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, 2011

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 4, 2011, the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 26,793,348.

OCULUS INNOVATIVE SCIENCES, INC.

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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, 2011 (Unaudited)	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,025	$ 4,371
Accounts receivable, net	2,063	2,094
Inventories, net	762	733
Prepaid expenses and other current assets	507	611
Total current assets	8,357	7,809
Property and equipment, net	784	802
Other assets	69	53
Total assets	$ 9,210	$ 8,664
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 782	$ 669
Accrued expenses and other current liabilities	1,171	694
Deferred revenue	1,878	1,808
Current portion of long-term debt, net of debt discount of $490 and $237 at June 30, 2011 and March 31, 2011, respectively	804	907
Derivative liability	241	337
Total current liabilities	4,876	4,415
Deferred revenue	154	160
Long-term debt, net of debt discount of $980 and $354 at June 30, 2011 and March 31, 2011, respectively, less current portion	2,105	1,638
Put warrant liability	1,688	750
Total liabilities	8,823	6,963
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, 2011 (unaudited) and March 31, 2011	—	—
Common stock, $0.0001 par value; 100,000,000 shares authorized, 26,750,428 and 26,576,302 shares issued and outstanding at June 30, 2011 (unaudited) and March 31, 2011, respectively	3	3
Additional paid-in capital	130,412	129,584
Accumulated other comprehensive loss	(2,868)	(2,901)
Accumulated deficit	(127,160)	(124,985)
Total stockholders' equity	387	1,701
Total liabilities and stockholders' equity	$ 9,210	$ 8,664

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,	
	2011	**2010**
Revenues		
Product	$ 2,710	$ 2,045
Service	230	219
Total revenues	2,940	2,264
Cost of revenues		
Product	790	696
Service	201	179
Total cost of revenues	991	875
Gross profit	1,949	1,389
Operating expenses		
Research and development	436	396
Selling, general and administrative	3,531	3,389
Total operating expenses	3,967	3,785
Loss from operations	(2,018)	(2,396)
Interest expense	(162)	(59)
Interest income	1	—
Change in fair value of derivative liability	96	88
Other expense, net	(92)	(8)
Net loss	$ (2,175)	$ (2,375)
Net loss per common share: basic and diluted	$ (0.08)	$ (0.09)
Weighted-average number of shares used in per common share calculations:		
Basic and diluted	26,711	26,215
Other comprehensive loss, net of tax		
Net loss	$ (2,175)	$ (2,375)
Foreign currency translation adjustments	(33)	(102)
Other comprehensive loss	$ (2,142)	$ (2,477)

See accompanying notes

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

	Three Months Ended June 30,	
	2011	**2010**
Cash flows from operating activities:		
Net loss	$ (2,175)	$ (2,375)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	83	95
Stock-based compensation	812	968
Change in fair value of derivative liability	(96)	(88)
Non-cash interest expense	58	24
Foreign currency transaction losses (gains)	9	(35)
Loss on disposal of assets	—	4
Changes in operating assets and liabilities:		
Accounts receivable, net	51	(96)
Inventories, net	(22)	12
Prepaid expenses and other current assets	106	171
Accounts payable	115	(146)
Accrued expenses and other liabilities	530	(28)
Net cash used in operating activities	(529)	(1,494)
Cash flows from investing activities:		
Change in long-term deposits	(16)	(10)
Purchases of property and equipment	(62)	(18)
Net cash used in investing activities	(78)	(28)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants	16	9
Proceeds from issued debt	1,500	2,000
Principal payments on debt	(257)	(71)
Net cash provided by financing activities	1,259	1,938
Effect of exchange rate on cash and cash equivalents	2	(7)
Net increase in cash and cash equivalents	654	409
Cash and equivalents, beginning of period	4,371	6,258
Cash and equivalents, end of period	$ 5,025	$ 6,667
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 104	$ 35
Non-cash investing and financing activities:		
Debt discount in connection with long-term debt	$ 938	$ 500

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).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of June 30, 2011 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, 2011, condensed consolidated statements of operations for the three months ended June 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the three months ended June 30, 2011 and 2010 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, 2011 are not necessarily indicative of results to be expected for the year ending March 31, 2012 or for any future interim period. The condensed consolidated balance sheet at March 31, 2011 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, 2011, and notes thereto included in the Company's Annual Report on Form 10-K, which was filed with the SEC on June 3, 2011.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the dates of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Significant estimates and assumptions include reserves and write-downs related to receivables and inventories, the recoverability of long-lived assets, deferred taxes and related valuation allowances, valuation of equity and derivative instruments, and debt discounts. Periodically, the Company evaluates and adjusts estimates accordingly. The allowance for uncollectible accounts receivable balances amounted to $51,000 and $62,000, which are included in accounts receivable, net in the accompanying June 30, 2011 and March 31, 2011 condensed consolidated balance sheets, respectively.

Foreign Currency Reporting

The Company's subsidiary, Oculus Technologies of Mexico S.A. de C.V ("OTM") uses the local currency (Mexican Pesos) as its functional currency and its subsidiary Oculus Innovative Sciences Netherlands, B.V. ("OIS Europe") uses the local currency (Euro) as its functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date, and revenue and expense accounts are translated at average exchange rates during the period. Resulting translation adjustments were recorded in accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets at June 30, 2011 and March 31, 2011. Foreign currency transaction gains (losses) relate primarily to trade payables and receivables between subsidiaries OTM and OIS Europe. These transactions are expected to be settled in the foreseeable future. The Company recorded foreign currency transaction gains of $9,000 and losses of $35,000 for the three months ended June 30, 2011 and 2010, respectively. The related gains and losses 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, 2011 and 2010 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	June 30,	
	2011	2010
	(in thousands)	
Options to purchase common stock	5,666	4,461
Warrants to purchase common stock	9,590	9,297
	15,256	13,758

Common Stock Purchase Warrants and Other Derivative Financial Instruments

The Company classifies common stock purchase warrants and other free standing derivative financial instruments as equity if the contracts (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement), or (iii) contracts that contain reset provisions as either an asset or a liability. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that its freestanding derivatives, which principally consist of warrants to purchase common stock, satisfied the criteria for classification as equity instruments at June 30, 2011, 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, 2011 using			
	June 30, 2011	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)	$ 241	—	—	$ 241

	Fair value measurements (in thousands) at March 31, 2011 using			
	March 31, 2011	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)	$ 337	—	—	$ 337

Subsequent Events

Management has evaluated subsequent events or transactions occurring through the date the financial statements were issued (Note 11).

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU addresses fair value measurement and disclosure requirements within Accounting Standards Codification ("ASC") Topic 820 for the purpose of providing consistency and common meaning between U.S. GAAP and IFRSs. Generally, this ASU is not intended to change the application of the requirements in Topic 820. Rather, this ASU primarily changes the wording to describe many of the requirements in U.S. GAAP for measuring fair value or for disclosing information about fair value measurements. This ASU is effective for periods beginning after December 15, 2011. It is not expected to have any impact on the Company's consolidated financial statements or disclosures.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This ASU increases the prominence of other comprehensive income ("OCI") in the financial statements and provides companies two options for presenting OCI, which until now has typically been placed within the statement of equity. One option allows an OCI statement to be included with the net income statement, and together the two will make a statement of total comprehensive income. Alternately, companies may present an OCI statement separate from the net income statement; however, the two statements will have to appear consecutively within a financial report. This ASU does not affect the types of items that are reported in OCI, nor does it affect the calculation or presentation of earnings per share. For public companies, this ASU is effective for periods beginning after December 15, 2011. The Company is evaluating the impact that this standard will have on the Company's consolidated financial position and results of operations.

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 $2,175,000 for the three months ended June 30, 2011. At June 30, 2011, the Company's accumulated deficit amounted to $127,160,000. The Company had working capital of $3,481,000 as of June 30, 2011. 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 June 29, 2011, the Company entered into a Loan and Security Agreement and a Supplement to the Loan and Security Agreement with Venture Lending & Leasing VI, Inc. to borrow up to an aggregate of up to $2,500,000 (collectively, the "VLL6 Agreements"). The VLL6 Agreements provide for a first tranche of $1,500,000 and, upon meeting certain financial milestones, the Company may borrow a second tranche of $1,000,000. On June 29, 2011, the Company borrowed $1,500,000 on the first tranche (Note 3).

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, 2012. 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, 2011	March 31, 2011
	(unaudited)	
Raw materials	$ 506	$ 482
Finished goods	326	409
	832	891
Less: inventory allowances	(70)	(158)
	$ 762	$ 733

Notes Payable

On June 29, 2011, the Company entered into a Loan and Security Agreement and a Supplement to the Loan and Security Agreement with Venture Lending & Leasing VI, Inc. to borrow up to an aggregate of $2,500,000 (collectively, the "VLL6 Agreements"). The VLL6 Agreements provide for a first tranche of $1,500,000 and, upon meeting certain milestones, the Company may borrow an additional $1,000,000. The loan is secured by the assets of the Company. On June 29, 2011, the Company borrowed $1,500,000 on the first tranche. The cash interest or "streaming" rate on the loan is 10%. For the first nine months, the Company will make monthly interest-only payments set at $12,500. Thereafter, the Company will make principal and interest payments of $56,250 per month for thirty months. Additionally, the Company will make a final balloon payment of $116,505 on September 29, 2014, resulting in an effective interest rate of 13%. During the three months ended June 30, 2011, the Company made interest payments of $1,100.

If the Company becomes eligible to draw the second tranche, and determines to borrow additional funds pursuant to the second tranche, the Company will make interest-only payments for nine months following the commencement of the second tranche. Following the interest-only period, the second tranche will be amortized over thirty months, with a final payment due equal to 7.767% of the amount funded.

In connection with the VLL6 Agreements, the Company issued a warrant to Venture Lending & Leasing VI, LLC for the purchase of 226,325 shares of the Company's common stock at a purchase price per share equal to $1.657. If the Company becomes eligible to draw the second tranche of the loan, it will be obliged to issue a second warrant with coverage equal to $62,500 for the purchase of additional shares of its common stock at a strike price equal to the 10-day volume-weighted average price ("VWAP") ending on the trading day prior to the date the Company satisfies the second tranche milestone. If the Company draws on the second tranche, it will be obliged to issue a third warrant with coverage equal to $62,500 for the purchase of additional shares of the Company's common stock at a strike price equal to the 10-day VWAP ending on the trading day prior to the borrowing date of the loan funded on the second tranche (collectively, the "Warrants"). The Warrants have a cashless exercise feature. The Warrants expire on November 30, 2018. Additionally, the Warrants related to the first tranche may be put back to the Company for $937,500 cash, which will increase to $1,093,750 if it becomes eligible to draw the second tranche of the loan, and which will increase to $1,250,000 if the Company draws the additional $1,000,000 on the second tranche. The put feature is available to the holder for 60 days after the first of the following to occur: (i) a change in control of the Company, (ii) the closing of at least $20,000,000 of additional equity financing, or (iii) July 31, 2015.

The Company recorded the $937,500 cash value of the warrant related to the first tranche as a put warrant liability and a corresponding amount of $937,500 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. The remaining balance of the discount on note payable amounted to $937,500 at June 30, 2011, of which $249,000 is included in the current portion of long-term debt, net, in the accompanying condensed consolidated balance sheet. The remaining balance of the note amounted to $1,500,000 at June 30, 2011, of which $118,000 is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

Note 4. Commitments and Contingencies

Legal Matters

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, 2011, the Company had employment agreements in place 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, 2011, potential severance amounted to $1,918,000 and aggregated annual salaries amounted to $1,360,000.

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 and/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. Nonrefundable 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, during the three months ended June 30, 2010, the Company recorded as revenue the remaining balance of the unamortized upfront fees which amounted to $210,000. For the three months ended June 30, 2011 and 2010, the Company recorded revenues of $7,000 and $217,000, respectively, related to the non-refundable upfront payments. These amounts were included in product revenue in the accompanying condensed consolidated statements of operations.

On January 28, 2011, the Company entered into an agreement with a distributor in China to sell specific Company products into the People's Republic of China. Pursuant to the agreement, the distributor paid a $350,000 non-refundable upfront payment for which they were given exclusivity to sell these products for the first contract year. The upfront fee will be amortized on a straight line basis over the first contract year. During the three months ended June 30, 2011, the Company recorded revenue of $89,000 related to the upfront fee which is included in product revenue in the accompanying condensed consolidated statement of operations. In order to maintain exclusivity in subsequent years, the distributor will need to meet minimum purchase requirements each contract year. The initial term of the contract is for five years and the contract is cancellable if certain conditions are not met.

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 its Vetericyn products. VetCure, Inc. later changed its name to Vetericyn, Inc., which, at the time, remained wholly-owned by Mr. Robert Burlingame. This agreement was amended on February 24, 2009 and on July 24, 2009. Pursuant to the agreement, the Company provides Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Vetericyn products. The Company receives a fixed amount for each bottle of Vetericyn sold by Vertericyn, Inc. At the time of each of these 2009 transactions, Vetericyn was wholly-owned by Mr. Burlingame, who was also a Director at the time. Mr. Burlingame resigned from the Board on February 10, 2010. After his resignation, Mr. Burlingame continued to own a significant portion of the Company's stock from a transaction in 2009. To the Company's knowledge, he ceased being a holder of 5% of its common stock in 2010. The agreement was further amended on June 1, 2010 and November 1, 2010.

On September 15, 2009, the Company entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell its Microcyn over-the-counter liquid and gel products. At the time of the 2009 transaction, V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was also our Director at the time. Mr. Burlingame resigned from the Company's Board on February 10, 2010. After his resignation, Mr. Burlingame continued to own a significant portion of the Company's common stock from a transaction in 2009. To the Company's knowledge, he ceased being a holder of 5% of the Company's common stock in 2010. V&M Industries, Inc. subsequently changed their name to Innovacyn, Inc. On June 1, 2010, September 1, 2010, and November 1, 2010, the Company amended this agreement granting Innovacyn, Inc. the exclusive right to sell certain of its over-the-counter products.

Additionally, beginning July 1, 2011, the Company will share profits related to Vetericyn and Microcyn over-the-counter sales. During the three months ended June 30, 2011 and 2010, the Company recorded revenue related to these agreements in the amounts of $563,000 and $361,000, respectively. The revenue is recorded in product revenues in the accompanying condensed consolidated statements of operations. At June 30, 2011 and March 31, 2011, the Company had outstanding accounts receivable of $211,000 and $118,000, respectively, related to Innovacyn.

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 equity instruments and have since been re-characterized as derivative liabilities. Accordingly, the warrant obligations are adjusted to fair value at the end of each reporting period with the change in value reported in the statement of operations. Such fair values were estimated using the Black-Scholes valuation model. Although the Company determined the common stock warrants include an implied down-side protection feature, it performed a Monte-Carlo simulation and concluded that the value of the feature is de minimis and the use of the Black-Scholes valuation model is considered to be a reasonable method to value the warrants. The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise, at which time the liability will be reclassified to stockholders' equity, or expiration of the warrants.

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

	June 30, 2011	March 31, 2011
Expected life	1.62 years	1.87 years
Risk-free interest rate	0.47%	0.61%
Dividend yield	0.00%	0.00%
Volatility	84%	83%
Warrants outstanding	725,866	725,866
Fair value of warrants	$ 241,000	$ 337,000

The fair value of the derivative liability decreased to $241,000 at June 30, 2011 from $337,000 at March 31, 2011. Accordingly, the Company decreased the derivative liability by $96,000 to reflect the change in fair value at June 30, 2011. This amount is included as a change in the fair value of derivative instruments in the accompanying consolidated statement of operations for the three months ended June 30, 2011. The following table sets forth a summary of the changes in the fair value of our Level 3 financial liabilities that are measured at fair value on a recurring basis:

	Three Months Ended June 30,	
	2011	2010
Beginning balance	$ (337)	$ (472)
Net unrealized gain	96	88
Ending balance	$ (241)	$ (384)

Note 6. Stockholders' Equity

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. Additionally, the Company agreed to issue the contract sales organization shares of common stock as compensation for its services. The Company has determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. During the three months ended June 30, 2011 and 2010, the Company issued 25,000 and 10,255 shares of common stock, respectively, in connection with this agreement. During the three months ended June 30, 2011 and 2010, the Company recorded $47,000 and $22,000 of stock compensation expense related to this agreement, respectively. The expense was 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 as compensation for services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. During the three months ended June 30, 2011 and 2010, the Company issued 24,726 and 15,288 shares of common stock, respectively, in connection with this agreement. During the three months ended June 30, 2011 and 2010, the Company recorded $46,000 and $30,000 of stock compensation expense related to this agreement, respectively. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

On September 9, 2010, the Company entered into an agreement with Vista Partners LLC, for providing financial advisory services. Pursuant to the agreement, the Company agreed to pay Vista Partners, LLC common stock as compensation for services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. During the three months ended June 30, 2011, the Company issued 55,000 shares of common stock in connection with this agreement. During the three months ended June 30, 2011, the Company recorded $106,000 of stock compensation expense related to this agreement. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

On April 1, 2011, the Company entered into an agreement with NetGain Financial, Inc., for providing financial advisory services. Pursuant to the agreement, the Company agreed to pay NetGain, Inc. common stock as compensation for services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. During the three months ended June 30, 2011, the Company issued 30,000 shares of common stock in connection with this agreement. During the three months ended June 30, 2011, the Company recorded $58,000 of stock compensation expense related to this agreement. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of 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,	
	2011	**2010**
Cost of service revenue	$ 20	$ 15
Research and development	62	51
Selling, general and administrative	473	695
Total stock-based compensation	$ 555	$ 761

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

	Three Months Ended June 30,	
	2011	2010
Fair value of common stock	$ 1.76	$ 1.97
Expected Term	6.0 years	5.6 years
Risk-free interest rate	1.52%	1.95%
Dividend yield	0.00%	0.00%
Volatility	83%	84%

The weighted average fair value of options granted during the three months ended June 30, 2011 and 2010 was $1.23 and $1.36, respectively.

The expected term of stock options represents the average period the stock options are expected to remain outstanding and is based on the expected term calculated using the approach prescribed by SAB 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, 2011 ranged from 0.53% to 0.76%.

At June 30, 2011, there were unrecognized compensation costs of $2,766,000 related to stock options which is expected to be recognized over a weighted-average amortization period of 2.18 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, 2011 and changes during the three months then ended is presented below:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value (in thousands)
Options				
Outstanding at April 1, 2011	4,396	$ 2.76		
Granted	1,328	1.76		
Exercised	(39)	0.40		
Forfeited or expired	(19)	2.32		
Outstanding at June 30, 2011	5,666	$ 2.54	7.78	$ 1,569
Exercisable at June 30, 2011	3,384	$ 3.05	6.90	$ 1,108

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 ($1.84) for stock options that were in-the-money as of June 30, 2011.

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, 2011 by 1,328,815 shares (which number constitutes 5% of the outstanding shares on the last day of the year ended March 31, 2011).

Note 8. Income Taxes

In the year ended March 31, 2010, the Company completed a study to assess whether a change in control has occurred that would affect the ability to monetize tax attributes in future periods. 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 three months ended June 30, 2011. 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 o n 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 unrecognized tax benefits in its financial statements.

The Company files a consolidated U.S. federal income tax return and a state income tax return in the state of California. The Company is also subject to filing requirements in foreign jurisdictions, principally Mexico and The Netherlands. The Company's evaluation of uncertain tax matters was performed for tax years ended through March 31, 2011. Generally, the Company is subject to audit for the years ended March 31, 2010, 2009 and 2008 and may be subject to audit for amounts relating to net operating loss and other attribute carryforwards generated in periods prior to March 31, 2008. 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 expense. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments, other than those identified above that would result in a material change to its financial position. The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized tax benefits will increase or decrease within twelve months of March 31, 2011.

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,	
	2011	**2010**
U.S.	$ 840	$ 522
Mexico	1,380	998
Europe and other	490	525
	$ 2,710	$ 2,045

The Company's service revenues amounted to $230,000 and $219,000 for the three months ended June 30, 2011 and 2010.

Note 10. Significant Customer Concentrations

For the three months ended June 30, 2011, one customer represented 19% of the quarter's revenue, and for the three months ended June 30, 2010, one customer represented 13% of the quarter's revenue.

At June 30, 2011, five customers represented 14%, 11%, 11%, 10% and 10% of the net accounts receivable balance. At March 31, 2011, three customers represented 11%, 9% and 7%of the net accounts receivable balance.

Note 11. Subsequent Events

On July 1, 2011, the Company issued 12,920 shares to Advocos LLC, and issued 30,000 shares to NetGain Financial, Inc. for services. The fair value of the shares, which amounted to $79,000, will be recognized as selling, general and administrative expense in the three months ended September 30, 2011.

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

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, 2011 and our audited consolidated financial statements for the year ended March 31, 2011 included in our Annual Report on Form 10-K, that was filed with the Securities and Exchange Commission on June 3, 2011.

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,* or 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 seven 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 mechanical or surgical 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;

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; and

7) As a hydrogel, for management and relief of burning, itching and pain experienced with various types of dermatoses including atopic dermatitis and radiation dermatitis.

We do not have the necessary regulatory clearance or approval to market Microcyn in the U.S. as a medical device with 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.

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. In China, we have obtained a medical device approval by the State Food and Drug Administration for reducing the propagation of microbes in wounds and creating a moist environment for wound healing.

While in the United States, 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-led clinical studies suggest that our Microcyn is safe, easy to use and complementary to many existing treatment methods in wound care. Physician-led 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. Based on the firm's research, 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 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 chronic 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 Microdacyn60™ 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 32 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. On May 27, 2009, we received a 510(k) clearance 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. 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. On February 8, 2011, we received 510(k) clearance from the FDA as a hydrogel to manage and relieve the burning, itching and pain experienced with various types of dermatoses, including atopic dermatitis and radiation dermatitis. It may also be used to relieve the pain of first- and second-degree burns and can help to relieve dry waxy skin by maintaining a moist wound and skin environment, which is beneficial to the healing process. The Microcyn technology has received seven FDA 510(k) clearances in total. Many of these approvals are for use as a medical device in wound cleaning, or debridement, lubricating, moistening and dressing, including traumatic wounds and acute and chronic dermal lesions.

Sales and Marketing

In the quarter ending December 31, 2008, our initial sales were in the podiatry market in the United States. In the second quarter of 2009, we expanded our sales effort to include wound care centers, hospitals, nursing homes, urgent care clinics and home healthcare, utilizing a contract sales organization. We continue to seek opportunities to expand the applicability of our products. Our products are purchased by, among others, 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 as well as to dermatologists for treatment of various skin afflictions.

We currently make Microcyn Technology-based human wound care products available, both as prescription and over-the-counter products, under our seven 510(k) clearances in the United States, primarily through a partnership with a combination of Advocos, a specialty U.S. contract sales organization, and with such partners as Amneal Enterprises and PreCision Dermatology, mentioned in greater detail below. Specifically, we have announced the commercialization of a Microcyn hydrogel for wound care sold through a combination of contract and commissioned sales forces, and the commercialization of a Microcyn hydrogel for dermatology through partnerships with Quinnova Pharmaceuticals and PreCision Dermatology. 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 as a component in the United States since January 2008.

Additionally, through our partner Innovacyn, we currently make available Microcyn Technology-based animal healthcare products branded as Vetericyn in the U.S. and Europe. We plan to introduce these products into Canada and have received approval from Health Canada to begin marketing our products in their country, and in the future, to expand to Asia.

We intend to pursue additional regulatory approvals in Europe, China, India and Mexico for our products and plan to initiate commercialization upon obtaining these approvals.

Animal Healthcare

On January 26, 2009, we entered into a commercial agreement with VetCure, Inc., a California corporation, to market and sell our Vetericyn products. VetCure, Inc. later changed its name to Vetericyn, Inc., which, at the time, remained wholly-owned by Mr. Robert Burlingame. This agreement was amended on February 24, 2009 and on July 24, 2009. Pursuant to the agreement, we provide Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Vetericyn products. We receive a fixed amount for each bottle of Vetericyn sold by Vertericyn, Inc. At the time of each of these 2009 transactions, Vetericyn was wholly-owned by Mr. Burlingame, who was also our Director at the time. Mr. Burlingame resigned from our Board on February 10, 2010. After his resignation, Mr. Burlingame continued to own a significant portion of our stock from a transaction with us in 2009. To our knowledge, he ceased being a holder of 5% of our common stock in 2010. The agreement was further amended on June 1, 2010 and November 1, 2010.

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. At the time of the 2009 transaction, V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was also our Director at the time. Mr. Burlingame resigned from our Board on February 10, 2010. After his resignation, Mr. Burlingame continued to own a significant portion of our stock from a transaction with us in 2009. To our knowledge, he ceased being a holder of 5% of our common stock in 2010. V&M Industries, Inc. subsequently changed their name to Innovacyn, Inc. On June 1, 2010, September 1, 2010, and November 1, 2010, we amended this agreement granting Innovacyn, Inc. the exclusive right to sell certain of our over-the-counter products. On May 13, 2010, Innovacyn received confirmation from Health Canada that it has approval to market these veterinary products in the Canadian market as well.

Additionally, beginning July 1, 2011, we will share profits related to Vetericyn and Microcyn over-the-counter sales.

Dermatology

On November 8, 2010, we announced a definitive agreement with Onset Therapeutics, now called PreCision Dermatology, Inc. Under this agreement, PreCision Dermatology is combining the currently approved Microcyn hydrogel with their new skin barrier product into an prescription convenience kit, targeting sales to patients with atopic dermatitis and related conditions. PreCision Dermatology has about 35 salespeople along with a complete line of dermatology products sold throughout the U.S and launched the kit in the first quarter of 2011.

On February 14, 2011, we announced that we formed a broad multi-year collaboration with Amneal Enterprises to realize the development and commercial potential of Microcyn Technology. Amneal Enterprises is an affiliation of independent pharmaceutical marketing, discovery and development companies. As a part of this collaboration, Quinnova Pharmaceuticals, Inc. ("Quinnova"), an Amneal alliance member, has licensed, with a $500,000 prepayment and ongoing double-digit royalties, the U.S. and Canadian rights to the Microcyn-based dermatology atopic dermatitis hydrogel that received FDA clearance. Future prescription dermatology products can also be licensed for undisclosed upfront payments. In addition, Quinnova will co-promote the current prescription Microcyn-based wound care products to podiatry professionals in the United States and Canada. Quinnova has a sales force of over 35 people, selling to dermatologists and podiatrists with a complete line of dermatology products.

Additionally, we sold the option to exclusively sell and distribute our proprietary Microcyn®-based acne drug candidate to AmDerma Pharmaceuticals, LLC, an Amneal alliance member, for a one-time non-refundable payment of $500,000. On June 23, 2011, AmDerma exercise its option to license rights to the drug candidate. We expect to finalize a license agreement, outlining AmDerma's U.S. and European rights to the product, in the near future. We will retain rights to the "rest of world," including undisclosed upfront, milestone and royalty payments.

Dental

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 applications for two 510(k) clearances to market Microcyn-based products for use as an oral rinse in liquid form and for oral mucositis in a gel form.

Marketing Abroad

We currently rely on exclusive agreements with country-specific distributors for the sale of Microcyn-based products in Europe, including in Italy, the 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. Our dedicated sales force involving over 30 people in Mexico is focused on the wound care and dermatology markets. We have also launched a dermatology product, designed to treat acne.

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.

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

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

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.

Contract Testing

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

Comparison of Three Months Ended June 30, 2011 and 2010

Revenues

Total revenues were $2,940,000 during the quarter ended June 30, 2011 compared to $2,264,000 in the prior year period. Product revenues increased $665,000, or 33%, with increases in the U.S, Mexico, Europe, India, and Singapore offset by a decline in the Middle East and China.

Product revenue in the U.S. increased $318,000, or 61%, primarily due to increased demand for animal healthcare products resulting from television advertising and sales initiatives sponsored by our partner, Innovacyn, Inc., and increased demand for our products in the professional human wound care and dermatology markets. These increases were partially offset by a decline in sales to Union Springs Pharmaceuticals.

Revenue in Mexico increased 38% from the prior year period with 28% growth in sales for the smaller 120 and 240 ml units, and 53% growth in sales of the 5 liter units. Most of this growth occurred as a result of strong unit growth, price increases and a 7% increase due to the strengthening of the peso. The unit sales of our 120 and 240-milliliter presentation, which is primarily sold to pharmacies in Mexico, increased 19% from the prior year to a monthly average of 49,700 units compared to 41,700 in the same period last year.

Europe and Rest of World revenue decreased $35,000, down 7% over the prior year period, caused by a decline in sales to the Middle East and China, mostly offset by increases in Europe, India and Singapore. Sales to Middle East, China and India tend to fluctuate from quarter to quarter.

The following table shows our product revenues by geographic region:

	Three Months Ended June 30,			
	2011	2010	Increase	Increase
U.S.	$840,000	$522,000	$318,000	61%
Europe and Rest of World	490,000	525,000	(35,000)	(7)%
Mexico	1,380,000	998,000	382,000	38%
Total	$2,710,000	$2,045,000	$665,000	33%

Service revenue increased $11,000 when compared to the prior year period due to a increase in the number of tests provided by our services business.

Gross Profit

We reported gross profit from our Microcyn products business of $1,920,000, or 71% of product revenues, during the three months ended June 30, 2011, compared to a gross profit of $1,349,000, or 66%, in the prior year period. The improved gross margins represent higher margins in U.S., Europe and Rest of World and Mexico. The higher margins in the U.S. are due to higher units sold and product mix for certain U.S. sales. Our margins in Mexico were 81% during the quarter ended June 30, 2011, compared to 73% in the prior year.

Research and Development Expense

Research and development expense increased to $436,000, or 10%, for the three months ended June 30, 2011, compared to $396,000 in the prior year period. Most of the increase was attributable to studies needed for regulatory approvals and the development of new products.

We expect that our research and development expense will increase over the next few quarters as we incur additional expenses related to laboratory tests, clinical trials and the development and approval of new products.

Selling, General and Administrative Expense

Selling, general and administrative expense increased $142,000, or 4%, to $3,531,000 during the three months ended June 30, 2011, from $3,389,000 during the three months ended June 30, 2010. Primarily, this increase was due to higher sales related costs in Mexico and higher compensation costs in the U.S.

We expect selling, general and administrative expenses to grow slightly in future periods as we incur additional expenses to expand our sales efforts in the U.S., Europe and Mexico markets.

Interest Expense and Interest Income

Interest expense increased $103,000 during the three months ended June 30, 2011 from the three months ended June 30, 2010. Primarily this increase was due to $104,000 of cash interest incurred and $58,000 of non-cash interest incurred during the three months ended June 30, 2011. This interest is primarily related to $2,000,000 borrowed on May 3, 2010 and $1,000,000 borrowed on November 17, 2010 under the Loan and Security Agreement with Venture Lending & Leasing V, Inc. Interest income showed no material change from the same period last year.

Other Expense, Net

Other expense, net increased $84,000 to other expense, net of $92,000 for the three months ended June 30, 2011, from other expense, net of $8,000 for the same period last year. The change in other expense, net was primarily related to the quarterly unrealized foreign exchange gains and losses on intercompany transactions and taxes accrued in Mexico

Derivative Liability

During the three months ended June 30, 2011, we recorded a change in the fair value of our derivative liability of $96,000 and as a result we recorded this amount as non-cash other income. For the three months ended June 30, 2010, we recorded non-cash other income of $88,000. The change in the fair value of our derivative liability was primarily the result of decreases in our stock price and a decrease in the remaining life of the warrants.

Net Loss

Net loss for the three months ended June 30, 2011 was $2,175,000, a decrease of $200,000 from $2,375,000 for the same period in the prior year. The stock compensation charges were $812,000 and $968,000 for the quarters ending June 30, 2011 and 2010 respectively.

Sources of Liquidity

As of June 30, 2011, we had cash and cash equivalents of $5,025,000. 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 April 1, 2009, substantially all of our operations have been financed through the following transactions:

- net proceeds of $1,996,000 received from a private placement of common stock on June 1, 2009;
- net proceeds of $5,159,000 received from a registered direct offering of common stock on July 30, 2009;
- proceeds of $4,333,000 received from the exercise of common stock purchase warrants and options;
- proceeds of $3,000,000 received from the issuance of a debt instrument in the year ended March 31, 2011; and
- proceeds of $1,500,000 received from the issuance of a debt instrument in the three months ended June 30, 2011 (as described below).

On June 29, 2011, we entered into a Loan and Security Agreement and a Supplement to the Loan and Security Agreement with Venture Lending & Leasing VI, Inc. to borrow up to an aggregate of up to $2,500,000 (collectively, the "VLL6 Agreements"). The VLL6 Agreements provide for a first tranche of $1,500,000 and, upon meeting certain financial milestones, we may borrow a second tranche of $1,000,000. The loan is secured by assets of our Company including intellectual property. On June 29, 2011, we borrowed $1,500,000 on the first tranche. The cash interest or "streaming" rate on the loan is 10%. For the first nine months, we will make monthly interest-only payments set at $12,500 through March 29, 2012. Thereafter, we will make principal and interest payments of $56,250 per month through September 29, 2014. Additionally, we will make a final balloon payment of $116,505 on September 29, 2014, resulting in an effective interest rate of 13%.

In connection with the VLL6 Agreements, we issued a warrant to Venture Lending & Leasing VI, LLC for the purchase of 226,325 shares of our common stock at a purchase price per share equal to $1.657. If we become eligible to draw the second tranche of the loan, we will be obliged to issue a second warrant with coverage equal to $62,500 for the purchase of additional shares of our common stock at a strike price equal to the 10-day volume-weighted average price ("VWAP") ending on the trading day prior to the date we satisfy the second tranche milestone. If we draw on the second tranche, we will be obliged to issue a third warrant with coverage equal to $62,500 for the purchase of additional shares of our common stock at a strike price equal to the 10-day VWAP ending on the trading day prior to the borrowing date of the loan funded on the second tranche (collectively, the "Warrants"). The Warrants have a cashless exercise feature. The Warrants expire on November 30, 2018.

The Warrants may be put back to us for $937,500 cash, which will increase to $1,093,750 if we become eligible to draw the second tranche of the loan, and which will increase to $1,250,000 if we draw the additional $1,000,000 on the second tranche. The put feature is available to the holder for 60 days after the first of the following to occur: (i) a change in control of our company, (ii) the closing of at least $20,000,000 of additional equity financing, or (iii) July 31, 2015.

Cash Flows

As of June 30, 2011, we had cash and cash equivalents of $5,025,000, compared to $4,371,000 at March 31, 2011.

Net cash used in operating activities during the three months ended June 30, 2011 was $529,000 primarily due to the $2,175,000 net loss for the period which was offset in part by non-cash transactions during the three months ended June 30, 2011, including $812,000 of stock-based compensation, and an $96,000 gain on the fair value adjustment of our derivative liability and an increase in our accrued liabilities of $530,000.

Net cash used in operating activities during the three months ended June 30, 2010 was $1,494,000 primarily due to the $2,375,000 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 provided by financing activities was $1,259,000 the three months ended June 30, 2011, primarily due to the issuance of $1,500,000 of debt which was offset by payments of $257,000 of outstanding debt during the period. We also received $16,000 in connection with the exercise of stock options.

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.

Operating Capital and Capital Expenditure Requirements

We incurred a net loss of $2,175,000 for the three months ended June 30, 2011. At June 30, 2011 our accumulated deficit amounted to $127,160,000 and at March 31, 2011, our accumulated deficit amounted to $124,985,000. At June 30, 2011, our working capital amounted to $3,481,000.

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 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 the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, 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, 2011 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

On July 25, 2011, we received notice of a lawsuit filed in Mexico by Cesar Mangotich Pacheco and Prodinnv, S.A. de C.V. represented by Cesar Mangotich Pacheco. The lawsuit appears to allege conversion of assets, tortious interference and defamation, among other claims. We are currently evaluating the lawsuit, conferring with local counsel and translating the documents we have received. Our preliminary assessment is that the lawsuit is completely without merit and we intend to vigorously defend our position.

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, 2011, as filed with the SEC on June 3, 2011.

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

On June 29, 2011, in connection with the Loan and Security Agreement and a Supplement to the Loan and Security Agreement that we entered into with Venture Lending & Leasing VI, Inc., we issued a warrant to Venture Lending & Leasing VI, LLC for the purchase of 226,325 shares of our common stock at a purchase price per share equal to $1.657. If we become eligible to draw the second tranche of the loan, we will be obliged to issue a second warrant with coverage equal to $62,500 for the purchase of additional shares of our common stock at a strike price equal to the 10-day volume-weighted average price ("VWAP") ending on the trading day prior to the date we satisfy the second tranche milestone. If we draw on the second tranche, we will be obliged to issue a third warrant with coverage equal to $62,500 for the purchase of additional shares of our common stock at a strike price equal to the 10-day VWAP ending on the trading day prior to the borrowing date of the loan funded on the second tranche (collectively, the "Warrants"). The Warrants have a cashless exercise feature. The Warrants expire on November 30, 2018.

The Warrants may be put back to us for $937,500 cash, which will increase to $1,093,750 if we become eligible to draw the second tranche of the loan, and which will increase to $1,250,000 if we draw the additional $1,000,000 on the second tranche. The put feature is available to the holder for 60 days after the first of the following to occur: (i) a change in control of our company, (ii) the closing of at least $20,000,000 of additional equity financing, or (iii) July 31, 2015.

With respect to the issuance of our Warrants as described above, we relied on the Section 4(2) exemption from securities registration under the federal securities laws for transactions not involving a public offering. No advertising or general solicitation was employed in the offering of the Warrants. The Warrants were issued to accredited investors. The Warrants 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, 2011.

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 June 16, 2011, the Compensation Committee of the Board of Directors granted a cash bonus of $240,000 to Hojabr Alimi, our Chairman of the Board of Directors and Chief Executive Officer. This bonus was granted pursuant to the FY 2011 Bonus Plan for meeting his target milestones.

Item 6. Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc. (included as Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended March 31, 2007, and incorporated herein by reference).
3.2	Amended and Restated Bylaws, as Amended of Oculus Innovative Sciences, Inc., effective November 3, 2010 (included as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, and incorporated herein by reference).
4.1	Specimen Common Stock Certificate (included as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.2	Warrant to Purchase Series A Preferred Stock of Oculus Innovative Sciences, Inc. by and between the Company 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 Oculus Innovative Sciences, Inc. by and between the Company 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 Oculus Innovative Sciences, Inc. (included as Exhibit 4.4 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.5	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.5 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.6	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.11 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.7	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.12 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.8	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed August 13, 2007, and incorporated herein by reference).
4.9	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 28, 2008, and incorporated herein by reference).
4.10	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. issued to Venture Lending & Leasing V, LLC (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).
4.14	Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. issued to Venture Lending & Leasing VI, LLC (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 6, 2011 and incorporated herein by reference).

10.1	Form of Indemnification Agreement between Oculus Innovative Sciences, Inc.and its officers and directors (included as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.2	Amended and Restated Oculus Innovative Sciences, Inc. 2006 Stock Incentive Plan and related form stock option plan agreements (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 2, 2007, and incorporated herein by reference).
10.3	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 Oculus Innovative Sciences, Inc. and RNM Lakeville, L.P. (included as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.9	Amendment to Office Lease No. 1, dated September 15, 2000, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.10	Amendment to Office Lease No. 2, dated July 29, 2005, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.11	Amendment No. 3 to Lease, dated August 23, 2006, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.12	Amendment No. 4 to Lease, dated September 13, 2007, by and between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.43 to the Company's Annual Report on Form 10-K 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 Oculus Innovative Sciences, Inc., 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, Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V. (included as Exhibit 10.25 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.20	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 Oculus Innovative Sciences, Inc. and Javier Orozco Gutierrez (included as Exhibit 10.27 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.22	Termination of Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V.'s Agreements with Quimica Pasteur, S de R.L. by Jorge Paulino Hermosillo Martin (translated from Spanish) (included as Exhibit 10.28 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.23	Termination of Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V.'s Agreements with Quimica Pasteur, S de R.L. by Francisco Javier Orozco Gutierrez (translated from Spanish) (included as Exhibit 10.29 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.24	Director Agreement, dated November 8, 2006, by and between Oculus Innovative Sciences, Inc. 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 Oculus Innovative Sciences, Inc. 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 Oculus Innovative Sciences, Inc. 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 Oculus Innovative Sciences, Inc. 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 Oculus Innovative Sciences, Inc. 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 Oculus Innovative Sciences, Inc. and Robert Burlingame, dated January 26, 2009 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 29, 2009 and incorporated herein by reference).
10.30	Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Non-Affiliated Investors, dated January 26, 2009 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 29, 2009 and incorporated herein by reference).
10.31	Revenue Sharing Distribution Agreement by and between Oculus Innovative Sciences, Inc. and VetCure, Inc., dated January 26, 2009 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 29, 2009 and incorporated herein by reference).
10.32	Purchase Agreement by and between Oculus Innovative Sciences, Inc. and accredited investors, dated February 6, 2009 (included as Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q filed November 4, 2010 and incorporated herein by reference).
10.33	Purchase Agreement by and between Oculus Innovative Sciences, Inc., Robert Burlingame and Seamus Burlingame, dated February 24, 2009 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed February 27, 2009 and incorporated herein by reference).
10.34	Amendment to Revenue Sharing Distribution Agreement by and between Oculus Innovative Sciences, Inc. 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 Oculus Innovative Sciences, Inc. and Robert C. Burlingame, dated April 1, 2009 (included as Exhibit 10.52 to the Company's Annual Report on Form 10-K filed on June 11, 2009 and incorporated herein by reference).
10.36	Microcyn U.S. Commercial Launch Agreement, by and between Oculus Innovative Sciences, Inc. and Advocos, dated April 24, 2009 (included as Exhibit 10.53 to the Company's 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 Oculus Innovative Sciences, Inc. 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 Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated April 10, 2009, (included as Exhibit 10.55 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.39	Letter Agreement by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 2, 2009, (included as Exhibit 10.56 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.40	Letter Agreement by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 10, 2009, (included as Exhibit 10.57 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.41	Warrant Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 13, 2009, (included as Exhibit 10.58 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.42	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. 2 to Revenue Sharing, Partnership and Distribution Agreement between the Oculus Innovative Sciences, Inc. and Vetericyn, Inc., dated July 24, 2009 (refiled as Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2010 filed April 29, 2011, and incorporated herein by reference).

10.45†	Amendment No. 3 to Revenue Sharing, Partnership and Distribution Agreement between Oculus Innovative Sciences, Inc. and Vetericyn, Inc. dated June 1, 2010 (refiled as Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2010 filed April 29, 2011 and incorporated herein by reference).
10.46†	Amendment No. 1 to Exhibit A to the Revenue Sharing Distribution Agreement and to the Revenue Sharing, Partnership and Distribution Agreement as Revised and Amended, June 1, 2010, dated September 1, 2010 (included as Exhibit 10.46 to the Company's Quarterly Report on Form 10-Q filed November 4, 2010 and incorporated herein by reference).
10.47	Continuous Offering Program Agreement, dated September 3, 2010 between Oculus Innovative Sciences, Inc. and Rodman & Renshaw, LLC (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 17, 2010, and incorporated herein by reference).
10.48†	Distribution Agreement between Oculus Innovative Sciences, Inc. and Tianjian Ascent Import and Export Company, Ltd dated January 28, 2011 (included as Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q filed February 4, 2011, and incorporated herein by reference).
10.49†	Exclusive Sales and Distribution Agreement between Oculus Innovative Sciences, Inc. and Quinnova Pharmaceuticals, Inc., dated February 14, 2011 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference).
10.50†	Exclusive Co-Promotion Agreement between Oculus Innovative Sciences, Inc. and Quinnova Pharmaceuticals, Inc., dated February 14, 2011 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference).
10.51	Product Option Agreement between Oculus Innovative Sciences, Inc. and AmDerma Pharmaceuticals, LLC, dated February 14, 2011 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference).
10.52	Amendment No. 6 to Lease by and between Oculus Innovative Sciences, Inc. and RNM Lakeville, L.P., dated May 31, 2011 (included as Exhibit 10.52 to the Company's Annual Report on Form 10-K filed June 3, 2011, and incorporated herein by reference).
10.53	Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 6, 2011 and incorporated herein by reference).
10.54	Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.55	Amendment No. 1 to the Loan and Security Agreement and Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated June 29, 2011 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.56	Intellectual Property Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.57	Intellectual Property Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated June 29, 2011 (included as Exhibit 10.6 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.58*††	Distribution Agreement between Oculus Innovative Sciences, Inc. and Shanghai Sunvic Technology Co. Ltd., dated June 26, 2011.
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.

†† Confidential treatment has been requested 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 4, 2011

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

Date: August 4, 2011

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

DISTRIBUTION AGREEMENT

This Agreement is made and entered into as of the latest date set forth on the signature lines below (the "Effective Date") by and between Oculus Innovative Sciences, Inc., a California corporation having a place of business located at 1129 No. McDowell Boulevard, Petaluma, CA 94954 and a manufacturing site located at Industria Vidriera 81Fraccionamiento Industrial, Zapopan Norte Zapopan, Jalisco Mexico 45130 ("Company"), and Shanghai Sunvic Technology Co. Ltd, a Chinese limited liability company having a place of business at Suite 2012, 915 Zhenbei Road, Shanghai, China, 200333 ("Distributor").

WHEREAS Company has developed proprietary technology and know-how known as the "Microcyn Technology" which Company distributes and sells in the form of gel solutions, as further identified in Exhibit A to this Agreement,

WHEREAS Distributor and its Subdistributors import and sell hospital supplies, OTC medical devices and has considerable experience in the marketing, sale and servicing of such supplies and devices for such applications; and

WHEREAS Supplier desires Distributor to distribute Supplier's Products, and Distributor desires to distribute Supplier's Products, all as provided for in, in accordance with and subject to the terms, conditions and provisions set forth in this Agreement.

NOW THEREFORE in consideration of the mutual promises and undertakings of the parties hereto the parties agree as follows:

1. Definitions.

1.1 "Confidential Information" means information of a party, which information is conspicuously marked with "Confidential", or "Proprietary" or other similar legend. If Confidential Information is orally disclosed of it is observed, it shall be identified as such at the time of disclosure or observation and a brief written description and confirmation of the confidential nature of the information shall be sent to the recipient within thirty (30) days after the disclosure. The Solution Specifications, quantities, schedules and pricing, projections and business plans shall be considered Confidential Information hereunder whether disclosed orally or in writing, or whether or not marked "Confidential" or "Proprietary".

1.2 "Intellectual Property Rights" means all intellectual property rights worldwide arising under statutory or common law or by contract and whether or not perfected, now existing or hereafter filed, issued, or acquired, including all (a) patent rights; (b) rights associated with works of authorship including copyrights and mask work rights; (c) trademarks, service marks, trade dress and trade names; (d) rights relating to the protection of trade secrets and confidential information; and (e) any right analogous to those set forth herein and any other proprietary rights relating to intangible property.

1.3 “Markets” means the advanced human wound care for humans within the Territory defined in this Agreement.

1.4 “Purchase Order” shall mean an offer from Distributor received by Company, whether in written or other form, or in electronic form, to purchase or schedule delivery of a specified amount of Products that complies with the requirements set forth in this Agreement.

1.5 “Regulatory Approvals” means any and all approvals, applications, registrations, licenses, certifications and other requirements imposed by any governmental agency or other entity exercising any regulatory or other governmental or quasi-governmental authority, including but not limited to the US Food and Drug Administration, the Chinese Food and Drug Administration and the US or Chinese Environmental Protection Agency.

1.6 “Company’s Technology” means Company’s proprietary technology and know-how known as the Microcyn Technology, used for (among other things) wound care applications.

1.7 “Products” means the gel solutions based on Company’s Microcyn Technology which is to be provided by Company under this Agreement as further described in Exhibit A.

1.8 “Product Specifications” means the specifications for the Products as set forth in Exhibit B.

1.9 “Territory” shall mean the People’s Republic of China.

2. Purchases and Products.

2.1 General. This Agreement establishes the terms and conditions on which Company will sell to Distributor the Products. The purchase and sale of Products between Company and Distributor shall be governed solely and exclusively by this Agreement, which shall supersede the terms and conditions contained in any purchase order, acknowledgment or other document related to the purchase and sale of Products. Company’s failure to object to any additional or different term or condition contained in any communication from Distributor shall not be deemed a waiver of the terms of this Agreement and any additional or different term or condition is expressly rejected unless agreed to by the Company in writing. This Agreement shall not be modified, supplemented or interpreted by any trade usage or prior course of dealing not made a part of this Agreement by its express terms.

2.2 Appointment. Subject to all the terms and conditions of this Agreement, Company hereby appoints Distributor for the Term of this Agreement as an exclusive distributor of the Products only within the Market and only within the Territory. Distributor may distribute Products only to persons and entities located and taking delivery within the Territory. Furthermore, Solution distributed by Distributor for further distribution may be distributed only through subdistributors who are bound in writing for Company's benefit to all the restrictions on Distributor contained in this Agreement.

2.3 Development Fee. After execution of this Agreement, Distributor will pay the Company a one time, non-refundable up-front fee, equal to [ ]* ($[ ]* USD) for the exclusive right to market and sell products referenced in Exhibit A. [ ]* ($[ ]*) will be due by June 24th, 2011 and the balance of [ ]* ($[ ]*) is due within [ ]* after the regulatory approval of the product by the China State Food and Drug Administration (SFDA).

2.4 Purchase Orders and Forecasts. Solution is delivered based on F.O.B. term, that Company must deliver the products to the loading port. Company cannot adjust the price of the product at any time during the first 3 years of the agreement, Company shall have the right, in its sole discretion, to change such prices with one hundred eighty (180) days' written notice before the execution of the updated prices for the 4th and 5th year of the agreement. New prices will apply to all shipments made after such notice period. If there are unavoidable circumstances that the price must be adjusted, then both parties can negotiate and decide on the price issue. In addition, Distributor will pay all charges, including without limitation transportation charges and insurance premiums and shall be responsible for all taxes, duties and other governmental assessments (this includes, without limitation, sales taxes, unless Distributor provides appropriate resale certificates).

2.5 Purchase Order and Forecast. On or before the 15th day of each month, Distributor will submit to Company a Purchase Order covering the next calendar month and a non-binding, rolling forecast of purchases of Products for the next three (3) months after the period covered by the Purchase Order.

2.6 Purchase Orders. The following requirements shall apply to all purchase orders:

(a) Purchase Orders shall be issued by Distributor to Oculus or its designee; and

(b) All Purchase Orders shall contain such pricing, requested shipment schedule, delivery address, requested carrier and quantity terms as set forth in Exhibit A; and

(c) Company must arrange shipment of Solutions within thirty (30) days after receipt of a valid Purchase Order; and

(d) All Purchase Orders shall reference this Agreement.

When acknowledgement of receipt and acceptance of the Purchase Order is made by Company (either by written notice or by shipment of the Products covered by the Purchase Order), the Purchase Order shall be deemed a commitment to purchase and sell the Products pursuant to the terms of this Agreement. Shipment and delivery schedules will be at all times subject to Company's approval, and Company may at any time decline to make any shipments or deliveries except upon receipt of payment or upon terms and conditions or security satisfactory to Company.

* Confidential material redacted and separately filed with the Commission.

2.7 Pricing. The Solution prices are set forth in Exhibit A. (Refer to 2.4 as settled agreement.)

2.8 Taxes. Prices are exclusive of ocean transportation and insurance. All taxes, duties and other related charges that occur from Mexico or U.S. delivery port to final destination in China are the responsibility of the distributor. Unless prior to shipment of the Products the Distributor provides Company with a tax exemption certificate acceptable to the appropriate taxing authorities, Distributor shall pay any present or future excise, sales, use or similar tax, duties or other governmental charges, and Distributor agrees to indemnify Company against liability for payment of such taxes. Such taxes, when applicable, will appear as separate items on the invoice.

2.9 Payment Terms. Payment shall be made in full prior to a shipment of product by wire to an Oculus account that will be furnished.

2.10 Minimum Orders; Minimum Purchase. Minimum ordering quantities are set forth in Exhibit A. No orders shall be accepted, unless such orders are at least equal to or greater than the minimum quantities set forth in Exhibit A. Distributor agrees to purchase sufficient Products to meet the minimum purchase obligation set forth in Exhibit A for each calendar year during the term of this Agreement. If, at the end of each calendar year during the term of this Agreement, Distributor has failed to purchase the quantity of Products specified in the minimum purchase obligation set forth in Exhibit A, then Company may, in its sole discretion, adjust the price charged for all Products sold to Distributor during the term and recover from Distributor the difference between: (i) the greater of the price Company would have charged for the Solution absent the volume discount or, a [ ]* ([ ]*%) increase in the purchase price set forth on Exhibit A attached hereto; and (ii) the price Company charged Distributor during the term.

3. Delivery and Acceptance.

3.1 Delivery of Solution. Delivery of Solution shall be F.O.B. point of Mexico or U.S. delivery port. Regarding shipment dates, refer to 2.6 (c).

3.2 Packaging. Company shall package the Products for shipment to Distributor in the manner customarily used by Company(refer to Exhibition A), unless Distributor requires different packaging specifications, in which case any such different packaging shall be at Distributor's expense. Distributor will provide such reasonable specifications to Company in writing within thirty (30) days of the Effective Date.

3.3 Risk of Loss or Damage. Title and risk of loss will be transferred to Distributor upon delivery of Products by Company to the point of Mexico or U.S. delivery port. Unless Company receives specific shipping instructions from Distributor within thirty (30) days prior to the scheduled shipment date, Company may exercise its own discretion in selecting the method of shipment. In no event will the carrier be considered an agent or representative of Company. Distributor will also bear the risk of loss with respect to any Products rejected by Distributor until received by Company.

* Confidential material redacted and separately filed with the Commission.

3.4 Delivery Performance. Company may make partial deliveries of the Products under this Agreement. Partial deliveries will be separately invoiced by Company. Shipment dates and separate invoices of partial deliveries must be exactly set and issued by Company. Distributor only pays for separate deliveries upon separate invoices.

3.5 Cancellation; Rescheduling. Distributor and Company may not cancel or reschedule or change the quantity to any shipment under a Purchase Order once the Purchase Order is accepted by Company.

3.6 Product Acceptance. Company is fully responsible for the quality of the products. Products shipped by Company must materially conform to the Solution Specifications as further defined in Exhibit B at the time of shipment by Company. Use of the Products by Distributor or its customers, or the failure by Distributor to return the defective Products after fifteen (15) days following the arrival date of the Distributor's warehouse of such Products shall constitute acceptance by the Distributor. Any Products properly rejected will be returned to Company in accordance with the return procedures set forth in Article VI with respect to warranty claims.

3.7 Security Interest. Company hereby reserves and Distributor hereby grants to Company a purchase money security interest in the Products sold under this Agreement and the proceeds thereof and accounts receivable, until payment in full of the purchase price. Distributor agrees to execute any financing statements, continuation statements or other documents as Company requests to protect its security interest.

3.8 Force Majeure. In no event will Company be liable for any reprocurement costs for delay in delivery or non-delivery due to causes beyond Company's reasonable control, including but not limited to supplier delays, shortages of labor, energy, components, raw materials or supplies, acts of God, labor unrest, fire, explosion or earthquake. If such delay occurs, the date of delivery shall automatically be extended for a period equal to the time lost by reason of the delay. In any event, Company shall not be in default for failure to deliver unless Company does not commence to cure such failure within ten (10) days after receipt of written notice from Distributor of such failure to deliver. Distributor's sole remedy for such default shall be cancellation of the applicable Purchase Order.

4. Certain Obligations.

4.1 Distribution Efforts. Distributor shall consult and cooperate with Supplier in connection with the marketing, sale and distribution of Supplier's Products under this Agreement. Without limiting the generality of the foregoing, Distributor shall prepare and submit to Supplier, at least ninety (90) days prior to the commencement of each Contract Year, a written plan for the marketing, sale and distribution of Supplier's Products under this Agreement in the Territory during such Contract Year. Distributor's plan shall include, without limitation: (a) a description of the promotional, advertising and other marketing activities planned by Distributor for each division within the Territory during the applicable Contract Year; (b) a budget and schedule for such activities; (c) Distributor's best estimate of anticipated sales of Supplier's Products in each division within the Territory during the applicable Contract Year; and (d) a description of any training or other support to be provided by Distributor during the applicable Contract Year, which shall be subject to Supplier's approval not to be unreasonably withheld or delayed. Distributor shall use commercially reasonable effort to comply with the plan for each Contract Year. Distributor shall supply all sales and marketing material in the Field (included, but not limited to translation of promotional literature marketing materials manuals and other documentation for the gel. Supplier shall supply Distributor, as reasonably, requested from time to time, information required in order to prepare sales and marketing materials.

4.2 Lab testing. Company shall cooperate with Distributor for the rebottling aging test. The Distributor will be responsible for sending samples using Fedex to Company for testing. Company shall provide test reports back to Distributor.

4.3 Documents and Licensing. The Company must provide the necessary documentations and licensing to Distributor in order to allow rebottling the products in China within 30 days after the agreement is executed.

4.4 Products Registration and Extension. Distributor will be responsible for updating the registrations before expiration date in order to continue the legal sale of Products in China. Company shall provide necessary documents and information to Distributor for the registration.

4.5 Compliance with Laws. Distributor shall conduct its business in accordance with all laws and regulations of any country in which Licensee is marketing and distributing the Products. Without limiting the foregoing, Licensee shall not market sell any Solution except in compliance with the Regulatory Approvals and all applicable laws and regulations.

4.6 Use of Products. Distributor's purchase of Solution is solely for use by Distributor in the Markets. Distributor shall not market, distribute, sell the Solution on a stand-alone basis or in any market other than the Markets.

4.7 Support. Subject to Company's scheduling and personnel constraints, Company will provide to Distributor reasonable engineering, research, development and marketing support, including training in the proper use and clinical benefits of the Products, and access to its personnel as needed for sales of the Products in the Markets. The two parties shall have scheduled academic exchanges. Chinese experts or professionals will come to the U.S. for observation and study, and/or Company will send their experts or professionals to China. Each party shall bear their own expenses for the visit trip.

4.8 Branding of Solution. Distributor may market, sell and distribute the Products using Company's trademarks, logos, and other proprietary designations, packaging and marketing materials. Distributor shall have no right whatsoever to use Company's marks without Company's prior written consent.

4.9 Shared Knowledge. Company agrees that Distributor can use the website link between the two parties.

4.10 Management Review. The senior project managers of both parties will meet at least bi-annually during the term of this Agreement to discuss the status of the parties' business relationship, each party's upcoming plans relating to the Products, the competitive situation in the Markets for the Products, and similar matters.

5. Ownership.

5.1 Company's IP. Company is and shall be the sole and exclusive owner of all Intellectual Property Rights in and to the Products and Company's Technology, including without limitation its Microcyn Technology, and any and all inventions, technology, know-how and other intellectual property made, conceived, created, reduced to practice or otherwise developed as part of Company's services pursuant to Article IV of this Agreement, and all improvements, enhancements, modifications and derivatives of any of the foregoing (collectively, "Company's IP").

5.2 No Reverse Engineering. Distributor acknowledges that the Products contain the valuable trade secret information of Company and other proprietary information of Company. Accordingly, Distributor agrees that it will not, at any time during the term of this Agreement or thereafter, reverse engineer or otherwise attempt to discern the trade secret information of the Products, nor will Distributor permit any third party to do any of the foregoing. Company acknowledges that the Distributor's Process contains the valuable trade secret information of Distributor and other proprietary information of Distributor. Accordingly, Company agrees that it will not, at any time during the term of this Agreement or thereafter, reverse engineer or otherwise attempt to discern the trade secret information of the Distributor's Process, nor will Company permit any third party to do any of the foregoing.

6. Limitation On Liability And Remedies.

6.1 Company Limited Warranty; Limitation of Remedies.

(a) Company warrants that each Solution delivered will, under normal use and conditions, substantially conform to the applicable Solution Specifications for a period of thirty (30) days after the specific Solution has been shipped to Distributor. This limited warranty does not cover the results of accident, abuse, misapplication, vandalism, acts of God, use contrary to specifications or instructions, or modification by anyone other than Company.

(b) Company's entire liability and Distributor's exclusive remedy shall be replacement of the materially non-conforming Products. Distributor may reject and return such non-conforming Products for modification or replacement by Company provided that Distributor must first obtain a Return Material Authorization from Company. Company shall issue a Return Material Authorization ("RMA") within two (2) business days after Distributor's request. Any additional terms of the RMA procedure shall be mutually agreed to between the parties. Distributor shall include the RMA number with all returns. Distributor shall return all such non-conforming Products to Company within fifteen (15) days of Distributor's receipt of such Products.

(c) Company is liable for all transit costs associated with replacement (freight/insurance/customs duty) of non-conforming Solution. Any replacement Solution will be warranted according to its new production date. If modification or replacement is not reasonably possible, then Company may elect to refund to Distributor an amount equal to the purchase price for the non-conforming Products. Company shall also be responsible for freight, insurance and customs duty costs Distributor incurs incident to the non-conforming Solution.

(d) If Company determines that any returned Solution conformed to the warranty, Company will return the Solution to Distributor at Distributor's expense, freight collect, along with a written statement setting forth Company's conclusion that the returned Solution was not defective, and Distributor agrees to pay Company's reasonable cost of handling and testing the returned Solution.

(e) EXCEPT AS EXPRESSLY SET FORTH IN THIS ARTICLE VI, THE PRODUCTS ARE PROVIDED "AS-IS" WITHOUT WARRANTIES, EITHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND AGAINST INFRINGEMENT. EXCEPT AS EXPRESSLY SET FORTH IN THIS ARTICLE VI, COMPANY DOES NOT WARRANT THAT THE PRODUCTS WILL MEET SPECIFIC REQUIREMENTS.

6.2 Consequential Damages Waiver. IN NO EVENT WILL COMPANY BE LIABLE TO DISTRIBUTOR OR ITS CUSTOMERS FOR ANY INCIDENTAL, SPECIAL, CONSEQUENTIAL, PUNITIVE OR INDIRECT DAMAGES, INCLUDING BUT NOT LIMITED TO ANY LOST PROFITS OR LOST SAVINGS ARISING OUT OF THE USE OR INABILITY TO USE THE PRODUCTS OR OTHERWISE ARISING OUT OF OR RELATED TO THIS AGREEMENT, EVEN IF COMPANY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

6.3 Limitation of Liability. COMPANY'S AGGREGATE LIABILITY UNDER OR ARISING OUT OF THIS AGREEMENT FOR ANY CLAIM, WHETHER BASED ON CONTRACT, TORT OR OTHERWISE, SHALL BE LIMITED TO AN AMOUNT EQUAL TO THE AMOUNT PAID BY DISTRIBUTOR TO COMPANY UNDER THIS AGREEMENT FOR THE PRODUCTS THAT ARE THE SUBJECT OF THE LIABILITY IN THE SIX-MONTH PERIOD IMMEDIATELY PRECEDING THE DATE ON WHICH THE CLAIM AROSE.

7. Indemnification.

7.1 Indemnity. Distributor agrees that it will, at its own expense, defend all suits or proceedings instituted against Company arising out of any marketing, sale or use of the Solution that is not expressly permitted by the terms of this Agreement or any breach of Distributor's obligations hereunder.

8. Confidential Information

8.1 Ownership of Confidential Information. Company is and shall remain the owner of its Confidential Information. Nothing contained in this Agreement shall be construed as granting any rights by license or otherwise to such Confidential Information.

8.2 Agreement to Maintain Confidentiality. Distributor shall take all reasonable steps to ensure that it and its agents maintain the confidentiality of the Confidential Information.

8.3 Agreement Not to Use or Disclose. Except as provided in this Agreement, Distributor shall not disclose to any other person or entity the Company's Confidential Information of the disclosing party or use such Confidential Information for any purpose other than the purposes expressly authorized under this Agreement. Such Confidential Information may be disclosed to an independent contractor of the receiving party solely in the performance of the obligations of the receiving party under this Agreement; provided, however, that the receiving party shall ensure that any such independent contractor has first signed an appropriate confidentiality agreement, at least as restrictive as the provisions contained in this Article VIII and the receiving party shall remain fully responsible for the independent contractor's performance of its obligations under such agreement.

8.4 Specific Performance. The parties recognize and agree that any breach by the receiving party of its obligations contained in this Article VIII would cause irreparable harm to the disclosing party such that the disclosing party could not be compensated for the harm by money damages alone. Therefore, the parties agree that the provisions of this Article VIII shall be enforceable by specific performance, including injunctive relief.

9. Term and Termination.

9.1 Term. This Agreement shall be effective and in full force for five (5) years from the Effective Date ("Term"). The expiration date shall be the fifth anniversary of the Distributor's receiving the China SFDA approval to market the Solution in the Territory. Thereafter the Agreement shall renew by mutual written consent for additional, successive periods of three (3) years each, unless terminated earlier pursuant to this Article 9.

9.2 Termination for Failure to Meet Minimum Purchase Requirement. Company will have the right to terminate this Agreement if Distributor fails to meet the Minimum Purchase Requirements as listed in Exhibit A. Company will provide one hundred and twenty (120) days written notice upon failure to meet the Minimum Purchase Requirements during which time the Company will maintain effective pricing to Distributor and may elect to sell products to other parties.

9.3 Termination for Cause. Either party will have the right to terminate this Agreement for cause upon forty five (45) days' prior written notice to the other party of a material breach of this Agreement by the other party that remains uncured during such forty five (45) day period.

9.4 Effect of Termination.

(a) Upon the termination of this Agreement for any reason, each party shall retain ownership of its respective Confidential Information and shall return to the other party all of the Confidential Information received from the other party up to the time of termination.

(b) Upon termination of this Agreement, Distributor will pay to Company any amounts due under this Agreement.

(c) If Distributor terminates this Agreement without cause or if Company terminates this Agreement for cause, then, Company may elect to (i) continue to supply Products to Distributor under Purchase Orders that Company accepted prior to the effective date of termination and Distributor agrees to pay Company the purchase price for such Products or (ii) cancel all such Purchase Orders and Company will have no liability for such cancellation.

(d) If Company terminates this Agreement without cause or if Distributor terminates this Agreement for cause, then Distributor may elect either (i) to have Company supply the Products under Purchase Orders that Company accepted prior to the effective date of termination and Distributor agrees to pay Company the purchase price for such Products or (ii) to cancel such Purchase Orders in accordance with the terms of this Agreement.

(e) Neither Company nor Distributor shall be liable to the other for compensation, reimbursement or damages for the loss of prospective profits, anticipated sales or goodwill as a result of the termination of this Agreement in accordance with the terms of Section 9.2 or Section 9.3.

9.5 Survival. Upon the expiration, or the termination for any reason, of this Agreement, the rights and obligations of the parties under Sections 2.6, 2.7, 3.7, 3.8, 4.1, 9.4, 9.5 and Articles I, V, VI, VII, VIII, IX and X shall survive and remain in effect.

10. Miscellaneous.

10.1 Notices. All notices shall be deemed given (i) five days after being deposited in the U.S. mail, postage prepaid, certified or registered, return receipt requested; or (ii) one day after being sent by overnight courier, charges prepaid, with a confirming fax; and addressed as set forth at the signature line below or to such other address as the party to receive the notice or request so designates by written notice to the other.

10.2 Export Controls. Distributor shall comply with all applicable laws and regulations, including without limitation, applicable export and import laws and regulations. Distributor will not export, reexport, divert, transfer or disclose, directly or indirectly, the Products and any related technical information or materials without complying with the export control laws and all legal requirements in the relevant jurisdiction. Obtaining any necessary export or import approval for the Products and/or any portion thereof is the responsibility of Distributor.

10.3 Storage and Distribution. Supply of Solution by Company to Distributor will be in accordance with the shipping instructions provided by Company. The storage conditions will be established and defined in the Solution specifications. Expiration dating of the Solution will be provided by the Company.

10.4 Customer Complaints. All customer feedback received by Company or Distributor which could be related to the quality of Company will be communicated in writing to the Quality Assurance Department of Company as soon as possible. Complaints will be documented and managed in accordance with Company procedures. Complaints relating to Company manufacturing or Quality Control issues will be fully investigated by Distributor's Quality Unit and a report prepared and issued to Company's QA Representative within a reasonable time-frame mutually agreed to between Company and Distributor from receipt of the complaint unless otherwise specified (medical urgency).

10.5 Recalls. In the event either party has reason to believe that one or more batches of any of the Solution which are the subject of this Agreement should be recalled or withdrawn from distribution, such party shall immediately inform the other in writing. Recalls will be managed by Company in accordance with Company procedures.

10.6 Audits. Upon reasonable advanced notice, Distributor will permit Company, or persons designated by Company, to audit manufacturing and storage facilities, processes and related procedures used by Distributor to process, inspect, package, label or store Solution and may also be performed by Company representatives to qualify facilities and equipment and to ensure regulatory compliance of Distributor quality systems. Distributor will provide a written response to any audit findings communicated to Distributor in an Audit Report. The final determination for fitness of Distributor as a contract manufacturer for Company Product rests with Company.

10.7 Assignment and Subcontracting. This Agreement and all rights and obligations hereunder are personal to the parties hereto and shall not be assigned by either party to any third party without the prior written consent thereto by the other party except that Company may assign this Agreement to an affiliate or to a successor to all or substantially all of the Company's assets or to a majority of Company's voting stock. This Agreement shall benefit and be binding upon the parties to this Agreement and their respective permitted successors and assigns.

10.8 Waiver. No term or condition of this Agreement shall be deemed waived unless such waiver is in a writing executed by the party against whom the waiver is sought to be enforced. Failure or delay in the exercise of any right, power or privilege hereunder shall not operate as a waiver thereof or of any subsequent failure or delay.

10.9 Governing Law, Jurisdiction, Venue. The formation, validity, construction and the performance of this Agreement are governed by the Laws of the State of California. In the event of any differences or disputes arising out of the performance of this Agreement, the parties agree that the same shall be settled through discussions between them. If the differences or disputes remain unresolved thereafter, the same would be settled through an arbitration proceeding, to be held in Hong Kong, under the substantive Laws of the State of California. The English language shall be the controlling language.

10.10 Severability. If any of the provisions of this Agreement in any way violate or contravene any laws applicable to this Agreement, such provision shall be deemed not to be a part of this Agreement and the remainder of this Agreement shall remain in full force and effect. In such event, the parties agree to negotiate in good faith to substitute legal and enforceable provisions that most nearly effect the original intent of the severed provision.

10.11 Subject Headings. The captions and headings used herein are intended for convenience only, and shall not affect the construction or interpretation of any section or provision of this Agreement.

10.12 Entire Agreement; Amendments. This Agreement, including Exhibits A and B hereto, constitutes the entire understanding and agreement of the parties related to the subject matter hereof, and supersedes any and all prior or contemporaneous offers, negotiations, agreements and/or understandings, written or oral, as to such subject matter. Except as provided herein, no amendment, revision or modification of this Agreement shall be effective or binding unless made in writing and signed by the party against whom enforcement is sought.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date transcribed below.

COMPANY: OCULUS INNOVATIVE SCIENCES, INC.	DISTRIBUTOR: Shanghai Sunvic Technology Co. Ltd
BY: Bruce Thornton	BY: _____
TITLE: Executive Vice President	TITLE: _____
DATE: June 26, 2011	DATE: June 14, 2011
ADDRESS: 1129 No. McDowell Boulevard Petaluma, CA 94954	ADDRESS: Suite 2012, 915 Zhenbei Road, Shanghai, China, 200333
PHONE: (707) 283-0550	PHONE: (___) _____
FAX: (707) 283-0551	FAX: (___) _____

MANDARIN TRANSLATION OF DEFINITVE ENGLISH TEXT FOR INFORMATION ONLY

EXHIBIT A

PRODUCTION VOLUME QUANTITY AND PRICING SCHEDULE

I. Solution

The gel solution shall be defined as Microcyn Skin and Wound Care Gel that is manufactured by Oculus using Oculus' patented electrolysis process and currently sold under the name Microcyn in the United States in the advanced wound care human health market."

From time to time, the Company may introduce new products into the marketplace for use in the Market. The parties agree to work in good faith regarding distribution rights to those new products in the Territory.

II. Minimum Order

Minimum ordering quantity per purchase order to be placed with Company under this Agreement shall not be less than $[ ]* per shipment and may be comprised of any combination of the product sizes noted below. The minimum ordering quantity per purchase order before the approval from the SFDA is not subject to the minimum order requirement.

III. Pricing and Annual Minimum Quantity

The annual minimum purchase order volume to maintain distribution rights within the Territory is as listed below. The first year starts upon the SFDA regulatory approval of the product. A total amount of $[ ]* must be placed within the first month after Distributor getting the SFDA regulatory approval.

($US Dollars)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Minimum Sales	$[ ]*	$[ ]*	$[ ]*	$[ ]*	$[ ]*
Price per 100 liter drum	$[ ]*	$[ ]*	$[ ]*	$[ ]*	$[ ]*
Price per 10 liter unit	$[ ]*	$[ ]*	$[ ]*	$[ ]*	$[ ]*

Above prices do not include shipping costs from destination port in Mexico or U.S. The Distributor assumes shipping and insurance costs from destination port in Mexico or U.S. to final destination in China.

[ ]* shall equal [ ]* % of every purchase order. If in Year 1 Distributor purchase $[ ]* worth of products, then Company shall provide $[ ]* worth of [ ]* to Distributor. In Year 2 Distributor purchase $[ ]* worth of products, Company shall provide $[ ]* worth of [ ]*. Distributor assumes shipping and insurance costs for [ ]* from destination port in Mexico or U.S. to final destination in China.

* Confidential material redacted and separately filed with the Commission.

EXHIBIT B

PRODUCT SPECIFICATIONS

Product Specifications shall mean the product claims and specifications contained in the Company's current Microcyn Skin and Wound Gel FDA cleared 510(K) label claim sold in the United States of America as an advanced wound care product with no less than a eighteen (18) month self life from date of shipment. The production date of the products cannot exceed more than 30 days since the shipment date of the products.

For each lot of Products shipped, the Company will provide copies to Distributor of a Certificate of Conformation, attached as Exhibit C, reflecting the Solution meets the manufacturer's specifications for the following tests:

1. pH: [ ]*
2. Free Available Chlorine: [ ]*
3. Microbial Kill: [ ]*

* Confidential material redacted and separately filed with the Commission.

EXHIBIT C

CERTIFICATE OF CONFORMATION

Lot#:	H -
No of units:	
Manufacturing date:	
Expiration date:	
Chemical analysis	
pH-value	
Free available Chlorine	Ppm
Microbiological Spore Reduction	
Tested by:	
Date:	

CERTIFICATE OF ANALYSIS
Microcyn Skin and Wound Gel

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, 2011;

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
Hojabr Alimi
Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2011

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, 2011;

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

Date: August 4, 2011

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, 2011 (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 4, 2011

By: /s/ Hojabr Alimi
Hojabr Alimi
Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2011

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