efforts do not lead to new products; the timing of commercializing our products; our relationship with Quimica Pasteur; our ability to penetrate markets through our sales force, distribution network, and strategic business partners to gain a foothold in the market and generate attractive margins; the expansion of our sales force and distribution network; the ability to attain specified revenue goals within a specified time frame, if at all, or to reduce costs; the outcome of discussions with the U.S. Food and Drug Administration, or FDA, and other regulatory agencies; the content and timing of submissions to, and decisions made by, the FDA and other regulatory agencies, including demonstrating to the satisfaction of the FDA the safety and efficacy of our products; our ability to manufacture sufficient amounts of our product candidates for clinical trials and products for commercialization activities; our ability to protect our intellectual property and operate our business without infringing on the intellectual property of others; our ability to continue to expand our intellectual property portfolio; our expectations about the outcome of litigation and controversies with third parties; the risk we may need to indemnify our distributors or other third parties; our ability to attract and retain qualified directors, officers and employees; our expectations relating to the concentration of our revenue from international sales; our ability to expand to and commercialize products in markets outside the wound care market; and the impact of the Sarbanes-Oxley Act of 2002 and any future changes in accounting regulations or practices in general with respect to public companies. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

Our Business

We develop, manufacture and market a family of tissue care products that cure infections and, through a separate mechanism of action, enhance healing while reducing the need for antibiotics. Infection is a serious potential complication in both chronic and acute wounds, and controlling infection is a critical step in wound healing. Our platform technology, called Microcyn®, is a proprietary solution of electrically charged oxychlorine small molecules designed to treat a wide range of organisms that cause disease (pathogens). These include viruses, fungi, spores and antibiotic-resistant strains of bacteria, such as methicillin-resistant *Staphylococcus aureus*, or MRSA, and vancomycin-resistant *Enterococcus,* or VRE, in wounds, as well as *Clostridium difficile* (C. diff), a highly contagious bacteria spread by human contact.

We do not have the necessary regulatory approvals to market Microcyn in the United States as a drug. In the United States our device product does, however, have six clearances as a 510(k) medical device for the following summary indications:

1) moistening and lubricating absorbent wound dressings for traumatic wounds requiring a prescription;

2) moistening and debriding acute and chronic dermal lesions requiring a prescription;

3) moistening absorbent wound dressings and cleaning minor cuts as an over-the-counter product;

4) management of exuding wounds such as leg ulcers, pressure ulcers, diabetic ulcers and for the management of mechanically or surgically debridement of wounds in a gel form and required as a prescription;

5) 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 a preservative, which can kill listed bacteria such as MRSA & VRE and required as a prescription; and

6) as a hydrogel, for management of wounds 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.

We do not have the necessary regulatory clearance or approval to market Microcyn in the U.S. as a medical device for an antimicrobial or wound healing indication. In the future we expect to apply with the FDA for clearance as an antimicrobial in a liquid and a hydrogel form and as conducive to wound healing via a 510(k) medical device clearance.

Outside the United States, our product has a CE Mark device approval in Europe for debriding, irrigating and moistening acute and chronic wounds in comprehensive wound treatment by reducing microbial load and creating a moist environment. In Mexico, we are approved as a drug for antiseptic treatment of wounds and infected areas. In India, our technology has a drug license for cleaning and debriding in wound management while in China there is a medical device approval by the State Food and Drug Administration for reducing the propagation of microbes in wounds and creating a moist environment for wound healing.

While in the U.S. we do not have the necessary regulatory clearance for an antimicrobial or wound healing indication, clinical and laboratory testing we conducted in connection with our submissions to the FDA, as well as physician clinical studies and scientific papers, suggest that our Microcyn Technology may help reduce a wide range of pathogens from acute and chronic wounds while curing or improving infection and concurrently enhancing wound healing through modes of action unrelated to the treatment of infection. These physician clinical studies suggest that our Microcyn is safe, easy to use and complementary to many existing treatment methods in wound care. Physician clinical studies and usage in the United States suggest that our 510(k) cleared products may shorten hospital stays, lower aggregate patient care costs and, in certain cases, reduce the need for systemic antibiotics. We are also pursuing the use of our Microcyn platform technology in other markets outside of wound and skin care, including the respiratory, ophthalmology, dental, dermatology, animal healthcare and industrial markets.

In 2005, chronic and acute wound care represented an aggregate of $9.6 billion in global product sales, of which $3.3 billion was spent for the treatment of skin ulcers, $1.6 billion to treat burns and $4.7 billion for the treatment of surgical and trauma wounds, according to Kalorama Information, a life sciences market research firm. In the Kalorama Information we believe the markets most related to our product involve approximately $1.3 billion for the treatment of skin ulcers, $300 million for the treatment of burns and $700 million for the treatment of surgical and trauma wounds. Common methods of controlling infection, including topical antiseptics and antibiotics, have proven to be only moderately effective in combating infection in the wound bed. However, topical antiseptics tend to inhibit the healing process due to their toxicity and may require specialized preparation or handling. Antibiotics can lead to the emergence of resistant bacteria, such as MRSA and VRE. Systemic antibiotics may be less effective in controlling infection in patients with disorders affecting circulation, such as diabetes, which are commonly associated with chronic wounds. As a result, no single treatment is used across all types of wounds and stages of healing.

We believe the Microcyn Technology is the only known stable, anti-infective therapeutic available in the world today that simultaneously cures or improves infection while also promoting wound healing through increased blood flow to the wound bed and reduction of inflammation. Also, we believe Microcyn provides significant advantages over current methods of care in the treatment of a wide range of chronic and acute wounds throughout all stages of treatment. These stages include cleaning, debridement, prevention and treatment of infections and wound healing. We believe that unlike antibiotics, antiseptics, growth regulators and other advanced wound care products; Microcyn is the only stable wound care solution that is as safe as saline, and also cures infection while simultaneously accelerating wound healing. Also, unlike most antibiotics, we believe Microcyn does not target specific strains of bacteria, a practice which has been shown to promote the development of resistant bacteria. In addition, our products are shelf stable, non-toxic, require no special preparation and are easy to use.

Our goal is to become a worldwide leader as the standard of care in the treatment and irrigation of open wounds and skin care. We currently have, and intend to seek additional, regulatory clearances and approvals to market our Microcyn-based products worldwide. In July 2004, we began selling Microcyn60™ in Mexico after receiving approval from the Mexican Ministry of Health, for the use as an antiseptic, disinfectant and sterilant. Since then, physicians in the United States, Europe, India, Pakistan, China and Mexico have conducted more than 28 physician clinical studies assessing Microcyn Technology's use in the treatment of infections in a variety of wound types, including hard-to-treat wounds such as diabetic ulcers and burns. Most of these studies were not intended to be rigorously designed or controlled clinical trials and, as such, did not have all of the controls required for clinical trials used to support a new drug application submission to the FDA. A number of these studies did not include blinding, randomization, predefined clinical end points, use of placebo and active control groups or U.S. good clinical practices requirements. We used the data generated from some of these studies to support our application for the CE Mark, or European Union certification, for wound cleaning and reduction of microbial load. We received the CE Mark in November 2004 and additional international approvals in China, Canada, Mexico and India. Microcyn has also received six FDA 510(k) approvals for use as a medical device in wound cleaning, or debridement, lubricating, moistening and dressing, including traumatic wounds and acute and chronic dermal lesions. On May 27, 2009, we received a 510(k) approval from the FDA to market our Microcyn Skin and Wound HydroGel™ as both a prescription and over-the-counter formulation. Additionally, on June 4, 2009, we received an expanded 510(k) label clearance from the FDA to market our Microcyn Skin and Wound Care with preservatives as both a prescription and over-the-counter formulation. The new prescription product is indicated for use by health care professionals to manage the 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. Most recently, on March 8, 2010, we received a 510(k) clearance from the FDA to market our Microcyn Skin and Wound HydroGel for management of dermal irritation, sores, injuries and ulcers of dermal tissue including itch and pain relief as a prescription and as an over-the-counter product intended to relieve itch and pain from minor skin irritations, lacerations, abrasions and minor burns.

In the fourth quarter of 2007, we completed a Phase II randomized clinical trial, which was designed to evaluate the effectiveness of Microcyn in mildly infected diabetic foot ulcers with the primary endpoint of clinical cure or improvement in signs and symptoms of infection according to guidelines of Infectious Disease Society of America. 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 (test of cure) for patients treated with Microcyn alone was 93.3% compared to 56.3% for the 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) would 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 100.0% while the 95.0% confidence interval for the Levofloxacin and saline arm ranged from 31.9% to 80.6%; the confidence intervals do not overlap, thus indicating a favorable clinical success for Microcyn compared to Levofloxacin. At visit three (end of treatment) the clinical success rate for patients treated with Microcyn alone was 77.8% compared to 61.1% for the Levofloxacin plus saline-treated patients.

We conducted a review meeting with the FDA in August 2008 to discuss the results of our Phase II trial and our future clinical program. Following a review of the Phase II data on Microcyn Technology for the treatment of mildly infected diabetic foot ulcers, the FDA agreed:

- We could move forward into the pivotal phase of our U.S. clinical program for Microcyn Technology;
- There were no safety issues relative to moving into this next clinical phase immediately, and carcinogenicity studies would not be required for product approval; and
- Clinical requirements for efficacy and safety for a new drug application, or NDA, would be appropriately accounted for within the agreed upon pivotal trial designs.

Two pivotal clinical trials must be completed for submission of a new drug application to the FDA for the treatment of mildly infected diabetic foot ulcers. Commencement of these trials will be dependent upon the support of a strategic partner. In the event that we successfully complete clinical trials and obtain drug approval from the FDA, we may seek clearance for treatment of other types of wounds. We are currently pursuing strategic partnerships to assess potential applications for Microcyn in several other markets and therapeutic categories, including respiratory, ophthalmology, dermatology, dental and veterinary markets. FDA or other governmental approvals will be required for any potential new products or new indications.

Our products are purchased by hospitals, physicians, nurses, and other healthcare practitioners who are the primary caregivers to patients being treated for acute or chronic wounds or undergoing surgical procedures. We currently make Microcyn Technology available, both as prescription and over-the-counter products, under our six 510(k) approvals in the United States, primarily through a partnership with a combination of Advocos, a specialty U.S. contract sales organization, and a commissioned sales force.

In the quarter ending December 31, 2008, we initiated an aggressive commercialization into the podiatry market in the United States. In the second quarter of 2009, we expanded this sales effort to include wound care centers, hospitals, nursing homes, urgent care clinics and home healthcare. Additionally, we are in the process of introducing Microcyn-based consumer healthcare products both in the United States and Mexico. Initially, these include animal and human wound care.

On January 26, 2009, we entered into a commercial agreement with VetCure, Inc., a California corporation, to market and sell our Vetericyn products. VetCure, Inc. later changed its name to Vetericyn, Inc. This agreement was amended on February 24, 2009 and on July 24, 2009. At the time of each of these transactions, Vetericyn was wholly-owned by Robert Burlingame, who was a Director at the time of the transactions. Mr. Burlingame resigned from our Board on February 10, 2010. Pursuant to the agreement, we provide Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Vetericyn Inc. products. We receive a fixed amount for each bottle of Vetericyn sold by Vertericyn, Inc. In addition, once certain milestones are met by Vetericyn, Inc., we will share revenue generated by Vetericyn, Inc. related to Vetericyn sales.

On September 15, 2009, we entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell our Microcyn over-the-counter liquid and gel products. V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was a Director at the time of the transaction. V&M Industries, Inc. subsequently changed their name to Innovacyn, Inc. On June 1, 2010 we entered into an amendment to this agreement. Once certain milestones are met by Innovacyn, we will share gross profits generated by Innovacyn. On May 13, 2010, Innovacyn received notice from Health Canada they can market these products in the Canadian market.

Our partner, Union Springs Pharmaceuticals, a subsidiary of the Drug Enhancement Company of America, has marketed MyClyns, an over-the-counter “first responder” pen application, with Microcyn in the United States since January 2008.

Our prescription dental partner, OroScience, Inc. has the exclusive right to sell prescription dental products in the United States and Europe subject to certain annual minimum payments and has filed for 510(k) approval to market our product for use as an oral rinse in liquid form and for oral mucositis in a gel form.

We have announced the commercialization of a Microcyn hydrogel for both wound care and dermatology which received six 510(k) approvals in the U.S. We intend to pursue additional approvals in Europe, China, India and Mexico and plan to initiate commercialization upon obtaining these approvals.

We currently rely on exclusive agreements with country-specific distributors for the sale of Microcyn-based products in Europe in Italy, Netherlands, Germany, Czech Republic, Sweden, Finland and Denmark.

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

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

In China, we signed an exclusive distribution agreement with China Bao Tai, which in March 2008 secured marketing approval from the Chinese State Food and Drug Administration. In April 2010, we terminated the distribution agreement. We will continue to supply China Bao Tai with product on a non-exclusive basis. We are currently in the process of setting up a broader distribution network in China.

Throughout the rest of the world, we intend to use strategic partners and distributors, who have a significant sales, marketing and distribution presence in their respective countries. We have established partners and distribution channels for our wound care products in Bangladesh, Pakistan, Singapore, United Arab Emirates and Saudi Arabia.

We also operate a microbiology contract testing laboratory division that provides consulting and laboratory services to medical companies that design and manufacture biomedical devices and drugs, as well as testing on our products and potential products. Our testing laboratory complies with U.S. good manufacturing practices and quality systems regulation.

Comparison of Three Months Ended June 30, 2010 and 2009

Revenues

Total revenues were $2,264,000 during the quarter ended June 30, 2010 compared to $1,847,000 in the prior year period. Product revenues increased $478,000, or 31%, with the large increases in the U.S., Europe, India, the Middle East and China, partially offset by a decline in Mexico.

Revenue in Mexico decreased 17% from the prior year period with unusually high sales last year, caused by the swine flu epidemic in Mexico. Unit sales of our 240-milliliter presentation, which is primarily sold to pharmacies in Mexico, decreased 40% from the prior year to a monthly average of 34,195 units compared to 56,692 in the same period last year. Sales to hospitals increased 8% with price increases offsetting a decline in units sold. We believe that during the quarter ended June 30, 2009, the swine flu epidemic in Mexico resulted in sales of $300,000 to $350,000 higher than normal.

Europe and Rest of World revenue increased $297,000, up 130% over the prior year period, due to higher sales in Europe, India, the Middle East and China. Revenue related to China, which amounted to $210,000, during the quarter resulted from the conversion of the exclusive relationship with China Bao Tai to a non-exclusive relationship and the recognition of deferred revenue related to an upfront payment from China Bao Tai.

Product revenue in the U.S. increased $391,000 with strong increases in animal and human wound care, mostly related to television advertising and sales initiatives sponsored by Innovacyn, Inc. and a royalty payment from Union Springs Pharmaceuticals LLC, selling MyClyns, a germ protection spray to the professional and consumer markets.

The following table shows our product revenues by geographic region:

	Three Months Ended June 30,			
	2010	2009	Increase	Increase
U.S.	$ 522,000	$ 131,000	$ 391,000	298%
Europe and Rest of World	525,000	228,000	297,000	130%
Mexico	998,000	1,208,000	(210,000)	(17)%
Total	$2,045,000	$1,567,000	$ 478,000	31%

Service revenue decreased $61,000 when compared to the prior year period due to a decrease in the number of tests provided by our services business.

Gross Profit

We reported gross profit from our Microcyn products business of $1,349,000, or 66% of product revenues, during the three months ended June 30, 2010, compared to a gross profit of $1,040,000, or 66%, in the prior year period. The flat gross margins represent higher margins in U.S. and Europe and Rest of World, offset by lower gross margins in Mexico. The higher margins in the U.S. are due to improved product mix for certain U.S. sales. Mexico's margins were 73% during the quarter ended June 30, 2010, compared to 82% in the prior year period due to the high volume last year caused by the swine flu epidemic.

We expect our gross margins to improve in the U.S and Europe as our unit volume increases.

Research and Development Expense

Research and development expense declined $325,000, or 45%, to $396,000 for the three months ended June 30, 2010, compared to $721,000 in the prior year period. Most of the decrease was attributable to the reduction in personnel and related expenses, as we converted our research and development facility and the related people to operational manufacturing, supporting the U.S. sales.

We expect that our research and development expense will slightly increase over the next few quarters as we spend more money on laboratory tests, clinical trials and the development and approval of new products.

Selling, General and Administrative Expense

Selling, general and administrative expense increased $704,000, or 26%, to $3,389,000 during the three months ended June 30, 2010, from $2,685,000 during the three months ended June 30, 2009. Primarily, this increase was due to a higher stock compensation charge, up by $478,000 and higher compensation costs in the U.S. Bonuses were recorded and paid during the quarter ending June 30, 2010, consisting of stock options and cash. These increases were partially offset by lower sales and marketing costs in Europe.

We expect selling, general and administrative expenses to grow slightly in future periods as we spend more money on expanding sales in the U.S., Europe and Rest of World, and Mexico markets.

Interest income and expense and other income and expense, net

Interest expense increased $55,000 to $59,000 during the three months ended June 30, 2010 from $4,000 during the three months ended June 30, 2009. Primarily this increase was due to $32,000 of cash interest incurred and $24,000 of non-cash interest incurred during the three months ended June 30, 2010. This interest is related to $2,000,000 borrowed on May 3, 2010. Interest income showed no material change from the same period last year.

Other income and expense, net decreased $21,000 to net other expense of $8,000 for the three months ended June 30, 2010, from net other expense of $29,000 for the same period last year. The change in other income and expense, net was primarily related to the quarterly unrealized foreign exchange gains and losses on intercompany transactions.

Derivative liability

During the three months ended June 30, 2010 we recorded a change in the fair value of our derivative liability of $88,000 and as a result we recorded this amount as income. For the three months ended June 30, 2009 we recorded a loss of $1,208,000. The decrease in expense when comparing the three months ended June 30, 2010 to the three months ended June 30, 2009, was primarily the result of the exercise of warrants.

Net Loss

Net loss for the three months ended June 30, 2010 was $2,375,000, down $1,166,000 from $3,541,000 for the same period in the prior year. Our loss for the three months ended June 30, 2010 decreased primarily due to the $1,208,000 loss we recorded on our derivative instruments in the three months ended June 30, 2009.

Sources of Liquidity

As of June 30, 2010, we had cash and cash equivalents of $6,667,000. Since our inception, substantially all of our operations have been financed through sales of equity securities. Other sources of financing that we have used to date include our revenues, as well as various loans.

Since our inception, substantially all of our operations have been financed through the sale of $114,400,000 (net proceeds) of our common and convertible preferred stock. This includes:

- net proceeds of $21,936,000 raised in our initial public offering on January 30, 2007;
- net proceeds of $9,124,000 raised in a private placement of common shares on August 13, 2007;
- net proceeds of $12,613,000 raised through a registered direct placement from March 31, 2008 to April 1, 2008;
- net proceeds of $1,514,000 raised through a private placement on February 6, 2009;
- net proceeds of $948,000 from a private placement on February 24, 2009;
- net proceeds of $2,000,000 from a private placement on June 1, 2009;
- net proceeds of $5,411,000 from a registered direct offering on July 30, 2009; and
- proceeds of $4,232,000 received from the exercise of common stock purchase warrants and options.

In June 2006, we entered into a loan and security agreement with a financial institution to borrow a maximum of $5,000,000. Under this facility we borrowed $4,182,000. The loan was repaid in full at March 31, 2009. We no longer have the ability to borrow against this facility. On May 1, 2010, we entered into a loan and security agreement with a financial institution to borrow a maximum of $3,000,000. Under this facility we borrowed $2,000,000. We may borrow an additional $1,000,000 if we meet certain financial milestones.

Cash Flows

As of June 30, 2010, we had cash and cash equivalents of $6,667,000, compared to $6,258,000 at March 31, 2010.

Net cash used in operating activities during the three months ended June 30, 2010 was $1,494,000 primarily due to the $2,244,000 net loss for the period which was offset in part by non-cash transactions during the three months ended June 30, 2010, including $968,000 of stock-based compensation, and an $88,000 gain on the fair value adjustment of our derivative liability.

Net cash used in operating activities during the three months ended June 30, 2009 was $1,694,000, primarily due to the $3,541,000 net loss for the period, a $273,000 decrease in accounts payable, and a $306,000 increase in accounts receivable. These uses of cash were offset in part by non-cash charges during the year ended June 30, 2009, including $1,208,000 loss on the fair value of warrants, $465,000 of stock-based compensation, $123,000 of depreciation and amortization, and an increase in accrued and other liabilities of $530,000.

Net cash provided by financing activities was $1,938,000 the three months ended June 30, 2010, primarily due to the issuance of $2,000,000 of debt which was offset by payments of $71,000 of outstanding debt during the period. We also received $9,000 in connection with the exercise of stock options.

Net cash provided by financing activities was $1,855,000 for the three months ended June 30, 2009, primarily due to the issuance $2,000,000 of common stock which was offset by payments of $89,000 of outstanding debt during the period.

Operating Capital and Capital Expenditure Requirements

We incurred a net loss of $2,375,000 for the three months ended June 30, 2010. At June 30, 2010 our accumulated deficit amounted to $119,412,000 and at March 31, 2010 our accumulated deficit amounted to $117,037,000. At June 30, 2010, our working capital amounted to $6,701,000.

We may raise additional capital from external sources in order to continue the longer term efforts contemplated under our business plan. We expect to continue incurring losses for the foreseeable future and may raise additional capital to pursue our product development initiatives and to penetrate markets for the sale of our products. We cannot provide any assurance that we will raise additional capital. Our management believes that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means; however, we have not secured any commitment for new financing at this time.

We have undertaken initiatives to reduce costs in an effort to conserve capital. Future pivotal trials will require the selection of a partner and must also be completed in order for us to commercialize Microcyn as a drug product in the United States. Commencement of the pivotal clinical trials will be delayed until we find a strategic partner to fund these trials. Without a strategic partner or additional capital, our pivotal clinical trials will be delayed for a period of time that is currently indeterminate.

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

- the scope, rate of progress and cost of our clinical trials and other research and development activities;
- future clinical trial results;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the cost and timing of regulatory approvals;
- the cost and delays in product development as a result of any changes in regulatory oversight applicable to our products;
- the cost and timing of establishing sales, marketing and distribution capabilities;
- the effect of competing technological and market developments;
- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; and
- the extent to which we acquire or invest in businesses, products and technologies.

Use of Estimates

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

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

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

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

(b) ***Changes in Internal Controls.*** There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, as filed with the SEC on June 8, 2010.

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

On May 19, 2010, we issued 10,255 shares of common stock to Advocos, LLC, as compensation for product sales services performed in connection with an agreement between us and Advocos.

On May 19, 2010, we issued 20,000 shares of common stock to Life Tech Capital, a Division of Aurora Capital LLC, as compensation for financial advisory services in connection with an agreement between us and Life Tech Capital, a Division of Aurora Capital, LLC.

On May 19, 2010, we issued 50,000 shares of common stock to Acute Care Partners, Inc. as compensation for recruiting and other management services in connection with an agreement between us and Acute Care Partners, Inc.

On June 30, 2010, we issued 15,288 shares of common stock to Windsor Corporation, as compensation for financial advisory services in connection with an agreement between us and Windsor Corporation, Inc.

With respect to the sale of our common stock described above, we relied on the Section 4(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 shares. The shares were sold to accredited investors. The shares were offered for investment purposes only and not for the purpose of resale or distribution, and the transfer thereof was appropriately restricted by us.

Item 3. Default Upon Senior Securities

We did not default upon any senior securities during the quarter ended June 30, 2010.

Item 4. Removed and Reserved

Item 5. Other Information

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On August 5, 2010, we granted a one-time cash bonus of $83,000 to Hojabr Alimi, our Chairman of the Board of Directors and Chief Executive Officer. This bonus is intended to partially compensate Mr. Alimi for the financial sacrifices and personal debts Mr. Alimi acquired during the early years as he was building our Company.

Item 6. Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Registrant (included as Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended March 31, 2007, and incorporated herein by reference).
3.2	Amended and Restated Bylaws of Registrant, as amended effective on June 11, 2008 (included as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended March 31, 2008, 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	Warrant to Purchase Series A Preferred Stock of Registrant by and between Registrant and Venture Lending & Leasing III, Inc., dated April 21, 2004 (included as Exhibit 4.2 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	Warrant to Purchase Series B Preferred Stock of Registrant by and between Registrant and Venture Lending & Leasing IV, Inc., dated June 14, 2006 (included as Exhibit 4.3 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 Registrant (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).
4.5	Form of Warrant to Purchase Common Stock of Registrant (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).
4.6	Form of Warrant to Purchase Common Stock of Registrant (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).
4.7	Form of Warrant to Purchase Common Stock of Registrant (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).
4.8	Form of Warrant to Purchase Common Stock of Registrant (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed August 13, 2007, and incorporated herein by reference).
4.9	Form of Warrant to Purchase Common Stock of Registrant (included as Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 28, 2008, and incorporated herein by reference).
4.10	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).
4.11	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 on June 11, 2009, and incorporated herein by reference).
4.12	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)
4.13	Warrant to Purchase Shares of Common Stock of Oculus Innovative Sciences, Inc., (Included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 6, 2010, and incorporated herein by reference).
10.1	Form of Indemnification Agreement between Registrant 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	Form of 2006 Stock Incentive Plan and related form stock option plan agreements (included as Exhibit 10.6 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	Amended and Restated Investors Rights Agreement, effective as of September 14, 2006 (included as Exhibit 4.6 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	Form of Promissory Note issued to Venture Lending & Leasing III, Inc. (included as Exhibit 4.7 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).
10.5	Form of Promissory Note (Equipment and Soft Cost Loans) issued to Venture Lending & Leasing IV, Inc. (included as Exhibit 4.8 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).
10.6	Form of Promissory Note (Growth Capital Loans) issued to Venture Lending & Leasing IV, Inc. (included as Exhibit 4.9 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).
10.7	Form of Promissory Note (Working Capital Loans) issued to Venture Lending & Leasing IV, Inc. (included as Exhibit 4.10 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).
10.8	Office Lease Agreement, dated October 26, 1999, between Registrant 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).
10.9	Amendment to Office Lease No. 1, dated September 15, 2000, between Registrant 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).
10.10	Amendment to Office Lease No. 2, dated July 29, 2005, between Registrant 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).
10.11	Amendment No. 3 to Lease, dated August 23, 2006, between Registrant 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).
10.12	Amendment No. 4 to Lease, dated September 13, 2007, by and between Registrant and RNM Lakeville L.P. (included as Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended March 31, 2008, and incorporated herein by reference).
10.13	Office Lease Agreement, dated May 15, 2005, between Oculus Technologies of Mexico, S.A. de C.V. and Antonio Sergio Arturo Fernandez Valenzuela (translated from Spanish) (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).
10.14	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).

10.15	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 for the year ended March 31, 2008, and incorporated herein by reference).
10.16	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).
10.17	Leasing Agreement, dated May 5, 2006, by and between Mr. Jose Alfonzo I. Orozco Perez and Oculus Technologies of Mexico, S.A. de C.V. (included as Exhibit 10.22 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).
10.18	Stock Purchase Agreement, dated June 16, 2005, by and between Registrant, Quimica Pasteur, S de R.L., Francisco Javier Orozco Gutierrez and Jorge Paulino Hermosillo Martin (included as Exhibit 10.24 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).
10.19	Framework Agreement, dated June 16, 2005, by and among Javier Orozco Gutierrez, Quimica Pasteur, S de R.L., Jorge Paulino Hermosillo Martin, Registrant 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).
10.20	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).
10.21	Partnership Interest Purchase Option Agreement, dated June 16, 2005, by and between Registrant 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).
10.22	Termination of Registrant and Oculus Technologies de Mexico, S.A. de C.V. 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).
10.23	Termination of Registrant and Oculus Technologies de Mexico, S.A. de C.V. 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).
10.24	Director Agreement, dated November 8, 2006, by and between Registrant and Robert Burlingame (included as Exhibit 10.34 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).
10.25†	Exclusive Marketing Agreement, dated December 5, 2005, by and between Registrant and Alkem Laboratories Ltd (included as Exhibit 10.35 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).
10.26	Securities Purchase Agreement, dated August 7, 2007, by and between Registrant and purchasers identified on the signatures pages thereto (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 13, 2007, and incorporated herein by reference).
10.27	Registration Rights Agreement, dated August 7, 2007, by and between Registrant and purchasers identified on signatures pages thereto (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 13, 2007, and incorporated herein by reference).
10.28	Form of Securities Purchase Agreement, dated March 27, 2008, by and between Registrant and each investor signatory thereto (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 28, 2008, and incorporated herein by reference).
10.29	Purchase Agreement by and between Registrant 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).

10.30	Purchase Agreement by and between Registrant 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).
10.31	Revenue Sharing Distribution Agreement by and between Registrant 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).
10.32	Purchase Agreement by and between Registrant and accredited investors, dated February 6, 2009 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 9, 2009 and incorporated herein by reference).
10.33	Purchase Agreement by and between Registrant, 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).
10.34	Amendment to Revenue Sharing Distribution Agreement by and between Registrant and Vetericyn, 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).
10.35	Agreement by and between Registrant and Robert C. Burlingame, dated April 1, 2009 (included as Exhibit 10.52 to the Company's Annual Report on Form 10-K filed on June 11, 2009 and incorporated herein by reference).
10.36	Microcyn U.S. Commercial Launch Agreement, by and between Registrant and Advocos, dated April 24, 2009 (included as Exhibit 10.53 to the Company's Current Report on Form 10-K filed on June 11, 2009 and incorporated herein by reference).
10.37	Amendment No. 5 to Lease by and between Registrant and RNM Lakeville, LLC, dated May 18, 2009 (included as Exhibit 10.54 to the Company's Current Report on Form 10-K filed on June 11, 2009 and incorporated herein by reference).
10.38	Engagement Agreement by and between Registrant 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).
10.39	Letter Agreement by and between Registrant 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).
10.40	Letter Agreement by and between Registrant 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).
10.41	Warrant Purchase Agreement by and between Registrant 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).
10.42	Loan and Security Agreement, dated May 1, 2010 between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V., Inc., (Included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 6, 2010, and incorporated herein by reference).
10.43	Supplement to the Loan and Security Agreement, dated as of May 1, 2010 between Oculus Innovative Sciences, Inc., and Venture Lending & Leasing V, Inc., (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 6, 2010, and incorporated herein by reference).
10.44*†	Amendment No. 3 to Revenue Sharing, Partnership and Distribution Agreement between the Registrant and Vetericyn, Inc.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*#	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act.

SIGNATURES

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

Oculus Innovative Sciences, Inc.

Date: August 5, 2010

By: /s/ Hojabr Alimi
Hojabr Alimi
Its: Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)

Date: August 5, 2010

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

AMENDMENT NO. 3
TO
REVENUE SHARING, PARTNERSHIP AND DISTRIBUTION AGREEMENT

This Amendment No. 3 (“Amendment No. 3”) to the Revenue Sharing, Partnership and Distribution Agreement (“RSPDA”) is entered into by and among Oculus Innovative Sciences, Inc., a Delaware corporation (“Oculus”), and Vetericyn, Inc. (“Vetericyn”, and together with Oculus, the “Parties”), a California corporation, as of June 1, 2010, by and among the Parties.

RECITALS

A. Oculus and Vetericyn previously entered into that certain Revenue Sharing Distribution Agreement effective January 26, 2009, as amended by Amendment No. 1 dated February 24, 2009 and by Amendment No. 2 dated July 24, 2009 (collectively, the "Agreement").

B. The Parties wish to modify certain terms of the Agreement on the terms and subject to the conditions set forth in this Amendment No. 3.

NOW, THEREFORE, in consideration of the mutual covenants, agreements and representations contained in this Amendment No. 3 and the RSPDA, as previously amended, the Parties hereto agree as follows:

1. Certain Sections of the Agreement shall be amended as follows:

(a) Section 1.1 shall be amended in its entirety to read as follows:

> “Change in Control” shall mean (a) any consolidation or merger of either party with or into any other corporation or other entity or person, or any other corporate reorganization, in which the stockholders of such party immediately prior to such consolidation, merger or reorganization, own less than fifty one percent (51%) of such party's voting power immediately after such consolidation, merger or reorganization, or any transaction or series of related transactions to which either is a party in which in excess of fifty percent (50%) of such party's voting power is transferred; or (ii) a sale, lease or other disposition of all or substantially all the assets of either party. A "Change in Control" shall not include transfers of equity or voting power of Distributor (i) by Robert C. Burlingame to his heirs or members of the Burlingame family ; (ii) between Robert C. Burlingame, his heirs and members of the Burlingame Family; or (iii) to any legal entity or trust in which Robert C. Burlingame, his heirs or members of the Burlingame Family maintain a fifty one percent (51%) ownership of the voting power, provided, however, that notwithstanding any of the foregoing transfers, Robert C. Burlingame, his heirs and members of the Burlingame family, either individually or through separate legal entities, shall maintain a fifty one percent (51%) or greater ownership of the voting power of the Distributor.

(b) Section 1.10 shall be amended in its entirety to read as follows:

1.10 "Territory" shall mean the United States of America, Canada, Puerto Rico, the People's Republic of China, Hong Kong, Taiwan, Japan, Korea, Singapore and Mexico. Pricing, payment terms and revenue sharing mechanisms for the United States, Canada and Puerta Rico shall be defined in Exhibit A of this Agreement. Pricing, payment terms and revenue sharing mechanisms for all countries in the Territory, excluding the United States, Canada and Puerto Rico, shall be defined in Exhibit B to this Agreement. The Territories may be amended, from time to time, to include new countries upon mutual written agreement by the Parties by amending Exhibit B.

(c) Section 3.3 Future Manufacturing Rights shall be amended in its entirety to read as follows:

3.3 [ ]* Upon achieving a certificate of compliance under current Good Manufacturing Practices ("cGMP") to manufacture final finished medical devices under US Food and Drug Administration rules, then the Company shall [ ]* with [ ]* in good faith to allow the [ ]* to [ ]* of the [ ]* in addition to its [ ]* and [ ]* of the [ ]* will [ ]* a [ ]* within [ ]* solely to [ ]*. [ ]* will further [ ]* all [ ]* and [ ]* for a [ ]* if deemed necessary by the parties, to [ ]* and [ ]* the [ ]* within [ ]*. Any potential [ ]* that result from the [ ]* of [ ]*. For purposes of clarity, [ ]* of [ ]* will only occur upon written mutual agreement. Notwithstanding the foregoing, the [ ]* that [ ]* of [ ]* shall [ ]* within a reasonable period of time once [ ]* meets [ ]* with an intended target date of [ ]* or sooner.

(d) Section 4.5 Branding of Solution shall be amended in its entirety to read as follows:

4 . 5 Branding of Products. Distributor shall have the right to market and label the Solutions using the "VETERICYN" brand within the Territories pursuant to a license of the VETERICYN trademark from Innovacyn, Inc.

* Confidential material redacted and separately filed with the Commission

(e) Section 5.1 Ownership of Company's IP shall not apply to the VETERICYN trademark as a result of the transfer of such trademark to Innovacyn, Inc. Furthermore, the following sentence shall be added to the end of Section 5.1: "Distributor shall have reasonable access to the Company's IP as necessary to carry out its rights and obligations under this Agreement, but subject to the requirements of this Section 5 and Section 8."

(f) Section 9.2 Termination for Cause shall be amended in its entirety to read as follows:

9.2 Termination.

For Cause. Either party will have the right to terminate this Agreement for cause upon sixty (60) days written notice to the other party of a material breach of this Agreement by the other party that remains uncured during such sixty (60) day period. Notwithstanding the foregoing, in the event that a party is late in making any payment when due, the party which is due the funds shall have the right to charge interest at the maximum annual legal rate from the date when due.

(g) A new Section 10.4 shall be added in its entirety to read as follows:

10.4 Change of Control at Distributor. This Agreement may be assigned by the Distributor upon a Change of Control at the Distributor, so long as the assignee agrees in writing to be bound by the terms of this Agreement. Upon a Change of Control at the Distributor, the rights and obligations under Sections 3.3 and 10.3 of this Agreement will terminate and no longer be in force and effect. Upon a Change of Control at the Distributor, the Company may, at its own discretion and expense, remove any and all manufacturing equipment at Distributor's locations(s) that is owned by the Company at any time for any reason. Upon a Change of Control at the Distributor, on an annual basis the Distributor will present a written forecast of sales and expenses for the following twelve (12) months ("Forecast") for mutual review and approval by the parties. Upon agreement of the Forecast, any increase in expenses above and beyond the Forecast on a quarterly basis which results in a decrease in the profit margin of the Products of twenty (20%) or more will require mutual written agreement prior to the increased spending.

2 . Exhibit A. Exhibit A to the RSPDA is amended in its entirety by the "Exhibit A to Revenue Sharing Distribution Agreement and to Revenue Sharing, Partnership and Distribution Agreement, as Revised and Amended June 17, 2010" which is attached hereto and incorporated herein by this reference.

3. Exhibit B. The new Exhibit B to the RSPDA is attached hereto and incorporated herein by this reference

4 . Conflict. In the event of any conflict between the provisions of this Amendment No. 3 (including the revised Exhibit A and Exhibit B) and the provisions of the RSPDA, as previously amended, the provisions of this Amendment No. 3 shall prevail and the provisions of the RSPDA, as previously amended, shall be deemed modified by this Amendment No. 3 as necessary to resolve such conflict.

5 . Effect of Amendment. Except as expressly amended by this Amendment No. 3 and/or by the preceding sentence, the terms and provisions of the RSPDA, as previously amended, shall continue in full force and effect.

Signature page follows

IN WITNESS WHEREOF, the parties have executed this Amendment No. 3 to be effective as of June 1, 2010.

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/ Jim Schutz
Name: Jim Schutz
Title: Chief Operating Officer

VETERICYN, INC.

By: /s/ Richard E. Jones
Name: Richard E. Jones
Title: Chief Financial Officer

EXHIBIT A
TO
REVENUE SHARING DISTRIBUTION AGREEMENT
AND TO
REVENUE SHARING, PARTNERSHIP AND DISTRIBUTION AGREEMENT

REVISED AND AMENDED _June 1, 2010

REVENUE VOLUME, REVENUE SHARING AND PRICING SCHEDULE
FOR VETERICYN AND PURACYN

This Revised and Amended Exhibit A shall supersede and replace all prior versions of Exhibit A to both the Revenue Sharing Distribution Agreement and the Revenue Sharing, Partnership and Distribution Agreement.

AVAILABLE PRODUCTS:

Vetericyn: all products

Wound Care OTC ("Puracyn"):

Human wound care formulation, up to 85 ppm of free available chlorine, both in gel and liquid form, for the over-the-counter sale. In this Exhibit A, the "Puracyn" refers to the Oculus wound care OTC product. For purposes of clarity, Products shall not include prescription indications, including liquids, gels, ointments or other formulations of this device for sale by or on the order of a licensed healthcare practitionerWound Care with Preservatives, OTC

- o 8 ounce trigger spray or 250 ml squeezable

- Skin & Woundcare HydroGel, OTC
  - o 1.5

NEW PRODUCTS:

From time to time, the Parties may introduce new products with Microcyn Technology and/or new packaging. Any such new products with Microcyn Technology and/or packaging shall be subject to a similar revenue sharing mechanism as described below.

PRICING:

The parties agree to work in good faith to set mutually agreeable wholesale, retail and end purchase price points for the Products.. Unless agreed upon in advance in writing by the parties, in no event are the Puracyn Product price points to be less than the Company's list prices for comparable prescription products. Unless agreed upon in advance in writing by the parties, in no event are the Puracyn Product prices sold to distributors to be less than (a) [ ]* of the Company's listed prescription prices or (b) [ ]* per unit.

MINIMUM SALES REVENUE FOR WOUND CARE OTC PER CONTRACT YEAR (The contract year commences on the effective date of Agreement through the anniversary date thereof):

Year ending 2011:	$ [ ]*
Year ending 2012:	$ [ ]*
Year ending 2013:	$ [ ]*
Year ending 2014:	$ [ ]*
Year ending 2015:	$ [ ]*
Year ending 2016:	$ [ ]*
Year ending 2017:	$ [ ]*
Year ending 2018:	$ [ ]*
Year ending 2019:	$ [ ]*
Year ending 2020:	$ [ ]*

REVENUE SHARING & PRICING (IN $USD):

Summary of Revenue Sharing

In concept, Oculus and Innovacyn, Inc. ("IVC") will share equally in revenue after subtracting (1) an agreed upon amount per unit cash payment to Oculus by IVC ("Oculus Base Price – Vetericyn" and "Oculus Base Price – Puracyn"), (2) an offseting expense per unit price deduction for IVC ("Vetericyn Base Price" and "Puracyn Base Price") and (3) [ ]* for manufacturing costs, which shall be increased at the end of each year starting 6/1//11 by the increase, if any, in the CPI. However, this revenue sharing does not start until IVC achieves cumulative and sustained profitability, which includes the recapture of all losses associated with and operating expenses incurred between January 1, 2009 and June 30, 2011 ("Ramp Up Period"). As of June 30, 2011, the Ramp Up Period will end and IVC will pay Oculus revenue sharing without regard to IVC cumulative profitability.

* Confidential material redacted and separately filed with the Commission

DEFINED TERMS FOR CALCULATIONS

Innovacyn, Inc. ("IVC") is the operating unit selling Vetericyn and Puracyn, and is controlled by the Burlingame family.

Oculus Base Price – Vetericyn ("OBPV") is [ ]* per Units Sold, regardless of unit size. (OBPV is paid regardless of Vetericyn's operating results.) In the event that specific products or product sizes, whether existing or new, are individually priced at a level below [ ]* NRV, as hereinafter defined, divided by the related number of units sold and if mutually agreed upon in advance, then OBPV for that specific product shall be limited to a maximum of [ ]* of the Net Revenue per unit from sales of that specified product instead of [ ]* per unit.

Oculus Base Price - Puracyn ("OBPP") is [ ]* per Units Sold of liquid Product and [ ]* per Units Sold of the gel Product, [ ]* (OBPP is paid regardless of Vetericyn's operating results.), *provided, however*, that

(a) if Oculus cost is reduced below [ ]* for liquid and [ ]* for gel, then the [ ]* and [ ]* will be reduced as well by a like amount; and

(b) when IVC starts bottling and labeling the product, the OBPP will become [ ]* per Units Sold for both liquid and gel. In the event that specific products or product sizes, whether existing or new, are individually priced at a level below [ ]* NRP, as hereinafter defined divided by the related number of units sold, and if mutually agreed upon in advance, then OPBP for that specific product shall be limited to a maximum of [ ]* of the Net Revenue per unit from sales of that specific product instead of the [ ]* per unit.

Vetericyn Base Price ("VBP") is [ ]* per Units Sold. Commencing October 1, 2011, and annually thereafter during the Term, VBP shall be increased by the percentage increase, if any, in the Consumer Price Index – All Urban Consumers (West) over the preceding twelve month period. In the event that specific products or product sizes, whether existing or new, are individually priced at a level below [ ]* NRV, as hereinafter defined, divided by the related number of units sold and if mutually agreed upon in advance, then VBP for that specific product shall be limited to a maximum of [ ]* of the Net Revenue per unit from sales of that specific product instead of [ ]* per unit.

Puracyn Base Price ("PBP") is [ ]* per Units Sold. Commencing October 1, 2011, and annually thereafter during the Term, PBP shall be increased by the percentage increase, if any, in the Consumer Price Index – All Urban Consumers (West) over the preceding twelve month period. In the event that specific products or product sizes, whether existing or new, are individually priced at a level below [ ]* NRP, as hereinafter defined divided by the related number of units sold, and if mutually agreed upon in advance, then PBP for that specific product shall be limited to a maximum of [ ]* of the Net Revenue per unit from sales of that specific product instead of the [ ]* per unit.

* Confidential material redacted and separately filed with the Commission

Net Revenue – Vetericyn ("NRV") is gross revenue *less* (1) discounts, (2) allowances,(3) shipping costs (including order fulfillment costs) and (4) markups netted against sales amounts to independent representatives, dealers and distributors including payments of fees and/or commissions to outside service company sales partners, *unless* such markups are included as expenses.

Net Revenue – Puracyn ("NRP") is gross revenue *less* (1) discounts, (2) allowances, (3) shipping costs (including order fulfillment costs) and (4) markups netted against sales amounts to independent representatives, dealers and distributors including payments of fees and/or commissions to outside service company sales partners, *unless* such markups are included as expenses.

Total Net Revenue ("TNR") is Net Revenue – Vetericyn (NRV) *plus* Net Revenue – Puracyn (NRP).

Net Average Sales Price - Vetericyn ("ASPV") is Net Revenue –Vetericyn (NRV) *divided* by the number of Units Sold - Vetericyn. It is calculated on all sales.

Net Average Sales Price - Puracyn ("ASPP") is Net Revenue – Puracyn (NRP) *divided* by the number of Units Sold - Puracyn. It is calculated on all sales.

Units Sold - Vetericyn ("USV") is the number of bottles, tubes or other form of container sold to customers, excluding the number of sample/promotional units distributed.

Units Sold - Puracyn ("USP") is the number of bottles, tubes or other form of container shipped to IVC and/or IVC customers, excluding sample/promotional units distributed. For a period of one year following execution of this Agreement, reasonable samples may be supplied by Distributor to customers to build market demand. After that initial one year period, the parties agree to work in good faith on an ongoing basis to review sampling programs to ensure maximum market penetration balanced cost efficiencies.

Cost of Manufacturing - Vetericyn is expenses directly related to the bottling and/or manufacturing of Vetericyn products, which includes, but is not limited to, cost of materials such as bottles, tubes and other containers, labels and solution, direct labor and benefits, and shipping costs not included as a deduction to revenue.

Cost of Manufacturing - Puracyn is amount paid to Oculus from IVC during the time Oculus is bottling and labeling. Once IVC starts bottling and labeling the product, it is the expenses directly related to the bottling and/or manufacturing of Puracyn products, which includes, but is not limited to, cost of materials such as bottles, tubes and other containers, labels and solution, direct labor and benefits, and shipping costs not included as an deduction to revenue.

Cost of Manufacturing - Shared is expenses directly related to the bottling and/or manufacturing of both Vetericyn and Puracyn products, which includes, but is not limited to, laboratory and expendable supplies, depreciation, repairs and maintenance, rent and utilities.

Selling Expenses - Shared are costs directly related to the sale and distribution of the Vetericyn and Puracyn products only, which includes, but is not limited to, salaries and related benefits, commissions and/or bonuses not included as a deduction of the ASP, supplies, postage, telephone, conferences, advertising, travel and marketing material. Expenses which are directly related to or can be properly and reasonably allocated to Vetericyn or Puracyn such as advertising or trade shows should be indicated accordingly.

General and Administrative Expenses are costs directly related to the sales and administration of the Vetericyn and Puracyn products, which includes, but is not limited to, salaries and benefits, legal fees, supplies, consulting, postage, insurance and bank charges. Expenses which are directly related to and can be properly and reasonably allocated to Vetericyn or Puracyn separately should be indicated accordingly.

Allocation of Expenses

Allocations of expenses will be mutually agreed upon on a quarterly basis.

Income Statements

IVC will provide monthly income statements to Oculus by the 15th business day following each month-end and forecasts of revenue and expenses for the next 12 months by 20th business day following each quarter-end in the format similar to the attached spreadsheet example of the revenue sharing formulas and calculations.

NET PROFIT AND COST CALCULATIONS

Net Profit (Loss) Before Oculus Base Price – Vetericyn ("OBPV") and Oculus Base Price – Puracyn ("OBPP") and Revenue Sharing ("NPBOR") is Net Revenue ("TNR") *minus* Cost of Manufacturing – Vetericyn, Cost of Manufacturing – Puracyn, Cost of Manufacturing - Shared, Selling Expenses - Shared and General and Administrative Expenses.

Net Profit (Loss) Before Revenue Sharing ("NPBR") is equal to Net Profit Before Oculus Base Price – Vetericyn and Oculus Base Price – Puracyn and Revenue Sharing ("NPBOR") *minus* Oculus Base Price – Vetericyn ("OBPV") and Oculus Base Price – Puracyn ("OBPP") *unless* the Oculus Base Price for Vetericyn or Puracyn is already deducted as a cost of manufacturing.

Cumulative Net Profit (Loss) Before Revenue Sharing ("CNPBR") is the monthly Net Profit Before Revenue Sharing("NPBR") *added together* from January 1, 2009 to the latest month end.

Innovacyn Manufacturing Cost per unit – Puracyn ("IMCP") *represents* the direct cost of manufacturing, bottling and packaging the Wound Care OTC (Puracyn) liquid or gel, *including* direct raw materials and direct labor, and *excluding* all indirect labor, overhead costs or allocations, *and is* [ ]* per Units Sold of Wound Care OTC (Puracyn). Commencing 6/1/2011 and annually thereafter, IMCP shall be increased by the percentage increase, if any, in the Consumer Price Index – All Urban Consumers (West) over the preceding twelve month period.

Innovacyn Manufacturing Cost per unit – Vetericyn ("IMCV") *represents* the direct cost of manufacturing, bottling and packaging the Vetericyn liquid or gel, *including* direct raw materials and direct labor, and *excluding* all indirect labor, overhead costs or allocations, and is [ ]* per Units Sold of Vetericyn. Commencing 6/1/2011 and annually thereafter, IMCV shall be increased by the percentage increase, if any, in the Consumer Price Index – All Urban Consumers (West) over the preceding twelve month period.

Oculus Variable Manufacturing Cost (OVMC) per unit – Puracyn ("OVMCP") is the direct cost of manufacturing, bottling and packaging the Puracyn liquid or gel, *including* direct raw materials and direct labor, and *excluding* all indirect labor, overhead costs or allocations, *divided* by the Units Sold of Puracyn, which has further not been reimbursed by Innovacyn to Oculus, and is limited to no more than [ ]* per Units Sold.

Oculus Variable Manufacturing Cost (OVMC) per unit – Vetericyn ("OVMCV") is the direct cost of manufacturing, bottling and packaging the Vetericyn liquid or gel including direct raw materials and direct labor and excluding all indirect labor, overhead costs or allocations divided by the Units Sold of Vetericyn, which has further not been reimbursed by Innovacyn to Oculus, and is limited to no more than [ ]* per Units Sold.

REVENUE SHARING CALCULATIONS

Revenue Sharing – Vetericyn ("RSV") to each party *is* [ ]* of (Average Selling Price – Vetericyn ("ASPV") *minus* (Oculus Base Price – Vetericyn ("OBPV") plus the Vetericyn Base Price ("VBP")) *minus* (the Innovacyn Manufacturing Cost-Vetericyn ("IMCV")) *minus* the unreimbursed Oculus Variable Manufacturing Cost – Vetericyn ("OMVCV")))), *except* that (i) it does not begin until Cumulative Net Profit Before Revenue Sharing ("CNPBR") is positive, and (ii) it applies only in months where Net Profit Before Revenue Sharing ("NPBR") is positive.

* Confidential material redacted and separately filed with the Commission

Revenue Sharing – Puracyn ("RSP") to each party is [ ]* of Average Selling Price – Puracyn ("ASPP") *minus* (Oculus Base Price – Puracyn ("OBPP") plus the Puracyn Base Price ("PBP")) *minus* (the Innovacyn Manufacturing Cost-Puracyn ("IMCP")) *minus* the unreimbursed Oculus Variable Manufacturing Cost – Puracyn ("OMVCP"), *except* that (i) it does not begin until Cumulative Net Profit Before Revenue Sharing ("CNPBR") is positive, and (ii) it applies only in months where Net Profit Before Revenue Sharing ("NPBR") is positive.

Oculus Shared Revenue – Vetericyn ("OSRV") is Units Sold Vetericyn times [ ]* of Average Selling Price - Vetericyn *minus* (Oculus Base Price – Vetericyn plus Vetericyn Base Price) *minus* (Innovacyn Manufacturing Cost-Vetericyn minus the unreimbursed Oculus Variable Manufacturing Cost – Vetericyn), or Oculus Shared Revenue - Vetericyn = USV x[ ]* x ASPV - (OBPV+VBP) - (IMCV-OVMCV)
except that:

1. If Cumulative Net Profit Before Revenue Sharing ("CNPBR") is zero or negative, then Oculus Shared Revenue – Vetericyn ("OSRV") is zero, or

2. If Net Profit Before Revenue Sharing ("NPBR") is zero or negative, then Oculus Shared Revenue – Vetericyn ("OSRV") is zero, or

3. If Oculus Shared Revenue – Vetericyn ("OSRV") is greater than Cumulative Net Profit Before Revenue Sharing ("CNPBR") for the month, then Oculus Shared Revenue – Vetericyn ("OSRV") shall be equal to Cumulative Net Profit Before Revenue Sharing ("CNPBR").

4. For periods beginning after June 30, 2011, Oculus Shared Revenue – Vetericyn ("OSRV") will be paid regardless of exceptions 1, 2 & 3 mentioned above.

Oculus Shared Revenue – Puracyn ("OSRP") is Units Sold - Puracyn times [ ]* of Averaging Selling Price – Puracyn *minus* (Oculus Base Price – Puracyn plus Puracyn Base Price) *minus* (Innovacyn Manufacturing Cost- Puracyn *minus* the unreimbursed Oculus Variable Manufacturing Cost - Puracyn), or Oculus Shared Revenue - Puracyn = USP x [ ]* x ASPP - (OBPP+PBP) - (IMCP-OVMCP)
,*except* that:

1. If Cumulative Net Profit Before Revenue Sharing ("CNPBR") is zero or negative, then Oculus Shared Revenue – Puracyn ("OSRP") is zero, or

* Confidential material redacted and separately filed with the Commission

2. If Net Profit Before Revenue Sharing ("NPBR") is [ ]*, then Oculus Shared Revenue – Puracyn ("OSRP") is [ ]*, or

3. If Oculus Shared Revenue – Puracyn ("OSRP") is greater than Cumulative Net Profit Before Revenue Sharing ("CNPBR") for the month, then Oculus Shared Revenue – Puracyn ("OSRP") shall be equal to Cumulative Net Profit Before Revenue Sharing ("CNPBR").

4. For periods beginning after June 30, 2011, Oculus Shared Revenue – Puracyn ("OSRP") will be paid regardless of exceptions 1, 2 & 3 mentioned above.

PRO FORMA CALCULATIONS:

Attached to this Exhibit "A" is a schedule which sets forth the expenses related to the Vetericyn and Puracyn activities of Innovacyn. These formulas and calculations are supposed to represent those described in this agreement. If they are different, then they should be reconciled by both parties with the understanding that the intent is the written language of Exhibit A shall prevail.

MINIMUM ORDERS:

Minimum ordering quantity per purchase order to be placed with Oculus under this Agreement shall not be less than one full pallet per shipment and may be comprised of any combination of the product sizes noted above. For purposes of clarity and in an effort to maximize shipping efficiency, no partial pallet orders will be acceptable unless pursuant to replacement orders for warranty replacements.

REVIEW OF EXHIBIT "A"

The Parties agree to meet quarterly to review this Exhibit A, as amended, and any new product offerings in the veterinary market. The Parties further agree to work in good faith to study best locations for bottling and final finished manufacturing.

* Confidential material redacted and separately filed with the Commission

OCULUS INNOVATIVE SCIENCES, INC.

By: /s/ Robert E. Miller
Name: Robert E. Miller
Title: Chief Financial Officer
Date: 6/17/2010

VETERICYN, INC.

By: /s/ Richard E. Jones
Name: Richard E. Jones
Title: Chief Financial Officer
Date: 6/14/2010

INNOVACYN, INC.

By: /s/ Richard E. Jones
Name: Richard E. Jones
Title: Chief Financial Officer
Date: 6/14/2010

EXHIBIT B

TO

REVENUE SHARING, PARTNERSHIP AND DISTRIBUTION AGREEMENT

Available Products:

Vetericyn: all products

Applicable Territories:

China
Taiwan
Hong Kong
Japan
Korea
Singapore
Mexico

Definitions

"Net Revenue" is gross revenue in the Applicable Territories less (1) discounts, (2) allowances,(3) shipping costs (including order fulfillment costs) and (4) markups netted against sales amounts to independent representatives, dealers and distributors including payments of fees and/or commissions to outside service company sales partners, unless such markups are included as expenses.

Oculus Base Price - Vetericyn ("OBPV") is [ ]* per Units Sold, [ ]*. (OBPV is paid regardless of Vetericyn's operating results.) In the event that specific products or product sizes, whether existing or new, are individually priced at a level below [ ]* NRV, as hereinafter defined, divided by the related number of units sold and if mutually agreed upon in advance, then OPBV for that specific product shall be limited to a maximum of [ ]* of the Net Revenue per unit from sales of that specific product instead of [ ]* per unit.

Vetericyn Base Price ("VBP") is [ ]* per Units Sold. Commencing October 1, 2011, and annually thereafter during the Term, VBP shall be increased by the percentage increase, if any, in the Consumer Price Index – All Urban Consumers (West) over the preceding twelve month period. In the event that specific products or product sizes, whether existing or new, are individually priced at a level below [ ]* NRV, as hereinafter defined, divided by the related number of units sold and if mutually agreed upon in advance, then VBP for that specific product shall be limited to a maximum of [ ]* of the Net Revenue per unit from sales of that specific product instead of [ ]* per unit.

* Confidential material redacted and separately filed with the Commission

Calculation of Revenue Sharing:

For the exclusive right to sell Vetericyn into the Applicable Territories, Innovacyn, Inc. will pay Oculus [ ]* of the Net Revenue sold to these Territories after the subtraction of (a) the sum of OBPV plus VBP, and (b) the number of units sold times [ ]* per unit. The [ ]* per unit will be increased by the CPI once at the end of each year starting 3/31/2011. The payments are due to Oculus within thirty days after the end of each month.

The following table represents the Minimum Sales Revenue Per Contract Year per country for the Vetericyn product in the respective countries:

COUNTRY	Registration Timeframe	Fiscal Year 3/31/2011	Fiscal Year 3/31/2012	Fiscal Year 3/31/2013	Fiscal Year 3/31/2014	Fiscal Year 3/31/2015
JAPAN	12-18 months		$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*
KOREA	6-12 months		$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*
HONG KONG	None	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*
CHINA	None	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*
TAIWAN	None	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*
SINGAPORE	None	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*
MEXICO	None	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*
Total		$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*	$ [ ]*

Conversion to Non-Exclusivity for Failure to Meet Minimum Sales Revenue Per Contract Year**.** If Distributor fails to make sales of Available Products in an amount which is equal to or greater than Minimum Sales Revenue Per Contract Year for sales in any country included in the Applicable Territories, then Distributor shall have the option to become a non-exclusive distributor in that country. If at any time after the first two (2) Contract years, Distributor fails to make sales of Products in an amount which is equal to at least [ ]* of the Minimum Sales Revenue Per Contract Year for sales in any country included in the Applicable Territories for two (2) consecutive contract years, then Company shall have the option of changing Distributor's status to a non-exclusive distributor in that country.

* Confidential material redacted and separately filed with the Commission

OCULUS INNOVATIVE SCIENCES, INC.

By:	/s/ Robert E. Miller
Name:	Robert E. Miller
Title:	Chief Financial Officer
Date:	7/26/2010

VETERICYN, INC.

By:	/s/ Richard E. Jones
Name:	Richard E. Jones
Title:	Chief Financial Officer
Date:	July 26,2010

INNOVACYN, INC.

By:	/s/ Seamus Burlingame
Name:	Seamus Burlingame
Title:	Executive Vice President
Date:	7/26/10

Exhibit 31.1

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

I, Hojabr Alimi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oculus Innovative Sciences, Inc. for the quarter ended June 30, 2010;

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

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

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

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

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

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

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

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

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

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

By: /s/ Hojabr Alimi

Date: August 5, 2010

Hojabr Alimi
Chief Executive Officer

Exhibit 31.2

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

I, Robert Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oculus Innovative Sciences, Inc. for the quarter ended June 30, 2010;

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

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

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

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

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

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

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

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

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

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

By: /s/ Robert Miller

Date: August 5, 2010

Robert Miller
Chief Financial Officer

Exhibit 32.1

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2010

By: /s/ Hojabr Alimi
Hojabr Alimi
Chief Executive Officer

Date: August 5, 2010

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