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 September 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 November 3, 2011, the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 26,902,200.

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

	September 30, 2011 (Unaudited)	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,622	$ 4,371
Accounts receivable, net	2,074	2,094
Inventories, net	887	733
Prepaid expenses and other current assets	339	611
Total current assets	6,922	7,809
Property and equipment, net	722	802
Other assets	119	53
Total assets	$ 7,763	$ 8,664
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 605	$ 669
Accrued expenses and other current liabilities	736	694
Deferred revenue	1,895	1,808
Current portion of long-term debt, net of debt discount of $504 and $237 at September 30, 2011 and March 31, 2011, respectively	852	907
Derivative liability	119	337
Total current liabilities	4,207	4,415
Deferred revenue	147	160
Long-term debt, net of debt discount of $1,005 and $354 at September 30, 2011 and March 31, 2011, respectively, less current portion	1,701	1,638
Put warrant liability	1,844	750
Total liabilities	7,899	6,963
Commitments and Contingencies		
Stockholders' (Deficit) Equity:		
Convertible preferred stock, $0.0001 par value; 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2011 (unaudited) and March 31, 2011	—	—
Common stock, $0.0001 par value; 100,000,000 shares authorized, 26,857,200 and 26,576,302 shares issued and outstanding at September 30, 2011 (unaudited) and March 31, 2011, respectively	3	3
Additional paid-in capital	130,935	129,584
Accumulated other comprehensive loss	(3,075)	(2,901)
Accumulated deficit	(127,999)	(124,985)
Total stockholders' (deficit) equity	(136)	1,701
Total liabilities and stockholders' (deficit) equity	$ 7,763	$ 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 September 30,		Six Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenues				
Product	$ 3,390	$ 2,282	$ 6,100	$ 4,327
Service	273	184	503	403
Total revenues	3,663	2,466	6,603	4,730
Cost of revenues				
Product	668	638	1,458	1,334
Service	217	155	418	334
Total cost of revenues	885	793	1,876	1,668
Gross profit	2,778	1,673	4,727	3,062
Operating expenses				
Research and development	560	553	996	949
Selling, general and administrative	2,848	2,765	6,379	6,154
Total operating expenses	3,408	3,318	7,375	7,103
Loss from operations	(630)	(1,645)	(2,648)	(4,041)
Interest expense	(230)	(88)	(392)	(147)
Interest income	1	1	2	1
Change in fair value of derivative liability	121	166	218	254
Other expense, net	(101)	(83)	(194)	(91)
Net loss	$ (839)	$ (1,649)	$ (3,014)	$ (4,024)
Net loss per common share: basic and diluted	$ (0.03)	$ (0.06)	$ (0.11)	$ (0.15)
Weighted-average number of shares used in per common share calculations:				
Basic and diluted	26,828	26,321	26,771	26,268
Other comprehensive loss, net of tax				
Net loss	$ (839)	$ (1,649)	$ (3,014)	$ (4,024)
Foreign currency translation adjustments	(174)	125	(207)	23
Other comprehensive loss	$ (1,013)	$ (1,524)	$ (3,221)	$ (4,001)

See accompanying notes.

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

	Six Months Ended September 30,	
	2011	**2010**
Cash flows from operating activities:		
Net loss	$ (3,014)	$ (4,024)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	166	185
Stock-based compensation	1,327	1,487
Change in fair value of derivative liability	(218)	(254)
Non-cash interest expense	175	60
Foreign currency transaction losses	57	4
Changes in operating assets and liabilities:		
Accounts receivable	(163)	(193)
Inventories	(218)	(84)
Prepaid expenses and other current assets	256	208
Accounts payable	(47)	—
Accrued expenses and other liabilities	211	(111)
Net cash used in operating activities	(1,468)	(2,722)
Cash flows from investing activities:		
Change in long-term deposits	(72)	10
Purchases of property and equipment	(102)	(63)
Net cash used in investing activities	(174)	(53)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants	24	16
Proceeds from issuance of long-term debt	1,500	2,000
Principal payments on long-term debt	(575)	(148)
Net cash provided by financing activities	949	1,868
Effect of exchange rate on cash and cash equivalents	(56)	16
Net decrease in cash and cash equivalents	(749)	(891)
Cash and equivalents, beginning of period	4,371	6,258
Cash and equivalents, end of period	$ 3,622	$ 5,367
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 217	$ 87
Equipment financed	$ —	$ 40
Non-cash financing activities:		
Debt discount in connection with long-term debt	$ 1,094	$ 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 that, based on country specific regulatory clearances, is designed for a variety of indications ranging from wound care dressing, irrigation and management to treating infection and enhancing 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 September 30, 2011 and for the three and six months then ended have been prepared in accordance with the accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 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 September 30, 2011, condensed consolidated statements of operations for the three and six months ended September 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the six months ended September 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 and six months ended September 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 $49,000 and $62,000, which are included in accounts receivable, net in the accompanying September 30, 2011 and March 31, 2011 condensed consolidated balance sheets, respectively. The reserve for excess and obsolete inventory balances amounted to $76,000 and $158,000, which are included in inventories, net in the accompanying September 30, 2011 and March 31, 2011 condensed consolidated balance sheets, respectively.

Net Loss per Share

The Company computes basic net loss per share by dividing net loss per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic loss per share for the three and six months ended September 30, 2011 and 2010 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	September 30,	
	2011	2010
	(in thousands)	
Options to purchase common stock	5,603	4,443
Warrants to purchase common stock	9,602	9,297
	15,205	13,740

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 September 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 September 30, 2011 using			
	September 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)	$ 119	—	—	$ 119

	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 $3,014,000 for six months ended September 30, 2011. At September 30, 2011, the Company's accumulated deficit amounted to $127,999,000. The Company had working capital of $2,715,000 as of September 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). On September 30, 2011, the Company met the financial milestones and expects to borrow the second tranche of $1,000,000 prior to November 30, 2011.

The Company currently anticipates that its cash and cash equivalents and the anticipated borrowing of the second tranche of $1,000,000 under the VLL6 Agreements will be sufficient to meet its working capital requirements to continue its sales and marketing and research and development through at least October 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):

	September 30, 2011	March 31, 2011
	(unaudited)	
Raw materials	$ 504	$ 482
Finished goods	459	409
	963	891
Less: inventory allowances	(76)	(158)
	$ 887	$ 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 became eligible to 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 and six months ended September 30, 2011, the Company made interest payments of $14,000 and $39,000, respectively.

At the time the Company borrows the 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. On September 30, 2011, the Company became eligible to draw the second tranche of the loan and issued a second warrant with coverage equal to $62,500 for the purchase of additional shares of 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 satisfied the second tranche milestones. On September 30, 2011, the Company issued the second warrant for the purchase of 39,100 shares of common stock at an exercise price of $1.5985 per share. 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, this amount increased to $1,093,750 on September 30, 2011 when the Company became eligible to draw the second tranche of the loan. This amount 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 $1,093,750 cash value of the warrants as a put warrant liability and a corresponding amount of $1,093,750 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. For the three and nine months ended September 30, 2011, the Company recorded $59,000 of non-cash interest related to the note. The remaining balance of the discount on note payable amounted to $1,034,750 at September 30, 2011, of which $258,000 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 September 30, 2011, of which $200,000 is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

Note 4. Commitments and Contingencies

Legal Matters

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

The Company, from time to time, is involved in legal matters arising in the ordinary course of its business including matters involving proprietary technology. While management believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is or could become involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

Employment Agreements

As of September 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 September 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 September 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 September 30, 2011 and 2010, the Company recorded revenues of $7,000, respectively, and for the six months ended September 30, 2011 and 2010, the Company recorded revenues of $14,000 and $224,000, 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 and six months ended September 30, 2011, the Company recorded revenue of $89,000 and $178,000, respectively, 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, and further amended on June 1, 2010 and November 1, 2010. Pursuant to the agreement, the Company provides Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Vetericyn products. The Company receives a fixed amount for each bottle of Vetericyn sold by Vetericyn, 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.

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. On June 1, 2010, September 1, 2010, and November 1, 2010, the Company amended this agreement granting Innovacyn, Inc. the exclusive right to sell certain of its over-the-counter products. At the time of the 2009 transaction, V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was also 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. has subsequently changed their name to Innovacyn, Inc.

Additionally, beginning July 1, 2011, the Company shares profits related to Vetericyn and Microcyn over-the-counter sales. During the three months ended September 30, 2011 and 2010, the Company recorded revenue related to these agreements in the amounts of $1,176,000 and $747,000, respectively. During the six months ended September 30, 2011 and 2010, the Company recorded revenue related to these agreements in the amounts of $1,739,000 and $1,108,000, respectively. The revenue is recorded in product revenues in the accompanying condensed consolidated statements of operations. At September 30, 2011 and March 31, 2011, the Company had outstanding accounts receivable of $259,000 and $118,000, respectively, related to the Innovacyn agreement.

Other Matters

On September 16, 2005, the Company entered into a series of agreements with Quimica Pasteur S.A. de C.V. ("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 Topic 810 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' deficit, 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:

	September 30, 2011	March 31, 2011
Expected life	1.37 years	1.87 years
Risk-free interest rate	0.13%	0.61%
Dividend yield	0.00%	0.00%
Volatility	83%	83%
Warrants outstanding	725,866	725,866
Fair value of warrants	$ 119,000	$ 337,000

The fair value of the derivative liability decreased to $119,000 at September 30, 2011 from $337,000 at March 31, 2011. Accordingly, the Company decreased the derivative liability by $218,000 to reflect the change in fair value at September 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 six months ended September 30, 2011. The fair value of the derivative liability decreased to $218,000 at September 30, 2010 from $472,000 at March 31, 2010. Accordingly, the Company decreased the derivative liability by $254,000 to reflect the change in fair value at September 30, 2010. This amount is included as a change in the fair value of derivative instruments in the accompanying consolidated statement of operations for the six months ended September 30, 2010. 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:

	Six Months Ended September 30,	
	2011	2010
Beginning balance	$ (337)	$ (472)
Net unrealized gain	218	254
Ending balance	$ (119)	$ (218)

Note 6. Stockholders' (Deficit) 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 September 30, 2011 and 2010, the Company issued 24,587 and 10,436 shares of common stock, respectively, in connection with this agreement. During the six months ended September 30, 2011 and 2010, the Company issued 49,587 and 20,691 shares of common stock, respectively, in connection with this agreement. During the three months ended September 30, 2011 and 2010, the Company recorded $44,000 and $19,000 of stock compensation expense related to this agreement, respectively. During the six months ended September 30, 2011 and 2010, the Company recorded $92,000 and $41,000 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 September 30, 2011 and 2010, the Company issued 31,470 and 22,614 shares of common stock, respectively, in connection with this agreement. During the six months ended September 30, 2011 and 2010, the Company issued 56,196 and 37,842 shares of common stock, respectively, in connection with this agreement. During the three months ended September 30, 2011 and 2010, the Company recorded $48,000 and $41,000 of stock compensation expense related to this agreement, respectively. During the six months ended September 30, 2011 and 2010, the Company recorded $94,000 and $71,000 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 six months ended September 30, 2011 and 2010, the Company issued 55,000 shares of common stock, respectively, in connection with this agreement. During the six months ended September 30, 2011 and 2010, the Company recorded $106,000 and $90,000, respectively, 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 and six months ended September 30, 2011, the Company issued 30,000 and 60,000 shares of common stock, respectively, in connection with this agreement. During the three months and six months ended September 30, 2011, the Company recorded $52,000 and $110,000, respectively, 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 September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Cost of service revenue	$ 31	$ 15	$ 50	$ 30
Research and development	76	52	$ 138	103
Selling, general and administrative	262	301	$ 737	997
Total stock-based compensation	$ 369	$ 368	$ 925	$ 1,130

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 Company did not grant any options during the three months ended September 30, 2010. The fair value of employee stock options was estimated using the following weighted-average assumptions:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Expected life	6.30 years	n/a	5.97 years	5.6 years
Risk-free interest rate	1.43%	n/a	1.52%	1.95%
Dividend yield	0.00%	n/a	0.00%	0.00%
Volatility	83%	n/a	83%	84%

The weighted-average fair value of options granted during the three months ended September 30, 2011 was $1.02. The weighted-average fair value of options granted during the six months ended September 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 September 30, 2011 ranged from 0.53% to 1.62%.

At September 30, 2011, there were unrecognized compensation costs of $2,371,000 related to stock options which is expected to be recognized over a weighted-average amortization period of 2.08 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 September 30, 2011 and changes during the six 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	1,353	1.75		
Exercised	(60)	0.41		
Forfeited or expired	(86)	2.56		
Outstanding at September 30, 2011	5,603	$ 2.54	7.58	$ 938,000
Exercisable at September 30, 2011	3,702	$ 2.92	6.87	$ 794,000

The aggregate intrinsic value is calculated as the difference between the exercise price of the stock options and the underlying fair value of the Company's common stock ($1.51) for stock options that were in-the-money as of September 30, 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, a change in control did not occur 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 financial reporting and income tax purposes for the three and six months ended September 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 on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. To date, the Company has not recognized 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 September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
U.S.	$ 1,446	$ 918	$ 2,286	$ 1,441
Mexico	1,304	1,054	2,684	2,052
Europe and Other	640	310	1,130	834
	$ 3,390	$ 2,282	$ 6,100	$ 4,327

The Company's service revenues amounted to $273,000 and $184,000 for the three months ended September 30, 2011 and 2010. The Company's service revenues amounted to $503,000 and $403,000 for the six months ended September 30, 2011 and 2010.

Note 10. Significant Customer Concentrations

For the three months ended September 30, 2011, one customer represented 32% of the quarter's revenue, and for the three months ended September 30, 2010, one customer represented 30% of the quarter's revenue.

For the six months ended September 30, 2011, one customer represented 26% of the quarter's revenue, and for the six months ended September 30, 2010, one customer represented 23% of the quarter's revenue.

At September 30, 2011, three customers represented 17%, 12% 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

Common Stock Issued to Company Service Providers

On October 1, 2011, the Company issued 15,000 shares to NetGain Financial, Inc. for services rendered and 30,000 shares to Vista Partners LLC for services rendered. The fair value of the shares, which amounted to $62,000, will be recognized as selling, general and administrative expense for the three months ending December 31, 2011.

Bonus Granted to Executive Officer

On October 31, 2011, the Compensation Committee of the Board of Directors granted a cash spot bonus of $170,000 to Hojabr Alimi, the Company's Chairman of the Board of Directors and Chief Executive Officer.

Options Granted to Board Members

On October 31, 2011, the Company's non-employee board members agreed to accept stock options in lieu of cash compensation for their board service. The stock options will be fully vested on the date of grant and have a ten year term. The following options will be granted on November 7, 2011at an exercise price equal to the Company's closing stock price on November 7, 2011.

Board member	Number of Options
Alton, Gregg	120,000
Birnbaum, Jay	100,000
Conley, Richard	128,000
French, Greg	100,000

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 September 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® Technology, 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 medical device formulations, 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-based products in the United States 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.

Outside the United States, our Microcyn Technology 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 we do not have the necessary regulatory clearance for an antimicrobial or wound healing indication in the United States, several factors including global product experience, clinical and laboratory testing we have conducted, physician-led clinical studies based on our technology, and scientific papers authored on our technology, 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 a stable, anti-infective therapeutic 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 Technology provides significant advantages over current methods of care in the treatment of a wide range of chronic and acute wounds throughout all stages of treatment. These stages include cleaning, debridement, prevention and treatment of infections and wound healing. We believe that unlike antibiotics, antiseptics, growth regulators and other advanced wound care products, Microcyn® is a 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 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, the 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 prescription product is intended 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 for a new formulation - 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-based products have 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-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 partners such as Amneal Enterprises and PreCision Dermatology, described 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 United States and Europe and in the future we plan to expand into other countries.

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, was wholly-owned by Mr. Robert Burlingame. This agreement was amended on February 24, 2009, July 24, 2009, June 1, 2010, and November 1, 2010. Pursuant to the agreement, we provide Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Vetericyn products. We receive a fixed amount for each bottle of Vetericyn sold by Vetericyn, 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.

On September 15, 2009, we entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell our Microcyn over-the-counter liquid and gel products. V&M Industries, Inc. 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. 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.

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

Critical Care

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

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 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., 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 agreed to 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 exercised 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 September 30, 2011 and 2010

Revenues

Total revenues were $3,663,000 for the three months ended September 30, 2011 compared to $2,466,000 in the prior year period. Product revenues increased $1,108,000, or 49%, with increases in the U.S, Mexico, Europe, China, and the Middle East, slightly offset by a decline in India.

Product revenue in the U.S. increased $528,000, or 58%, primarily due to an increase in royalty fees received from our partner Innovacyn, Inc. Effective July 1, 2011, the royalty rate we received from Innovacyn increased from approximately 19% to approximately 30%. Additionally, revenue growth in the U.S. was driven by increased demand for our products in the professional human wound care and dermatology markets.

Revenue in Mexico increased $250,000, or 24%, primarily due to 43% growth in sales of our 120 ml and 240 ml presentations, offset by a 10% decline in sales of our 5 liter presentation. The growth in the 120 ml and 240 ml occurred as a result of strong unit growth, while the decline in the 5 liter presentations was the result of lower units and unfavorable mix. The unit sales of our 120 ml and 240 ml presentation, which is primarily sold to pharmacies in Mexico, increased 50% from the prior year to a monthly average of 59,000 units compared to 39,000 in the same period last year.

Revenue in Europe and Rest of World increased $330,000, or 106%, over the prior year period. Primarily the revenue growth was the result of increased revenue from the Middle East, Singapore, Europe, China and the Middle East, with the Middle East representing $193,000 of the increase.

The following table shows our product revenues by geographic region:

	Three Months Ended September 30, 2011	2010	Increase	Increase
U.S.	$ 1,446,000	$ 918,000	$ 528,000	58%
Mexico	1,304,000	1,054,000	250,000	24%
Europe and Rest of World	640,000	310,000	330,000	106%
Total	$ 3,390,000	$2,282,000	$1,108,000	49%

Service revenue increased $89,000 when compared to the prior year period due to an increase in the number of tests provided by our services business.

Gross Profit

We reported gross profit related to our Microcyn products of $2,722,000, or 80% of product revenues, during the three months ended September 30, 2011, compared to a gross profit of $1,644,000, or 72%, in the prior year period. The improved gross profit is primarily the result of higher gross profit in U.S. due to the higher royalty percentage received from our partner Innovacyn's product sales. Our margins in Mexico were 81% during the quarter ended September 30, 2011, compared to 82% in the prior year.

Research and Development Expense

Research and development expense increased to $7,000, or 1%, to $560,000 for the three months ended September 30, 2011, compared to $553,000 in the prior year period.

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 $83,000, or 3%, to $2,848,000 during the three months ended September 30, 2011, from $2,765,000 during the three months ended September 30, 2010. This increase was primarily due to higher sales related costs in Mexico.

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 $142,000 during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. Primarily this increase was due to $113,000 of cash interest incurred and $117,000 of non-cash interest incurred during the three months ended September 30, 2011. The cash and non-cash interest is primarily related to borrowings from Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. Interest income showed no material change from the same period last year.

Other Expense, Net

Other expense, net increased $18,000 to other expense, net of $101,000 for the three months ended September 30, 2011, from other expense, net of $83,000 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 September 30, 2011, we recorded a change in the fair value of our derivative liability of $121,000 and as a result we recorded this amount as non-cash other income. For the three months ended September 30, 2010, we recorded non-cash other income of $166,000. 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 underlying warrants.

Net Loss

Net loss for the three months ended September 30, 2011 was $839,000, a decrease of $810,000 from $1,649,000 for the same period in the prior year. Our stock compensation charges were $515,000 and $521,000 for the quarters ending September 30, 2011 and 2010, respectively.

Comparison of Six Months Ended September 30, 2011 and 2010

Revenues

Total revenues were $6,603,000 for the six months ended September 30, 2011 compared to $4,730,000 in the prior year period. Product revenues increased $1,773,000, or 41%, with increases in the U.S, Mexico, Europe, the Middle East and India, offset by a decline in China.

Product revenue in the U.S. increased $845,000, or 59%, primarily due to an increase in royalty fees received from our partner Innovacyn, Inc. Effective July 1, 2011, the royalty rate we receive from Innovacyn increased from approximately 19% to approximately 30%. Additionally, revenue growth in the U.S. was driven by increased demand for our products in the professional human wound care, dermatology and animal health markets.

Revenue in Mexico increased $632,000, or 31%, from the prior year period with 35% growth of our 120 ml and 240 ml presentations and 19% increase in sales of our 5 liter presentation. The growth in our 120 ml and 240 ml presentations occurred as a result of strong unit growth and the increase in the 5 liter presentation was the result of unit growth and favorable channel mix.

Revenue in Europe and Rest of World increased $296,000, up 35% over the prior year period, primarily the result of increases in sales to the Middle East, Europe, India, and Singapore, partially offset by a decline in China.

The following table shows our product revenues by geographic region:

	Six Months Ended September 30,			
	2011	2010	Increase	Increase
U.S.	$ 2,286,000	$1,441,000	$ 845,000	59%
Mexico	2,684,000	2,052,000	632,000	31%
Europe and Rest of World	1,130,000	834,000	296,000	35%
Total	$ 6,100,000	$4,327,000	$1,773,000	41%

Service revenue increased $100,000 when compared to the prior year period due to an increase in the number of tests provided by our services business.

Gross Profit

We reported gross profit related to our Microcyn products of $4,642,000, or 76%, of product revenues, during the six months ended September 30, 2011, compared to a gross profit of $2,993,000, or 69%, in the prior year period. The improved gross profit is primarily the result of higher gross profit in U.S. due to the higher royalty percentage related to Innovacyn product sales. Our margins in Mexico were 81% during the six months ended September 30, 2011, compared to 78% in the prior year.

Research and Development Expense

Research and development expense increased 47,000, or 5%, to $996,000 for the six months ended September 30, 2011, compared to $949,000 in the prior year period.

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 $225,000, or 4%, to $6,379,000 during the six months ended September 30, 2011, from $6,154,000 during the six months ended September 30, 2010. Primarily, this increase was due to higher sales related costs in Mexico and Europe.

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 $245,000 during the six months ended September 30, 2011 when compared to the six months ended September 30, 2010. Primarily this increase was due to $217,000 of cash interest incurred and $175,000 of non-cash interest incurred during the six months ended September 30, 2011. The cash and non-cash interest is primarily related to borrowings from Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. Interest income showed no material change from the same period last year.

Other Expense, Net

Other expense, net increased $103,000 to other expense, net of $194,000 for the six months ended September 30, 2011, from other expense, net of $91,000 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 six months ended September 30, 2011, we recorded a change in the fair value of our derivative liability of $218,000 and as a result we recorded this amount as non-cash other income. For the six months ended September 30, 2010, we recorded non-cash other income of $254,000. 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 underlying warrants.

Net Loss

Net loss for the six months ended September 30, 2011 was $3,014,000, a decrease of $1,010,000 from $4,024,000 for the same period in the prior year. Our stock compensation charges were $1,327,000 and $1,487,000 for the six months ending September 30, 2011 and 2010, respectively.

Sources of Liquidity

As of September 30, 2011, we had cash and cash equivalents of $3,622,000. 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 $2,000,000 received from a private placement of common stock on June 1, 2009;
- net proceeds of $5,154,000 received from a registered direct offering of common stock on July 30, 2009;
- proceeds of $4,357,000 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 six months ended September 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. On September 30, 2011 we met the financial milestones to borrow the second tranche. 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. On September 30, 2011 we became eligible to draw the second tranche of the loan and issued 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 satisfied the second tranche milestones. On September 30, 2011 we issued the second warrant for the purchase of 39,100 shares of common stock at an exercise price of $1.5985. 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 increased to $1,093,750 at September 30, 2011 when we became 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 September 30, 2011, we had cash and cash equivalents of $3,662,000, compared to $4,371,000 at March 31, 2011.

Net cash used in operating activities during the six months ended September 30, 2011 was $1,468,000 primarily due to the $3,014,000 net loss for the period which was offset in part by non-cash transactions during the six months ended September 30, 2011, including $1,327,000 of stock-based compensation, and a $218,000 gain on the fair value adjustment of our derivative liability.

Net cash used in operating activities during the six months ended September 30, 2010 was $2,722,000 primarily due to the $4,024,000 net loss for the period which was offset in part by non-cash transactions during the three months ended September 30, 2010, including $1,487,000 of stock-based compensation.

Net cash used in investing activities was $174,000 for the six months ended September 30, 2011 and $53,000 for the six months ended September 30, 2010, primarily for purchases of equipment.

Net cash provided by financing activities was $949,000 the six months ended September 30, 2011, primarily due to the issuance of $1,500,000 of debt which was offset by payments of $575,000 of outstanding debt during the period. We also received $24,000 in connection with the exercise of stock options.

Net cash provided by financing activities was $1,868,000 during the six months ended September 30, 2010, primarily due to the issuance of $2,000,000 of debt which was offset by payments of $148,000 of outstanding debt during the period. We also received $16,000 in connection with the exercise of stock options.

Operating Capital and Capital Expenditure Requirements

We incurred a net loss of $3,014,000 for the six months ended September 30, 2011. At September 30, 2011, our accumulated deficit amounted to $127,999,000, and at March 31, 2011, our accumulated deficit amounted to $124,985,000. At September 30, 2011, our working capital amounted to $2,715,000.

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 September 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 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

We did not sell any unregistered equity securities during the quarter ended September 30, 2011.

Item 3. Default Upon Senior Securities

We did not default upon any senior securities during the quarter ended September 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 October 31, 2011, the Compensation Committee of the Board of Directors granted a cash spot bonus of $170,000 to Hojabr Alimi, our Chairman of the Board of Directors and Chief Executive Officer.

On October 31, 2011, our non-employee board members agreed to accept stock options in lieu of cash compensation for their board service. The stock options will be fully vested on the date of grant and have a ten year term. The following options will be granted on November 7, 2011at an exercise price equal to the Company's closing stock price on November 7, 2011.

Board member	Number of Options
Alton, Gregg	120,000
Birnbaum, Jay	100,000
Conley, Richard	128,000
French, Greg	100,000

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).

4.15*	Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. issued to Venture Lending & Leasing VI, LLC
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 between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V., Inc., dated May 1, 2010 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 6, 2010, and incorporated herein by reference).
10.43	Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc., and Venture Lending & Leasing V, Inc., dated May 1, 2010 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed 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 between Oculus Innovative Sciences, Inc. and Rodman & Renshaw, LLC, dated September 3, 2010 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 17, 2010, and incorporated herein by reference).
10.48†	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 (included as Exhibit 10.58 to the Company's Quarterly Report on Form 10-Q filed August 4, 2011 and incorporated herein by reference).
10.59	Oculus Innovative Sciences, Inc. 2011 Stock Incentive Plan (included in the Company's Definitive Proxy Statement on Schedule 14A filed July 29, 2011, and incorporated herein by reference).
10.60*††	Patent License Agreement-Exclusive between Oculus Innovative Sciences, Inc. and agencies of the United States Public Health Service within the Department of Health and Human Services, dated August 22, 2011.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*#	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS* XBRL Instance Document.

101.SCH* XBRL Taxonomy Extension Schema.

101.CAL* XBRL Taxonomy Extension Calculation Linkbase.

101.DEF* XBRL Taxonomy Extension Definition Linkbase.

101.LAB* XBRL Taxonomy Extension Label Linkbase.

101.PRE* XBRL Taxonomy Extension Presentation Linkbase.

* Filed herewith.

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

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

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: November 3, 2011

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

Date: November 3, 2011

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

Exhibit 4.15

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE AND DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED DUE TO AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

No. 833
Date of Issuance: September 30, 2011

WARRANT TO PURCHASE

SHARES OF COMMON STOCK OF

OCULUS INNOVATIVE SCIENCES, INC.

(Void after November 30, 2018)

This certifies that VENTURE LENDING & LEASING VI, LLC, a Delaware limited liability company, or assigns (the "Holder"), for value received, is entitled to purchase from OCULUS INNOVATIVE SCIENCES, INC., a Delaware corporation (the " Company"), Thirty Nine Thousand One Hundred (39,100) fully paid and nonassessable shares of Company's common stock (the "Shares"), for cash, at a purchase price per share (the "Stock Purchase Price") equal to $1.5985. Holder may also exercise this Warrant on a cashless or "net issuance" basis as described in Section 1(b) below, and this Warrant shall be deemed to have been exercised in full on such basis on the Expiration Date (hereinafter defined), to the extent not fully exercised prior to such date. If in any case such number involves a fraction, the fraction shall be adjusted to the closest integral number. The Stock Purchase Price and the number of shares purchasable hereunder are subject to further adjustment as provided in Section 4 of this Warrant. This Warrant is issued in connection with the Loan and Security Agreement of even date herewith (as amended, restated and supplemented from time to time, the "Loan Agreement"), between Company, as borrower, and Venture Lending & Leasing VI, Inc., a subsidiary of Holder, as lender ("Lender"). Capitalized terms used herein and not otherwise defined in this Warrant shall have the meaning(s) ascribed to them in the Loan Agreement, unless the context would otherwise require.

This Warrant may be exercised at any time or from time to time up to and including 5:00 p.m. (Pacific time) on November 30, 2018 (the "Expiration Date"), upon surrender to the Company at its principal office at 1129 North McDowell Blvd., Petaluma, California 94954 (or at such other location as the Company may advise Holder in writing) of this Warrant properly endorsed with the Form of Subscription attached hereto duly filled in and signed and upon payment in cash or by check of the aggregate Stock Purchase Price for the number of shares for which this Warrant is being exercised determined in accordance with the provisions hereof.

This Warrant is subject to the following terms and conditions:

Section 1. Exercise; Issuance of Certificates; Payment for Shares.

(a) Unless an election is made pursuant to clause (b) of this Section 1, this Warrant shall be exercisable at the option of the Holder, at any time or from time to time, on or before the Expiration Date for all or any portion of the Shares (but not for a fraction of a Share) which may be purchased hereunder for the Stock Purchase Price multiplied by the number of Shares to be purchased. The Company agrees that the Shares purchased under this Warrant shall be and are deemed to be issued to the Holder hereof as the record owner of such Shares as of the close of business on the date on which the Form of Subscription attached hereto shall have been delivered and payment made for such Shares. Subject to the provisions of Section 2, certificates for the Shares so purchased, together with any other securities or property to which the Holder hereof is entitled upon such exercise, shall be delivered to the Holder hereof by the Company at the Company's expense within a reasonable time after the rights represented by this Warrant have been so exercised. Except as provided in clause (b) of this Section 1, in case of a purchase of less than all the Shares which may be purchased under this Warrant, the Company shall cancel this Warrant and execute and deliver a new Warrant or Warrants of like tenor for the balance of the Shares purchasable under this Warrant surrendered upon such purchase to the Holder hereof within a reasonable time. Each warrant so delivered shall be in such denominations as may be requested by the Holder hereof and shall be registered in the name of such Holder or such other name as shall be designated by such Holder, subject to the limitations contained in Section 2.

(b) The Holder, in lieu of exercising this Warrant by the cash payment of the Stock Purchase Price pursuant to clause (a) of this Section 1, may elect, at any time on or before the Expiration Date, to surrender this Warrant and receive that number of Shares computed using the following formula:

$$X = \frac{Y(A - B)}{A}$$

Where: X = the number of Shares to be issued to Holder.

Y = the number of Shares that Holder would otherwise have been entitled to purchase hereunder pursuant to Section 1(a) (or such lesser number of Shares as Holder may designate in the case of a partial exercise of this Warrant).

A = the Per Share Price (as defined in Section 1(c) below) of one (1) Share at the time the net issuance election under this Section 1(b) is made.

B = the Stock Purchase Price then in effect.

Election to exercise under this Section 1(b) may be made by delivering a signed form of subscription to Company via facsimile, to be followed by delivery of this Warrant. Notwithstanding anything to the contrary contained in this Warrant, if as of the close of business on the last business day preceding the Expiration Date this Warrant remains unexercised as to all or a portion of the Shares purchasable hereunder, then effective as of 9:00 a.m. (Pacific time) on the Expiration Date, Holder shall be deemed, automatically and without need for notice to the Company, to have elected to exercise this Warrant in full pursuant to the provisions of this Section 1(b), and upon surrender of this Warrant shall be entitled to receive that number of Shares computed using the above formula, provided that the application of such formula as of the Expiration Date yields a positive number for "X".

(c) For purposes of Section 1(b), "Per Share Price" means:

(i) If Company's Shares are traded on a securities exchange or actively traded over-the-counter:

(1) If Company's Shares are traded on a securities exchange, the Per Share Price shall be deemed to be the closing price of Company's Shares as quoted on any exchange, as published in the Western Edition of The Wall Street Journal for the trading day immediately prior to the date of Holder's election hereunder.

(2) If Company's Shares are actively traded over-the-counter, the Per Share Price shall be deemed to be the closing bid or sales price, whichever is applicable, of the Shares for the trading day immediately prior to the date of the Holder's election hereunder.

(ii) If (i) is not applicable, the Per Share Price shall be determined in good faith by the Board of Directors of Company based on relevant facts and circumstances at the time of the net exercise under Section 1(b), including in the case of a Change of Control (as defined in Section 4.3(a) hereof), the consideration receivable by the holders of the Shares in such Change of Control and the liquidation preference (including any declared but unpaid dividends), if any, then applicable to the Shares.

Section 2. Limitation on Transfer.

(a) This Warrant and the Shares shall not be transferable except upon the conditions specified in this Section 2, which conditions are intended to ensure compliance with the provisions of the Securities Act. Each holder of this Warrant or the Shares issuable hereunder will cause any proposed transferee of the Warrant or Shares to agree to take and hold such securities subject to the provisions and upon the conditions specified in this Section 2. Notwithstanding the foregoing and any other provision of this Section 2, Holder may freely transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant at any time to any lender transferee of a portion of the loan commitment of Lender under the Loan Agreement, by giving Company notice of the portion of the Warrant being transferred setting forth the name, address and taxpayer identification number of the transferee and surrendering this warrant to Company for reissuance to the transferees(s) (and Holder, if applicable).

(b) Each certificate representing (i) this Warrant, (ii) the Shares, and (iii) any other securities issued in respect to the Shares upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of this Section 2 or unless such securities have been registered under the Securities Act or sold under Rule 144) be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE AND DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED DUE TO AN EXEMPTION THEREFROM UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

(c) The Holder of this Warrant and each person to whom this Warrant is subsequently transferred (as permitted hereunder) represents and warrants to the Company (by acceptance of such transfer) that it will not transfer this Warrant (or securities issuable upon exercise hereof unless a registration statement under the Securities Act was in effect with respect to such securities at the time of issuance thereof) except pursuant to (i) an effective registration statement under the Securities Act, (ii) Rule 144 under the Securities Act (or any other rule under the Securities Act exempting the disposition of securities from registration), or (iii) an opinion of counsel, reasonably satisfactory to counsel for the Company, that an exemption from such registration is available.

Section 3. Shares to be Fully Paid; Reservation of Shares. The Company covenants and agrees that all Shares which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue or transfer upon exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Shares, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Shares may be listed. The Company will not take any action which would result in any adjustment of the Stock Purchase Price (as defined in Section 4 hereof) (i) if the total number of Shares issuable after such action upon exercise of all outstanding warrants, together with all Shares then outstanding and all Shares then issuable upon exercise of all options and upon the conversion of all convertible securities then outstanding, would exceed the total number of Shares then authorized by the Company's Articles of Incorporation, (ii) if the par value per Share would exceed the Stock Purchase Price.

Section 4. Adjustment of Stock Purchase Price and Number of Shares. The Stock Purchase Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 4. Upon each adjustment of the Stock Purchase Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Stock Purchase Price resulting from such adjustment, the number of shares obtained by multiplying the Stock Purchase Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Stock Purchase Price resulting from such adjustment.

4.1 Subdivision or Combination of Stock. Without duplication of any provision in the Company's Restated Articles of Incorporation in case the Company shall at any time subdivide its outstanding Shares into a greater number of shares, the Stock Purchase Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding Shares shall be combined into a smaller number of shares, the Stock Purchase Price in effect immediately prior to such combination shall be proportionately increased.

4.2 Dividends in Shares, Other Stock, Property, Reclassification. If at any time or from time to time the holders of Shares (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(a) Shares, or any shares of stock or other securities whether or not such securities are at any time directly or indirectly convertible into or exchangeable for Shares, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution, or

(b) any cash paid or payable otherwise than as a cash dividend, or

(c) Shares or other or additional stock or other securities or property (including cash) by way of spin off, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than Shares issued as a stock split, adjustments in respect of which shall be covered by the terms of Section 4.1 above),

then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of Shares receivable thereupon, and without payment of any additional consideration therefore, the amount of stock and other securities and property (including cash in the cases referred to in clauses (b) and (c) above) which such Holder would hold on the date of such exercise had it been the holder of record of such Shares as of the date on which holders of Shares received or became entitled to receive such shares and/or all other additional stock and other securities and property.

4.3 Change of Control.

(a) In the event of a Change of Control (as hereinafter defined), this Warrant shall be automatically exchanged for a number of shares of Company's securities, such number of shares being equal to the maximum number of shares issuable pursuant to the terms hereof (after taking into account all adjustments described herein) had Holder elected to exercise this Warrant immediately prior to the closing of such Change of Control and purchased all such shares pursuant to the cash exercise provision set forth in Section 1(a) hereof (as opposed to the cashless exercise provision set forth in Section 1(b)). Company acknowledges and agrees that Holder shall not be required to make any additional payment (cash or otherwise) for such shares as further consideration for their issuance pursuant to the terms of the preceding sentence. "Change of Control" shall mean any sale, license, or other disposition of all or substantially all of the assets of Company, or any reorganization, privatization, consolidation, or merger of Company where the holders of Company's securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction. This Warrant shall terminate upon Holder's receipt of the number of shares of the Company's equity securities described in this Section 4.3(a).

(b) Notwithstanding anything to the contrary set forth in Section 4.3(a), at the first to occur of: (i) a Change of Control, (ii) the Company's having closed a round of equity financing equal to or exceeding $20,000,000 in aggregate additional equity (a round of equity financing is defined as a transaction or a series of transactions with substantially the same terms and excludes the exercise or conversion of any securities outstanding on the day the Warrant is issued), or (iii) July 31, 2015 (each, a "Put Event"), at Holder's option, Holder may elect, within sixty (60) days of such Put Event, to surrender this Warrant in full to Company in exchange for a cash payment in an amount equal to $156,250.

4.4 Intentionally Omitted.

4 . 5 Notice of Adjustment. Upon any adjustment of the Stock Purchase Price of more than 5% of the existing stock purchase price, and/or any increase or decrease in the number of shares purchasable upon the exercise of this Warrant the Company shall give written notice thereof, by first class mail, postage prepaid, addressed to the registered holder of this Warrant at the address of such holder as shown on the books of the Company. The notice, which may be substantially in the form of Exhibit "A" attached hereto, shall be signed by the Company's chief financial officer and shall state the Stock Purchase Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

4.6 Other Notices. If at any time:

(a) the Company shall declare any cash dividend upon its Shares;

(b) the Company shall declare any dividend upon its Shares payable in stock or make any special dividend or other distribution to the holders of its Shares;

(c) the Company shall offer for subscription pro rata to the holders of its Shares any additional shares of stock of any class or other rights;

(d) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another entity;

(e) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company; or

(f) the Company shall take or propose to take any other action, notice of which is actually provided to holders of the Shares;

then, in any one or more of said cases, the Company shall give, by first class mail, postage prepaid, addressed to the Holder of this Warrant at the address of such Holder as shown on the books of the Company, (i) at least 20 day's prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action and (ii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action, at least 20 day's written notice of the date when the same shall take place. Any notice given in accordance with the foregoing clause (i) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Shares shall be entitled thereto. Any notice given in accordance with the foregoing clause (ii) shall also specify the date on which the holders of Shares shall be entitled to exchange their Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, or other action as the case may be. In addition, the Company shall notify the Holder if the Company satisfies the Second Tranche Milestone, such notice to be provided as soon as possible following such satisfaction.

4.7 Certain Events. If any change in the outstanding Shares of the Company or any other event occurs as to which the other provisions of this Section 4 are not strictly applicable and the Board of Directors in good faith believes that an adjustment is necessary to effect the essential intent and principles with the adjustment provisions of this Warrant or if the provisions of this Section 4 are strictly applicable to an event but the application of such provisions would not fairly effect the adjustments to this Warrant in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall make in good faith an adjustment in the number and class of shares issuable under this Warrant, the Stock Purchase Price and/or the application of such provisions, in accordance with such essential intent and principles, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of this Warrant upon exercise for the same aggregate Stock Purchase Price the total number, class and kind of shares as the Holder would have owned had this Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment.

Section 5. Issue Tax. The issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder of this Warrant for any issue tax in respect thereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the then Holder of this Warrant being exercised.

Section 6. Closing of Books. The Company will at no time close its transfer books against the transfer of this Warrant or of any Shares issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant, unless required by applicable law or regulation, or to avoid the violation of any applicable law or regulation.

Section 7. No Voting or Dividend Rights; Limitation of Liability . Nothing contained in this Warrant shall be construed as conferring upon the Holder hereof the right to vote or to consent as a stockholder in respect of meetings of stockholders for the election of directors of the Company or any other matters or any rights whatsoever as a stockholder of the Company. No dividends or interest shall be payable or accrued in respect of this Warrant or the interest represented hereby or the shares purchasable hereunder until, and only to the extent that, this Warrant shall have been exercised. No provisions hereof, in the absence of affirmative action by the Holder to purchase Shares, and no mere enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of such Holder for the Stock Purchase Price or as a stockholder of the Company, whether such liability is asserted by the Company or by its creditors.

Section 8. Intentionally Omitted.

Section 9. Intentionally Omitted.

Section 10. Rights and Obligations Survive Exercise of Warrant. The rights and obligations of the Company, of the Holder of this Warrant and of the holder of Shares issued upon exercise of this Warrant, contained in Section 6 shall survive the exercise of this Warrant.

Section 11. Modification and Waiver. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

Section 12. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder hereof or the Company shall be deemed to have been given (i) upon receipt if delivered personally or by courier (ii) upon confirmation of receipt if by telecopy or (iii) three business days after deposit in the US mail, with postage prepaid and certified or registered, to each such Holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant.

Section 13. Survival. All of the obligations of the Company relating to the Shares issuable upon the exercise of this Warrant shall survive the exercise and termination of this Warrant. All of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the Holder hereof. The Company will, at the time of the exercise of this Warrant, in whole or in part, upon request of the Holder hereof and at the Holder's expense, acknowledge in writing its continuing obligation to the Holder hereof in respect of any rights (including, without limitation, any right to registration of the Shares) to which the Holder hereof shall continue to be entitled after such exercise in accordance with this Warrant; provided, that the failure of the Holder hereof to make any such request shall not affect the continuing obligation of the Company to the Holder hereof in respect of such rights.

Section 14. Descriptive Headings and Governing Law. The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.

Section 15. Lost Warrants or Stock Certificates. The Company represents and warrants to the Holder hereof that upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of any Warrant or stock certificate and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant or stock certificate, the Company at Holder's expense will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

Section 16. Fractional Shares. No fractional shares shall be issued upon exercise of this Warrant. The Company shall, in lieu of issuing any fractional share, pay the holder entitled to such fraction a sum in cash equal to such fraction multiplied by the then effective Stock Purchase Price.

Section 17. Representations of Holder. With respect to this Warrant, Holder represents and warrants to the Company as follows:

17.1 Experience. It is an "accredited investor" as that term is defined in Rule 501 (a) promulgated under the Securities Act of 1933, as amended; is experienced in evaluating and investing in companies engaged in businesses similar to that of the Company; it understands that investment in this Warrant involves substantial risks; it has made detailed inquiries concerning the Company, its business and services, its officers and its personnel; the officers of the Company have made available to Holder any and all written information it has requested; the officers of the Company have answered to Holder's satisfaction all inquiries made by it; in making this investment it has relied upon information made available to it by the Company; and it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of investment in the Company and it is able to bear the economic risk of that investment.

17.2 Investment. It is acquiring this Warrant for investment for its own account and not with a view to, or for resale in connection with, any distribution thereof. It understands that this Warrant and the Shares issuable upon exercise thereof have not been registered under the Securities Act, nor qualified under applicable state securities laws.

17.3 Rule 144. It acknowledges that this Warrant and the Shares must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. It has been advised or is aware of the provisions of Rule 144 promulgated under the Securities Act.

17.4 Access to Data. It acknowledges that it has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and has had the opportunity to inspect the Company's facilities.

Section 18. Additional Representations and Covenants of the Company. The Company hereby represents, warrants and agrees as follows:

18.1 Corporate Power. The Company has all requisite corporate power and corporate authority to issue this Warrant and to carry out and perform its obligations hereunder.

18.2 Authorization. All corporate action on the part of the Company, its directors and stockholders necessary for the authorization, execution, delivery and performance by the Company of this has been taken. This Warrant is a valid and binding obligation of the Company, enforceable in accordance with its terms.

18.3 Offering. Subject in part to the truth and accuracy of Holder's representations set forth in Section 17 hereof, the offer, issuance and sale of this Warrant is, and the issuance of Shares upon exercise of this Warrant will be exempt from the registration requirements of the Securities Act, and are exempt from the qualification requirements of any applicable state securities laws; and neither the Company nor anyone acting on its behalf will take any action hereafter that would cause the loss of such exemptions.

18.4 Listing; Stock Issuance. The Company shall secure and maintain the listing of the Shares issuable upon exercise of this Warrant upon each securities exchange or over-the-counter market upon which the Company's Shares are listed or quoted. Upon exercise of this Warrant, the Company will use its best efforts to cause stock certificates representing the Shares purchased pursuant to the exercise to be issued in the names of Holder, its nominees or assignees, as appropriate at the time of such exercise.

18.5 Certificate and By-Laws. The Company has made available to Holder true and complete copies of the Company's Certificate of Incorporation, By-Laws, and each Certificate of Designation or other charter document setting, forth any rights, preferences and privileges of Company's capital stock, each as amended and in effect on the date of issuance of this Warrant.

18.6 Intentionally Omitted.

18.7 Financial and Other Reports. From time to time up to the earlier of the Expiration Date or the complete exercise of this Warrant, the Company shall furnish to Holder (i) upon delivery to the Company's Board of Directors, an audited balance sheet and statement of changes in financial position at and as of the end of such fiscal year, together with an audited statement of income for such fiscal year; (ii) within 45 days after the close of each fiscal quarter of the Company, an unaudited balance sheet and statement of cash flows at and as of the end of such quarter, together with an unaudited statement of income for such quarter and a capitalization table; and (iii) promptly after sending, making available, or filing, copies of all reports, proxy statements, and financial statements that the Company sends or makes available to its stockholders and all registration statements and reports that the Company files with the SEC or any other governmental or regulatory authority. In addition, Company agrees to provide Holder at any time and from time to time with such information as Holder may reasonably request for purposes of Holder's compliance with regulatory, accounting and reporting requirements applicable to Holder. Notwithstanding the foregoing, the Company shall not be required to furnish to Holder the financial information described in this Section 18.7 in the event such financial information has been previously delivered to Lender pursuant to the Loan Agreement and/or Supplement.

[*Remainder of this page intentionally left blank; signature page follows*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its officer, thereunto duly authorized as of the date of issuance set forth on the first page hereof.

OCULUS INNOVATIVE SCIENCES, INC.

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

VENTURE LENDING & LEASING VI, LLC,
a Delaware limited liability company

By: Westech Investment Advisors LLC,
a California limited liability company
Its: Managing Member

By: _____
Name: _____
Title: _____

FORM OF SUBSCRIPTION

(To be signed only upon exercise of Warrant)

To: OCULUS INNOVATIVE SCIENCES, INC.

☐ The undersigned, the holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, (1) See Below _____ (_____) shares (the "Shares") of Stock of _____ and herewith makes payment of _____ Dollars ($_____) therefor, and requests that the certificates for such shares be issued in the name of, and delivered to, _____, whose address is _____.

☐ The undersigned hereby elects to convert _____ percent (__%) of the value of the Warrant pursuant to the provisions of Section 1(b) of the Warrant.

The undersigned acknowledges that it has reviewed the representations and warranties contained in Section 17 of this Warrant and by its signature below hereby makes such representations and warranties to the Company.

Dated _____
Holder: _____
By: _____
Its: _____

(Address)

_____
_____

(1) Insert here the number of shares called for on the face of the Warrant (or, in the case of a partial exercise, the portion thereof as to which the Warrant is being exercised), in either case without making any adjustment for additional Shares or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the Warrant, may be issuable upon exercise.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned, the holder of the within Warrant, hereby sells, assigns and transfers all of the rights of the undersigned under the within Warrant, with respect to the number of Shares covered thereby set forth herein below, unto:

Name of Assignee	Address	No. of Shares

Dated _____
Holder: _____
By: _____
Its: _____

EXHIBIT "A"

[On letterhead of the Company]

Reference is hereby made to that certain Warrant dated September __, 2011, issued by OCULUS INNOVATIVE SCIENCES, INC, a Delaware corporation (the "Company"), to VENTURE LENDING & LEASING VI, INC., a Maryland corporation (the "Holder").

[IF APPLICABLE] The Warrant provides that the actual number of shares of the Company's capital stock issuable upon exercise of the Warrant and the initial exercise price per share are to be determined by reference to one or more events or conditions subsequent to the issuance of the Warrant. Such events or conditions have now occurred or lapsed, and the Company wishes to confirm the actual number of shares issuable and the initial exercise price. The provisions of this Supplement to Warrant are incorporated into the Warrant by this reference, and shall control the interpretation and exercise of the Warrant.

[IF APPLICABLE] Notice is hereby given pursuant to Section 4.5 of the Warrant that the following adjustment(s) have been made to the Warrant: [describe adjustments, setting forth details regarding method of calculation and facts upon which calculation is based].

This certifies that the Holder is entitled to purchase from the Company _____ (_____) fully paid and nonassessable shares of the Company's _____ Stock at a price of _____ Dollars ($_____) per share (the "Stock Purchase Price"). The Stock Purchase Price and the number of shares purchasable under the Warrant remain subject to adjustment as provided in Section 4 of the Warrant.

Executed this ___ day of _____, 20____.

OCULUS INNOVATIVE
SCIENCES, INC

By: _____
Name: _____
Title: _____

Exhibit 10.60

PUBLIC HEALTH SERVICE

PATENT LICENSE AGREEMENT – *EXCLUSIVE*

COVER PAGE

For PHS internal use only:

License Number: L-l19-2011/0

License Application Number: **A-204-2011**

Serial Number(s) of Licensed Patent(s) or Patent Application(s):

U.S. Patent 7,503,238

Licensee: Oculus Innovative Sciences, Inc.

Cooperative Research and Development Agreement (CRADA) Number (if a subject invention):

N/A

Additional Remarks:

Public Benefit(s): Endotracheal tube clearance for preventing ventilator associated pneumonia

This Patent License Agreement, hereinafter referred to as the "**Agreement**", consists of this Cover Page, an attached **Agreement**, a Signature Page, Appendix A (List of Patent(s) or Patent Application(s)), Appendix B (Fields of Use and Territory), Appendix C (Royalties), Appendix D (Benchmarks and Performance), Appendix E (Commercial Development Plan), Appendix F (Example Royalty Report), and Appendix G (Royalty Payment Options). The Parties to this **Agreement** are:

1) The National Institutes of Health ("**NIH**") or the Food and Drug Administration ("**FDA**"), hereinafter singly or collectively referred to as "**PHS**", agencies of the United States Public Health Service within the Department of Health and Human Services ("**HHS**"); and

2) The person, corporation, or institution identified above or on the Signature Page, having offices at the address indicated on the Signature Page, hereinafter referred to as "**Licensee**".

PHS and **Licensee** agree as follows:

1. BACKGROUND

1.1 In the course of conducting biomedical and behavioral research, **PHS** investigators made inventions that may have commercial applicability.

1.2 By assignment of rights from **PHS** employees and other inventors, **HHS**, on behalf of the **Government**, owns intellectual property rights claimed in any United States or foreign patent applications or patents corresponding to the assigned inventions. **HHS** also owns any tangible embodiments of these inventions actually reduced to practice by **PHS**.

1.3 The Secretary of **HHS** has delegated to **PHS** the authority to enter into this **Agreement** for the licensing of rights to these inventions.

1.4 **PHS** desires to transfer these inventions to the private sector through commercialization licenses to facilitate the commercial development of products and processes for public use and benefit.

1.5 **Licensee** desires to acquire commercialization rights to certain of these inventions in order to develop processes, methods, or marketable products for public use and benefit.

2. DEFINITIONS

2.1 **"Affiliate(s)"** means a corporation or other business entity, which directly or indirectly is controlled by or controls, or is under common control with **Licensee**. For this purpose, the term "control" shall mean ownership of more than fifty percent (50%) of the voting stock or other ownership interest of the corporation or other business entity, or the power to elect or appoint more than fifty percent (50%) of the members of the governing body of the corporation or other business entity.

2.2 **"Benchmarks"** mean the performance milestones that are set forth in Appendix D.

2.3 **"Commercial Development Plan"** means the written commercialization plan attached as Appendix E.

2.4 **"First Commercial Sale"** means the initial transfer by or on behalf of **Licensee** or its sublicensees of **Licensed Products** or the initial practice of a **Licensed Process** by or on behalf of **Licensee** or its sublicensees in exchange for cash or some equivalent to which value can be assigned for the purpose of determining **Net Sales**.

2.5 **"Government"** means the Government of the United States of America.

2.6 **"Licensed Fields of Use"** means the fields of use identified in Appendix B.

2.7 **"Licensed Patent Rights"** shall mean:

(a) Patent applications (including provisional patent applications and PCT patent applications) or patents listed in Appendix A, all divisions and continuations of these applications, all patents issuing from these applications, divisions, and continuations, and any reissues, reexaminations, and extensions of these patents;

(b) to the extent that the following contain one or more claims directed to the invention or inventions disclosed in 2.7(a):

(i) continuations-in-part of 2.7(a);

(ii) all divisions and continuations of these continuations-in-part;

(iii) all patents issuing from these continuations-in-part, divisions, and continuations;

(iv) priority patent application(s) of 2.7(a); and

(v) any reissues, reexaminations, and extensions of these patents;

(c) to the extent that the following contain one or more claims directed to the invention or inventions disclosed in 2.7(a): all counterpart foreign and U.S. patent applications and patents to 2.7(a) and 2.7(b), including those listed in Appendix A; and

(d) **Licensed Patent Rights** shall *not* include 2.7(b) or 2.7(c) to the extent that they contain one or more claims directed to new matter which is not the subject matter disclosed in 2.7(a).

2.8 **"Licensed Processes"** means processes which, in the course of being practiced, would be within the scope of one or more claims of the **Licensed Patent Rights** that have not been held unpatentable, invalid or unenforceable by an unappealed or unappealable judgment of a court of competent jurisdiction.

2.9 **"Licensed Products"** means tangible materials which, in the course of manufacture, use, sale, or importation, would be within the scope of one or more claims of the **Licensed Patent Rights** that have not been held unpatentable, invalid or unenforceable by an unappealed or unappealable judgment of a court of competent jurisdiction.

2.10 **"Licensed Territory"** means the geographical area identified in Appendix B.

2.11 **"Net Sales"** means the total gross receipts for sales of **Licensed Products** or practice of **Licensed Processes** by or on behalf of **Licensee** or its sublicensees, and from leasing, renting, or otherwise making **Licensed Products** available to others without sale or other dispositions, whether invoiced or not, less returns and allowances, packing costs, insurance costs, freight out, taxes or excise duties imposed on the transaction (if separately invoiced), and wholesaler and cash discounts in amounts customary in the trade to the extent actually granted. No deductions shall be made for commissions paid to individuals, whether they are with independent sales agencies or regularly employed by **Licensee**, or sublicensees, and on its payroll, or for the cost of collections.

2.12 **"Practical Application"** means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system; and in each case, under these conditions as to establish that the invention is being utilized and that its benefits are to the extent permitted by law or **Government** regulations available to the public on reasonable terms.

2.13 **"Research License"** means a nontransferable, nonexclusive license to make and to use **Licensed Products** or **Licensed Processes** as defined by the **Licensed Patent Rights** for purposes of research and not for purposes of commercial manufacture or distribution or in lieu of purchase.

3. GRANT OF RIGHTS

3.1 **PHS** hereby grants and **Licensee** accepts, subject to the terms and conditions of this **Agreement**, an exclusive license under the **Licensed Patent Rights** in the **Licensed Territory** to make and have made, to use and have used, to sell and have sold, to offer to sell, and to import any **Licensed Products** in the **Licensed Fields of Use** and to practice and have practiced any **Licensed Processes** in the **Licensed Fields of Use**.

3.2 This **Agreement** confers no license or rights by implication, estoppel, or otherwise under any patent applications or patents of **PHS** other than the **Licensed Patent Rights** regardless of whether these patents are dominant or subordinate to the **Licensed Patent Rights**.

4. SUBLICENSING

4.1 Upon written approval, which shall include prior review of any sublicense agreement by **PHS** and which shall not be unreasonably withheld, **Licensee** may enter into sublicensing agreements under the **Licensed Patent Rights.**

4.2 **Licensee** agrees that any sublicenses granted by it shall provide that the obligations to **PHS** of Paragraphs 5.1-5.4, 8.1, 10.1, 10.2, 12.5, and 13.8-13.10 of this **Agreement** shall be binding upon the sublicensee as if it were a party to this **Agreement**. **Licensee** further agrees to attach copies of these Paragraphs to all sublicense agreements.

4.3 Any sublicenses granted by **Licensee** shall provide for the termination of the sublicense, or the conversion to a license directly between the sublicensees and **PHS**, at the option of the sublicensee, upon termination of this **Agreement** under Article 13. This conversion is subject to **PHS** approval and contingent upon acceptance by the sublicensee of the remaining provisions of this **Agreement**.

4.4 **Licensee** agrees to forward to **PHS** a complete copy of each fully executed sublicense agreement postmarked within thirty (30) days of the execution of the agreement. To the extent permitted by law, **PHS** agrees to maintain each sublicense agreement in confidence.

5. STATUTORY AND PHS REQUIREMENTS AND RESERVED GOVERNMENT RIGHTS

5.1 (a) **PHS** reserves on behalf of the **Government** an irrevocable, nonexclusive, nontransferable, royalty-free license for the practice of all inventions licensed under the **Licensed Patent Rights** throughout the world by or on behalf of the **Government** and on behalf of any foreign government or international organization pursuant to any existing or future treaty or agreement to which the **Government** is a signatory. Prior to the **First Commercial Sale**, **Licensee** agrees to provide **PHS** with reasonable quantities of **Licensed Products** or materials made through the **Licensed Processes** for **PHS** research use; and

(b) In the event that the **Licensed Patent Rights** are Subject Inventions made under a Cooperative Research and Development Agreement (**"CRADA"**), Licensee grants to the **Government**, pursuant to 15 U.S.C. §3710a(b)(1)(A), a nonexclusive, nontransferable, irrevocable, paid-up license to practice **Licensed Patent Rights** or have **Licensed Patent Rights** practiced throughout the world by or on behalf of the **Government**. In the exercise of this license, the Government shall not publicly disclose trade secrets or commercial or financial information that is privileged or confidential within the meaning of 5 U.S.C. §552(b)(4) or which would be considered as such if it had been obtained from a non-Federal party. Prior to the **First Commercial Sale**, **Licensee** agrees to provide **PHS** reasonable quantities of **Licensed Products** or materials made through the **Licensed Processes** for **PHS** research use.

5.2 **Licensee** agrees that products used or sold in the United States embodying **Licensed Products** or produced through use of **Licensed Processes** shall be manufactured substantially in the United States, unless a written waiver is obtained in advance from **PHS**.

5.3 **Licensee** acknowledges that **PHS** may enter into future **CRADAs** under the Federal Technology Transfer Act of 1986 that relate to the subject matter of this **Agreement**. **Licensee** agrees not to unreasonably deny requests for a **Research License** from future collaborators with **PHS** when acquiring these rights is necessary in order to make a **CRADA** project feasible. **Licensee** may request an opportunity to join as a party to the proposed **CRADA**.

5.4 (a) In addition to the reserved license of Paragraph 5.1, **PHS** reserves the right to grant **Research Licenses** directly or to require **Licensee** to grant **Research Licenses** on reasonable terms. The purpose of these **Research Licenses** is to encourage basic research, whether conducted at an academic or corporate facility. In order to safeguard the **Licensed Patent Rights**, however, **PHS** shall consult with **Licensee** before granting to commercial entities a **Research License** or providing to them research samples of materials made through the **Licensed Processes**; and

(b) In exceptional circumstances, and in the event that **Licensed Patent Rights** are Subject Inventions made under a **CRADA**, the **Government**, pursuant to 15 U.S.C. §3710a(b)(i)(B), retains the right to require the **Licensee** to grant to a responsible applicant a nonexclusive, partially exclusive, or exclusive sublicense to use the **Licensed Patent Rights** in the **Licensed Field of Use** on terms that are reasonable under the circumstances, or if **Licensee** fails to grant this license, the **Government** retains the right to grant the license itself. The exercise of these rights by the **Government** shall only be in exceptional circumstances and only if the **Government** determines:

(i) the action is necessary to meet health or safety needs that are not reasonably satisfied by **Licensee**;

(ii) the action is necessary to meet requirements for public use specified by Federal regulations, and these requirements are not reasonably satisfied by the **Licensee**; or

(iii) the **Licensee** has failed to comply with an agreement containing provisions described in 15 U.S.C. §3710a(c)(4)(B); and

(c) The determination made by the **Government** under this Paragraph 5.4 is subject to administrative appeal and judicial review under 35 U.S.C. §203(b).

6. ROYALTIES AND REIMBURSEMENT

6.1 **Licensee** agrees to pay **PHS** a noncreditable, nonrefundable license issue royalty as set forth in Appendix C.

6.2 **Licensee** agrees to pay **PHS** a nonrefundable minimum annual royalty as set forth in Appendix C.

6.3 **Licensee** agrees to pay **PHS** earned royalties as set forth in Appendix C.

6.4 **Licensee** agrees to pay **PHS** benchmark royalties as set forth in Appendix C.

6.5 **Licensee** agrees to pay **PHS** sublicensing royalties as set forth in Appendix C.

6.6 **Licensee** agrees to pay **PHS** patent cost royalties as set forth in Appendix C.

6.7 A patent or patent application licensed under this **Agreement** shall cease to fall within the **Licensed Patent Rights** for the purpose of computing earned royalty payments in any given country on the earliest of the dates that:

(a) the application has been abandoned and not continued;

(b) the patent expires or irrevocably lapses, or

(c) the patent has been held to be invalid or unenforceable by an unappealed or unappealable decision of a court of competent jurisdiction or administrative agency.

6.8 No multiple royalties shall be payable because any **Licensed Products** or **Licensed Processes** are covered by more than one of the **Licensed Patent Rights**.

6.9 On sales of **Licensed Products** by **Licensee** to sublicensees or on sales made in other than an arms-length transaction, the value of the **Net Sales** attributed under this Article 6 to this transaction shall be that which would have been received in an arms-length transaction, based on sales of like quantity and quality products on or about the time of this transaction.

6.10 **PHS** agrees, upon written request, to provide **Licensee** with summaries of patent prosecution invoices for which **PHS** has requested payment from the **Licensee** under Paragraph 6.6. **Licensee** agrees that all information provided by **PHS** related to patent prosecution costs shall be treated as confidential commercial information and shall not be released to a third party except as required by law or a court of competent jurisdiction.

6.11 **Licensee** may elect to surrender its rights in any country of the **Licensed Territory** under any of the **Licensed Patent Rights** upon ninety (90) days written notice to **PHS** and owe no payment obligation under Paragraph 6.6 for patent-related expenses paid in that country after ninety (90) days of the effective date of the written notice.

7. PATENT FILING, PROSECUTION, AND MAINTENANCE

7.1 Except as otherwise provided in this Article 7, **PHS** agrees to take responsibility for, but to consult with, the **Licensee** in the preparation, filing, prosecution, and maintenance of any and all patent applications or patents included in the **Licensed Patent Rights** and shall furnish copies of relevant patent-related documents to **Licensee**.

7.2 Upon **PHS'** written request, **Licensee** shall assume the responsibility for the preparation, filing, prosecution, and maintenance of any and all patent applications or patents included in the **Licensed Patent Rights** and shall, on an ongoing basis, promptly furnish copies of all patent-related documents to **PHS**. In this event, **Licensee** shall, subject to the prior approval of **PHS**, select registered patent attorneys or patent agents to provide these services on behalf of **Licensee** and **PHS**. **PHS** shall provide appropriate powers of attorney and other documents necessary to undertake this action to the patent attorneys or patent agents providing these services. **Licensee** and its attorneys or agents shall consult with **PHS** in all aspects of the preparation, filing, prosecution and maintenance of patent applications and patents included within the **Licensed Patent Rights** and shall provide **PHS** sufficient opportunity to comment on any document that **Licensee** intends to file or to cause to be filed with the relevant intellectual property or patent office.

7.3 At any time, **PHS** may provide **Licensee** with written notice that **PHS** wishes to assume control of the preparation, filing, prosecution, and maintenance of any and all patent applications or patents included in the **Licensed Patent Rights**. If **PHS** elects to reassume these responsibilities, **Licensee** agrees to cooperate fully with **PHS**, its attorneys, and agents in the preparation, filing, prosecution, and maintenance of any and all patent applications or patents included in the **Licensed Patent Rights** and to provide **PHS** with complete copies of any and all documents or other materials that **PHS** deems necessary to undertake such responsibilities. **Licensee** shall be responsible for all costs associated with transferring patent prosecution responsibilities to an attorney or agent of **PHS'** choice.

7.4 Each party shall promptly inform the other as to all matters that come to its attention that may affect the preparation, filing, prosecution, or maintenance of the **Licensed Patent Rights** and permit each other to provide comments and suggestions with respect to the preparation, filing, prosecution, and maintenance of **Licensed Patent Rights**, which comments and suggestions shall be considered by the other party.

8. RECORD KEEPING

8.1 **Licensee** agrees to keep accurate and correct records of **Licensed Products** made, used, sold, or imported and **Licensed Processes** practiced under this Agreement appropriate to determine the amount of royalties due **PHS**. These records shall be retained for at least five (5) years following a given reporting period and shall be available during normal business hours for inspection, at the expense of **PHS**, by an accountant or other designated auditor selected by **PHS** for the sole purpose of verifying reports and royalty payments hereunder. The accountant or auditor shall only disclose to **PHS** information relating to the accuracy of reports and royalty payments made under this **Agreement**. If an inspection shows an underreporting or underpayment in excess of five percent (5%) for any twelve (12) month period, then **Licensee** shall reimburse **PHS** for the cost of the inspection at the time **Licensee** pays the unreported royalties, including any additional royalties as required by Paragraph 9.8. All royalty payments required under this Paragraph shall be due within sixty (60) days of the date **PHS** provides **Licensee** notice of the payment due.

8.2 **Licensee** agrees to have an audit of sales and royalties conducted by an independent auditor at least every two (2) years if annual sales of the **Licensed Products** or **Licensed Processes** are over two (2) million dollars. The audit shall address, at a minimum, the amount of gross sales by or on behalf of **Licensee** during the audit period, terms of the license as to percentage or fixed royalty to be remitted to the **Government**, the amount of royalties owed to the **Government** under this **Agreement**, and whether the royalties owed have been paid to the **Government** and is reflected in the records of the **Licensee**. The audit shall also indicate the **PHS** license number, product, and the time period being audited. A report certified by the auditor shall be submitted promptly by the auditor directly to **PHS** on completion. **Licensee** shall pay for the entire cost of the audit.

9. REPORTS ON PROGRESS, BENCHMARKS, SALES, AND PAYMENTS

9.1 Prior to signing this **Agreement**, **Licensee** has provided **PHS** with the **Commercial Development Plan** in Appendix E, under which **Licensee** intends to bring the subject matter of the **Licensed Patent Rights** to the point of **Practical Application**. This **Commercial Development Plan** is hereby incorporated by reference into this **Agreement**. Based on this plan, performance **Benchmarks** are determined as specified in Appendix D.

9.2 **Licensee** shall provide written annual reports on its product development progress or efforts to commercialize under the **Commercial Development Plan** for each of the **Licensed Fields of Use** within sixty (60) days after December 31 of each calendar year. These progress reports shall include, but not be limited to: progress on research and development, status of applications for regulatory approvals, manufacturing, sublicensing, marketing, importing, and sales during the preceding calendar year, as well as, plans for the present calendar year. **PHS** also encourages these reports to include information on any of **Licensee's** public service activities that relate to the **Licensed Patent Rights**. If reported progress differs from that projected in the **Commercial Development Plan** and **Benchmarks**, **Licensee** shall explain the reasons for these differences. In the annual report, **Licensee** may propose amendments to the **Commercial Development Plan**, acceptance of which by **PHS** may not be denied unreasonably. **Licensee** agrees to provide any additional information reasonably required by **PHS** to evaluate **Licensee's** performance under this **Agreement**. **Licensee** may amend the **Benchmarks** at any time upon written approval by **PHS**. **PHS** shall not unreasonably withhold approval of any request of **Licensee** to extend the time periods of this schedule if the request is supported by a reasonable showing by **Licensee** of diligence in its performance under the **Commercial Development Plan** and toward bringing the **Licensed Products** to the point of **Practical Application** as defined in 37 C.F.R. §404.3(d). **Licensee** shall amend the **Commercial Development Plan** and **Benchmarks** at the request of **PHS** to address any **Licensed Fields of Use** not specifically addressed in the plan originally submitted.

9.3 **Licensee** shall report to **PHS** the dates for achieving **Benchmarks** specified in Appendix D and the **First Commercial Sale** in each country in the **Licensed Territory** within thirty (30) days of such occurrences.

9.4 **Licensee** shall submit to **PHS**, within sixty (60) days after each calendar half-year ending June 30 and December 31, a royalty report, as described in the example in Appendix F, setting forth for the preceding half-year period the amount of the **Licensed Products** sold or **Licensed Processes** practiced by or on behalf of **Licensee** in each country within the **Licensed Territory**, the **Net Sales**, and the amount of royalty accordingly due. With each royalty report, **Licensee** shall submit payment of earned royalties due. If no earned royalties are due to **PHS** for any reporting period, the written report shall so state. The royalty report shall be certified as correct by an authorized officer of **Licensee** and shall include a detailed listing of all deductions made under Paragraph 2.11 to determine **Net Sales** made under Article 6 to determine royalties due.

9.5 **Licensee** agrees to forward semi-annually to **PHS** a copy of these reports received by **Licensee** from its sublicensees during the preceding half-year period as shall be pertinent to a royalty accounting to **PHS** by **Licensee** for activities under the sublicense.

9.6 Royalties due under Article 6 shall be paid in U.S. dollars and payment options are listed in Appendix G. For conversion of foreign currency to U.S. dollars, the conversion rate shall be the New York foreign exchange rate quoted in *The Wall Street Journal* on the day that the payment is due. Any loss of exchange, value, taxes, or other expenses incurred in the transfer or conversion to U.S. dollars shall be paid entirely by **Licensee**. The royalty report required by Paragraph 9.4 shall be mailed to **PHS** at its address for **Agreement** Notices indicated on the Signature Page.

9.7 **Licensee** shall be solely responsible for determining if any tax on royalty income is owed outside the United States and shall pay the tax and be responsible for all filings with appropriate agencies of foreign governments.

9.8 Additional royalties may be assessed by **PHS** on any payment that is more than ninety (90) days overdue at the rate of one percent (1%) per month. This one percent (1%) per month rate may be applied retroactively from the original due date until the date of receipt by **PHS** of the overdue payment and additional royalties. The payment of any additional royalties shall not prevent **PHS** from exercising any other rights it may have as a consequence of the lateness of any payment.

9.9 All plans and reports required by this Article 9 and marked "confidential" by **Licensee** shall, to the extent permitted by law, be treated by **PHS** as commercial and financial information obtained from a person and as privileged and confidential, and any proposed disclosure of these records by the **PHS** under the Freedom of Information Act (FOIA), 5 U.S.C. §552 shall be subject to the predisclosure notification requirements of 45 C.F.R. §5.65(d).

10. PERFORMANCE

10.1 **Licensee** shall use its reasonable commercial efforts to bring the **Licensed Products** and **Licensed Processes** to **Practical Application**. "Reasonable commercial efforts" for the purposes of this provision shall include adherence to the **Commercial Development Plan** in Appendix E and performance of the **Benchmarks** in Appendix D. The efforts of a sublicensee shall be considered the efforts of **Licensee**.

10.2 Upon the **First Commercial Sale**, until the expiration or termination of this **Agreement**, **Licensee** shall use its reasonable commercial efforts to make **Licensed Products** and **Licensed Processes** reasonably accessible to the United States public.

10.3 **Licensee** agrees, after its **First Commercial Sale**, to make reasonable quantities of **Licensed Products** or materials produced through the use of **Licensed Processes** available to patient assistance programs if such programs are available.

10.4 **Licensee** agrees, after its **First Commercial Sale** and as part of its marketing and product promotion, to develop educational materials (e.g., brochures, website, etc.) directed to patients and physicians detailing the **Licensed Products** or medical aspects of the prophylactic and therapeutic uses of the **Licensed Products**.

10.5 **Licensee** agrees to supply, to the Mailing Address for **Agreement** Notices indicated on the Signature Page, the Office of Technology Transfer, **NIH** with inert samples of the **Licensed Products** or **Licensed Processes** or their packaging for educational and display purposes only.

11. INFRINGEMENT AND PATENT ENFORCEMENT

11.1 **PHS** and **Licensee** agree to notify each other promptly of each infringement or possible infringement of the **Licensed Patent Rights**, as well as, any facts which may affect the validity, scope, or enforceability of the **Licensed Patent Rights** of which either party becomes aware.

11.2 Pursuant to this **Agreement** and the provisions of 35 U.S.C. Part 29, **Licensee** may:

(a) bring suit in its own name, at its own expense, and on its own behalf for infringement of presumably valid claims in the **Licensed Patent Rights**;

(b) in any suit, enjoin infringement and collect for its use, damages, profits, and awards of whatever nature recoverable for the infringement; or

(c) settle any claim or suit for infringement of the **Licensed Patent Rights** provided, however, that **PHS** and appropriate **Government** authorities shall have the first right to take such actions; and

(d) If **Licensee** desires to initiate a suit for patent infringement, **Licensee** shall notify **PHS** in writing. If **PHS** does not notify **Licensee** of its intent to pursue legal action within ninety (90) days, **Licensee** shall be free to initiate suit. **PHS** shall have a continuing right to intervene in the suit. **Licensee** shall take no action to compel the **Government** either to initiate or to join in any suit for patent infringement. **Licensee** may request the **Government** to initiate or join in any suit if necessary to avoid dismissal of the suit. Should the **Government** be made a party to any suit, **Licensee** shall reimburse the **Government** for any costs, expenses, or fees which the **Government** incurs as a result of the motion or other action, including all costs incurred by the **Government** in opposing the motion or other action. In all cases, **Licensee** agrees to keep **PHS** reasonably apprised of the status and progress of any litigation. Before **Licensee** commences an infringement action, **Licensee** shall notify **PHS** and give careful consideration to the views of **PHS** and to any potential effects of the litigation on the public health in deciding whether to bring suit.

11.3 In the event that a declaratory judgment action alleging invalidity or non-infringement of any of the **Licensed Patent Rights** shall be brought against **Licensee** or raised by way of counterclaim or affirmative defense in an infringement suit brought by **Licensee** under Paragraph 11.2, pursuant to this **Agreement** and the provisions of 35 U.S.C. Part 29 or other statutes, **Licensee** may:

(a) defend the suit in its own name, at its own expense, and on its own behalf for presumably valid claims in the **Licensed Patent Rights**;

(b) in any suit, ultimately to enjoin infringement and to collect for its use, damages, profits, and awards of whatever nature recoverable for the infringement; and

(c) settle any claim or suit for declaratory judgment involving the **Licensed Patent Rights** provided, however, that **PHS** and appropriate **Government** authorities shall have the first right to take these actions and shall have a continuing right to intervene in the suit; and

(d) If **PHS** does not notify **Licensee** of its intent to respond to the legal action within a reasonable time, **Licensee** shall be free to do so. **Licensee** shall take no action to compel the **Government** either to initiate or to join in any declaratory judgment action. **Licensee** may request the **Government** to initiate or to join any suit if necessary to avoid dismissal of the suit. Should the **Government** be made a party to any suit by motion or any other action of **Licensee**, **Licensee** shall reimburse the **Government** for any costs, expenses, or fees, which the **Government** incurs as a result of the motion or other action. If **Licensee** elects not to defend against the declaratory judgment action, **PHS**, at its option, may do so at its own expense. In all cases, **Licensee** agrees to keep **PHS** reasonably apprised of the status and progress of any litigation. Before **Licensee** commences an infringement action, **Licensee** shall notify **PHS** and give careful consideration to the views of **PHS** and to any potential effects of the litigation on the public health in deciding whether to bring suit.

11.4 In any action under Paragraphs 11.2 or 11.3 the expenses including costs, fees, attorney fees, and disbursements, shall be paid by **Licensee** when **Licensee** initiates the action. The value of any recovery net of litigation costs made by **Licensee** through court judgment or settlement shall be treated as **Net Sales** and subject to earned royalties.

11.5 **PHS** shall cooperate fully with **Licensee** in connection with any action under Paragraphs 11.2 or 11.3. **PHS** agrees promptly to provide access to all necessary documents and to render reasonable assistance in response to a request by **Licensee**.

12. NEGATION OF WARRANTIES AND INDEMNIFICATION

12.1 **PHS** offers no warranties other than those specified in Article 1.

12.2 **PHS** does not warrant the validity of the **Licensed Patent Rights** and makes no representations whatsoever with regard to the scope of the **Licensed Patent Rights**, or that the **Licensed Patent Rights** may be exploited without infringing other patents or other intellectual property rights of third parties.

12.3 **PHS** MAKES NO WARRANTIES, EXPRESS OR IMPLIED, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF ANY SUBJECT MATTER DEFINED BY THE CLAIMS OF THE **LICENSED PATENT RIGHTS** OR TANGIBLE MATERIALS RELATED THERETO.

12.4 **PHS** does not represent that it shall commence legal actions against third parties infringing the **Licensed Patent Rights**.

12.5 **Licensee** shall indemnify and hold **PHS**, its employees, students, fellows, agents, and consultants harmless from and against all liability, demands, damages, expenses, and losses, including but not limited to death, personal injury, illness, or property damage in connection with or arising out of:

(a) the use by or on behalf of **Licensee**, its sublicensees, directors, employees, or third parties of any **Licensed Patent Rights**; or

(b) the design, manufacture, distribution, or use of any **Licensed Products**, **Licensed Processes** or materials by **Licensee**, or other products or processes developed in connection with or arising out of the **Licensed Patent Rights**.

12.6 **Licensee** agrees to maintain a liability insurance program consistent with sound business practice.

13. TERM, TERMINATION, AND MODIFICATION OF RIGHTS

13.1 This **Agreement** is effective when signed by all parties, unless the provisions of Paragraph 14.16 are not fulfilled, and shall extend to the expiration of the last to expire of the **Licensed Patent Rights** unless sooner terminated as provided in this Article 13.

13.2 In the event that **Licensee** is in default in the performance of any material obligations under this **Agreement**, including but not limited to the obligations listed in Paragraph 13.5, and if the default has not been remedied within ninety (90) days after the date of notice in writing of the default, **PHS** may terminate this **Agreement** by written notice and pursue outstanding royalties owed through procedures provided by the Federal Debt Collection Act.

13.3 In the event that **Licensee** becomes insolvent, files a petition in bankruptcy, has such a petition filed against it, determines to file a petition in bankruptcy, or receives notice of a third party's intention to file an involuntary petition in bankruptcy, **Licensee** shall immediately notify **PHS** in writing. Furthermore, **PHS** shall have the right to terminate this **Agreement** immediately upon **Licensee's** receipt of written notice.

13.4 **Licensee** shall have a unilateral right to terminate this **Agreement** or any licenses in any country or territory by giving **PHS** sixty (60) days written notice to that effect.

13.5 **PHS** shall specifically have the right to terminate or modify, at its option, this **Agreement**, if **PHS** determines that the **Licensee**:

(a) is not executing the **Commercial Development Plan** submitted with its request for a license and the **Licensee** cannot otherwise demonstrate to **PHS**' satisfaction that the **Licensee** has taken, or can be expected to take within a reasonable time, effective steps to achieve **Practical Application** of the **Licensed Products** or **Licensed Processes**;

(b) has not achieved the **Benchmarks** as may be modified under Paragraph 9.2;

(c) has willfully made a false statement of, or willfully omitted a material fact in the license application or in any report required by this **Agreement**;

(d) has committed a material breach of a covenant or agreement contained in this **Agreement**;

(e) is not keeping **Licensed Products** or **Licensed Processes** reasonably available to the public after commercial use commences;

(f) cannot reasonably satisfy unmet health and safety needs; or

(g) cannot reasonably justify a failure to comply with the domestic production requirement of Paragraph 5.2 unless waived.

13.6 In making the determination referenced in Paragraph 13.5, **PHS** shall take into account the normal course of such commercial development programs conducted with sound and reasonable business practices and judgment and the annual reports submitted by **Licensee** under Paragraph 9.2. Prior to invoking termination or modification of this **Agreement** under Paragraph 13.5, **PHS** shall give written notice to **Licensee** providing **Licensee** specific notice of, and a ninety (90) day opportunity to respond to, **PHS**' concerns as to the items referenced in 13.5(a)-13.5(g). If **Licensee** fails to alleviate **PHS**' concerns as to the items referenced in 13.5(a)-13.5(g) or fails to initiate corrective action to **PHS**' satisfaction, **PHS** may terminate this **Agreement**.

13.7 When the public health and safety so require, and after written notice to **Licensee** providing **Licensee** a sixty (60) day opportunity to respond, **PHS** shall have the right to require **Licensee** to grant sublicenses to responsible applicants, on reasonable terms, in any **Licensed Fields of Use** under the **Licensed Patent Rights**, unless **Licensee** can reasonably demonstrate that the granting of the sublicense would not materially increase the availability to the public of the subject matter of the **Licensed Patent Rights**. **PHS** shall not require the granting of a sublicense unless the responsible applicant has first negotiated in good faith with **Licensee**.

13.8 **PHS** reserves the right according to 35 U.S.C. §209(d)(3) to terminate or modify this **Agreement** if it is determined that this action is necessary to meet the requirements for public use specified by federal regulations issued after the date of the license and these requirements are not reasonably satisfied by **Licensee**.

13.9 Within thirty (30) days of receipt of written notice of **PHS**' unilateral decision to modify or terminate this **Agreement**, **Licensee** may, consistent with the provisions of 37 C.F.R. §404.11, appeal the decision by written submission to the designated **PHS** official. The decision of the designated **PHS** official shall be the final agency decision. **Licensee** may thereafter exercise any and all administrative or judicial remedies that may be available.

13.10 Within ninety (90) days of expiration or termination of this **Agreement** under this Article 13, a final report shall be submitted by **Licensee**. Any royalty payments, including those incurred but not yet paid (such as the full minimum annual royalty), and those related to patent expense, due to **PHS** shall become immediately due and payable upon termination or expiration. If terminated under this Article 13, sublicensees may elect to convert their sublicenses to direct licenses with **PHS** pursuant to Paragraph 4.3. Unless otherwise specifically provided for under this **Agreement**, upon termination or expiration of this **Agreement**, **Licensee** shall return all **Licensed Products** or other materials included within the **Licensed Patent Rights** to **PHS** or provide **PHS** with certification of the destruction thereof. **Licensee** may not be granted additional **PHS** licenses if the final reporting requirement is not fulfilled.

14. GENERAL PROVISIONS

14.1 Neither party may waive or release any of its rights or interests in this **Agreement** except in writing. The failure of the **Government** to assert a right hereunder or to insist upon compliance with any term or condition of this **Agreement** shall not constitute a waiver of that right by the **Government** or excuse a similar subsequent failure to perform any of these terms or conditions by **Licensee**.

14.2 This **Agreement** constitutes the entire agreement between the parties relating to the subject matter of the **Licensed Patent Rights**, **Licensed Products** and **Licensed Processes**, and all prior negotiations, representations, agreements, and understandings are merged into, extinguished by, and completely expressed by this **Agreement**.

14.3 The provisions of this **Agreement** are severable, and in the event that any provision of this **Agreement** shall be determined to be invalid or unenforceable under any controlling body of law, this determination shall not in any way affect the validity or enforceability of the remaining provisions of this **Agreement**.

14.4 If either party desires a modification to this **Agreement**, the parties shall, upon reasonable notice of the proposed modification by the party desiring the change, confer in good faith to determine the desirability of the modification. No modification shall be effective until a written amendment is signed by the signatories to this **Agreement** or their designees.

14.5 The construction, validity, performance, and effect of this **Agreement** shall be governed by Federal law as applied by the Federal courts in the District of Columbia.

14.6 All **Agreement** notices required or permitted by this **Agreement** shall be given by prepaid, first class, registered or certified mail or by an express/overnight delivery service provided by a commercial carrier, properly addressed to the other party at the address designated on the following Signature Page, or to another address as may be designated in writing by the other party. **Agreement** notices shall be considered timely if the notices are received on or before the established deadline date or sent on or before the deadline date as verifiable by U.S. Postal Service postmark or dated receipt from a commercial carrier. Parties should request a legibly dated U.S. Postal Service postmark or obtain a dated receipt from a commercial carrier or the U.S. Postal Service. Private metered postmarks shall not be acceptable as proof of timely mailing.

14.7 This **Agreement** shall not be assigned or otherwise transferred (including any transfer by legal process or by operation of law, and any transfer in bankruptcy or insolvency, or in any other compulsory procedure or order of court) except to **Licensee's Affiliate(s)** or purchaser without the prior written consent of **PHS**. The parties agree that the identity of the parties is material to the formation of this **Agreement** and that the obligations under this **Agreement** are nondelegable. In the event that **PHS** approves a proposed assignment, **Licensee** shall pay **PHS**, as an additional royalty, one percent (1%) of the fair market value of any consideration received for any assignment of this **Agreement** within sixty (60) days of the assignment.

14.8 **Licensee** agrees in its use of any **PHS**-supplied materials to comply with all applicable statutes, regulations, and guidelines, including **PHS** and **HHS** regulations and guidelines. **Licensee** agrees not to use the materials for research involving human subjects or clinical trials in the United States without complying with 21 C.F.R. Part 50 and 45 C.F.R. Part 46. **Licensee** agrees not to use the materials for research involving human subjects or clinical trials outside of the United States without notifying **PHS**, in writing, of the research or trials and complying with the applicable regulations of the appropriate national control authorities. Written notification to **PHS** of research involving human subjects or clinical trials outside of the United States shall be given no later than sixty (60) days prior to commencement of the research or trials.

14.9 **Licensee** acknowledges that it is subject to and agrees to abide by the United States laws and regulations (including the Export Administration Act of 1979 and Arms Export Control Act) controlling the export of technical data, computer software, laboratory prototypes, biological material, and other commodities. The transfer of these items may require a license from the appropriate agency of the U.S. **Government** or written assurances by **Licensee** that it shall not export these items to certain foreign countries without prior approval of this agency. **PHS** neither represents that a license is or is not required or that, if required, it shall be issued.

14.10 **Licensee** agrees to mark the **Licensed Products** or their packaging sold in the United States with all applicable U.S. patent numbers and similarly to indicate "Patent Pending" status. All **Licensed Products** manufactured in, shipped to, or sold in other countries shall be marked in a manner to preserve **PHS** patent rights in those countries.

14.11 By entering into this **Agreement**, **PHS** does not directly or indirectly endorse any product or service provided, or to be provided, by **Licensee** whether directly or indirectly related to this **Agreement**. **Licensee** shall not state or imply that this **Agreement** is an endorsement by the **Government**, **PHS**, any other **Government** organizational unit, or any **Government** employee. Additionally, **Licensee** shall not use the names of **NIH, FDA, PHS,** or **HHS** or the **Government** or their employees in any advertising, promotional, or sales literature without the prior written approval of **PHS**.

14.12 The parties agree to attempt to settle amicably any controversy or claim arising under this **Agreement** or a breach of this **Agreement**, except for appeals of modifications or termination decisions provided for in Article 13. **Licensee** agrees first to appeal any unsettled claims or controversies to the designated **PHS** official, or designee, whose decision shall be considered the final agency decision. Thereafter, **Licensee** may exercise any administrative or judicial remedies that may be available.

14.13 Nothing relating to the grant of a license, nor the grant itself, shall be construed to confer upon any person any immunity from or defenses under the antitrust laws or from a charge of patent misuse, and the acquisition and use of rights pursuant to 37 C.F.R. Part 404 shall not be immunized from the operation of state or Federal law by reason of the source of the grant.

14.14 Any formal recordation of this **Agreement** required by the laws of any **Licensed Territory** as a prerequisite to enforceability of the **Agreement** in the courts of any foreign jurisdiction or for other reasons shall be carried out by **Licensee** at its expense, and appropriately verified proof of recordation shall be promptly furnished to **PHS**.

14.15 Paragraphs 4.3, 8.1, 9.5-9.7, 12.1-12.5, 13.9, 13.10, 14.12 and 14.15 of this **Agreement** shall survive termination of this **Agreement**.

14.16 The terms and conditions of this **Agreement** shall, at **PHS'** sole option, be considered by **PHS** to be withdrawn from **Licensee's** consideration and the terms and conditions of this **Agreement**, and the **Agreement** itself to be null and void, unless this **Agreement** is executed by the **Licensee** and a fully executed original is received by **PHS** within sixty (60) days from the date of **PHS** signature found at the Signature Page.

SIGNATURES BEGIN ON NEXT PAGE

PHS PATENT LICENSE AGREEMENT - *EXCLUSIVE*

SIGNATURE PAGE

For **PHS:**

/s/ Richard U. Rodriguez — 8-19-11
Richard U. Rodriguez — Date
Director, Division of Technology Development and Transfer
Office of Technology Transfer
National Institutes of Health

Mailing Address or E-mail Address for **Agreement** notices and reports:

Chief, Monitoring & Enforcement Branch
Office of Technology Transfer
National Institutes of Health
6011 Executive Boulevard, Suite 325
Rockville, Maryland 20852-3804 U.S.A.

E-mail: LicenseNotices_Reports@mail.nih.gov

For **Licensee** (Upon, information and belief, the undersigned expressly certifies or affirms that the contents of any statements of **Licensee** made or referred to in this document are truthful and accurate.):

by:

/s/ Jim Schutz — 22 Aug 2011
Signature of Authorized Official — Date

Jim Schutz
Printed Name

COO
Title

I. Official and Mailing Address for **Agreement** notices:

Jim Schutz
Name

Chief Operating Officer
Title

Mailing Address

A-204-2011

1129 No. McDowell Blvd.

Petaluma, CA 94954

Email Address: jschutz@oculusis.com

Phone: (707) 283-0550

Fax: (707) 283-0551

II. Official and Mailing Address for Financial notices (**Licensee**'s contact person for royalty payments)

Jim Schutz
Name

Chief Operating Officer
Title

Mailing Address:

1129 No. McDowell Blvd.

Petaluma. CA 94954

Email Address: jschutz@oculusis.com

Phone: (707) 283-0550

Fax: (707) 283-0551

Any false or misleading statements made, presented, or submitted to the **Government**, including any relevant omissions, under this **Agreement** and during the course of negotiation of this **Agreement** are subject to all applicable civil and criminal statutes including Federal statutes 31 U.S.C. §§3801-3812 (civil liability) and 18 U.S.C. §1001 (criminal liability including fine(s) or imprisonment).

A-204-2011

APPENDIX A – PATENT(S) OR PATENT APPLICATION(S)

Patent(s) or Patent Application(s):

U.S. Patent 7,503,238

A-204-2011

APPENDIX B – LICENSED FIELDS OF USE AND TERRITORY

I. **Licensed Fields of Use:**

Endotracheal tube mucus cleaning devices

II. **Licensed Territory:**

Worldwide

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APPENDIX C – ROYALTIES

Royalties:

I. **Licensee** agrees to pay to **PHS** a noncreditable, nonrefundable license issue royalty in the amount of [ ]* U.S. Dollars (USD$[ ]*) within sixty (60) days from the effective date of this **Agreement**.

II. **Licensee** agrees to pay to **PHS** a nonrefundable minimum annual royalty in the amount of [ ]* U.S. Dollars (USD$[ ]*) as follows:

(a) The first minimum annual royalty is due within sixty (60) days of the effective date of this **Agreement** and may be prorated according to the fraction of the calendar year remaining between the effective date of this **Agreement** and the next subsequent January 1; and

(b) Subsequent minimum annual royalty payments are due and payable on January 1 of each calendar year and may be credited against any earned royalties due for sales made in that year.

III. **Licensee** agrees to pay **PHS** earned royalties on **Net Sales** made by or on behalf of **Licensee** and its sublicensee as follows:

(a) [ ]* Percent ([ ]*%) on aggregate **Net Sales** of up to and including Five Million U.S. Dollars ($5,000,000); and

(b) [ ]* Percent ([ ]*%) on aggregate **Net Sales** above Five Million and One U.S. Dollars ($5,000,001).

IV. **Licensee** agrees to pay **PHS** a **Benchmark** royalty of [ ]* U.S. Dollars (USD$[ ]*) within sixty (60) days of achieving 510(K) approval of a **Licensed Product**.

V. **Licensee** agrees to pay **PHS** additional sublicensing royalties of [ ]* percent ([ ]*%) on the fair market value of any consideration received for granting each sublicense within sixty (60) days of the execution of each sublicense. For the avoidance of doubt, **Licensee's** outsourcing or subcontracting of the manufacturing of a **Licensed Product** shall not constitute a sublicense.

VI. With regard to unreimbursed expenses associated with the preparation, filing, prosecution, and maintenance of all patent applications and patents included within the **Licensed Patent Rights** and paid by **PHS** prior to the effective date of this **Agreement**, **Licensee** shall pay **PHS**, as an additional royalty of [ ]* U.S. Dollars (USD$[ ]*) within sixty (60) days of **PHS**' submission of a statement and request for payment to **Licensee**.

VII. With regard to unreimbursed expenses associated with the prosecution and maintenance of all patent applications and patents included within the **Licensed Patent Rights** and paid by **PHS** on or after the effective date of this **Agreement**, **PHS** may require **Licensee** to pay **PHS** on an annual basis, within sixty (60) days of **PHS'** submission of a statement and request for payment, a royalty amount equivalent to these unreimbursed expenses paid during the previous calendar year(s).

* Confidential material redacted and separately filed with the Commission.

APPENDIX D – BENCHMARKS AND PERFORMANCE

Licensee agrees to the following **Benchmarks** for its performance under this **Agreement** and, within thirty (30) days of achieving a **Benchmark**, shall notify **PHS** that the **Benchmark** has been achieved.

I. **Licensee** shall commence clinical evaluation of a **Licensed Product** by June 30, 2012.

II. **Licensee** shall apply for 510(K) regulatory approval of a **Licensed Product** by March 31, 2013.

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APPENDIX E – COMMERCIAL DEVELOPMENT PLAN

- Coordinate and manage all clinical and animal trials and background work necessary to obtain US FDA, CE Mark, Japanese MOHW and other appropriate regulatory notified bodies approval(s).
- **Licensee** anticipates that US FDA clearance (or approval) would likely take 12-18 months from execution this license,
    - CE Mark approval would likely take 18 - 24 months or so from date of execution of a licensing agreement,
- Coordinate and manage all post-approval clinical work necessary to adequately market and sell the **Licensed Product.**
- Upon receipt of the appropriate regulatory approvals, sell the **Licensed Product** in the US via existing 70+ person sales force.

Ventilator associated-pneumonia (VAP) data points (Market Analysis):

- Each year 1.7M patients require mechanical ventilation in the US, with average of 6.9
- days on ventilator;
- VAP is the 2nd most common nosocomial infection; 15% of all hospital acquired infections
- VAP Incidence = 9-70% of patients on ventilators
- 9,080-patient study found that the average VAP patient spends:
    - 9.6 additional days on mechanical ventilation,
    - 6.1 extra days in the ICU, and
    - 11.5 more days in the hospital
- Mortality = 13% to 55%
- VAP added costs = $40,000 - $50,000 per stay - all paid for by the hospital
- Addressable market for patients on ventilators:
    - 1,700,000 patients per year
    - $25 per Product
    - $42.5M addressable market

APPENDIX F – EXAMPLE ROYALTY REPORT

Required royalty report information includes:

- OTT license reference number (L-XXX-200X/0)
- Reporting period
- Catalog number and units sold of each Licensed Product (domestic and foreign)
- Gross Sales per catalog number per country
- Total Gross Sales
- Itemized deductions from Gross Sales
- Total Net Sales
- Earned Royalty Rate and associated calculations
- Gross Earned Royalty
- Adjustments for Minimum Annual Royalty (MAR) and other creditable payments made
- Net Earned Royalty due

Example

Catalog Number	Product Name	Country	Units Sold	Gross Sales (US$)
1	A	US	250	62,500
1	A	UK	32	16,500
1	A	France	25	15,625
2	B	US	0	0
3	C	US	57	57,125
4	D	US	12	1,500
			Total Gross Sales	153,250
			Less Deductions:	
			Freight	3,000
			Returns	7,000
			Total Net Sales	143,250
			Royalty Rate	8%
			Royalty Due	11,460
			Less Creditable Payments	10,000
			Net Royalty Due	**1,460**

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APPENDIX G – ROYALTY PAYMENT OPTIONS

The OTT License Number MUST appear on payments, reports and correspondence.

Automated Clearing House (ACH) for payments through U.S. banks only

The NIH encourages our licensees to submit electronic funds transfer payments through the Automated Clearing House (ACH). Submit your ACH payment through the U.S. Treasury web site located at: **https://www.pay.gov.** Locate the "NIH Agency Form" through the Pay.gov "Agency List".

Electronic Funds Wire Transfers

The following account information is provided for wire payments. In order to process payment via Electronic Funds Wire Transfer sender MUST supply the following information within the transmission:

Drawn on a **U.S. bank account** via FEDWIRE should be sent directly to the following account:

Beneficiary Account:	Federal Reserve Bank of New York or TREAS NYC
Bank:	Federal Reserve Bank of New York
ABA#	021030004
Account Number:	75080031
Bank Address:	33 Liberty Street, New York, NY 10045
Payment Details:	License Number (L-XXX-XXXX) Name of Licensee

Drawn on a **foreign bank account** should be sent directly to the following account. Payment must be sent in **U.S. Dollars (USD)** using the following instructions:

Beneficiary Account:	Federal Reserve Bank of New York/ITS or FRBNY/ITS
Bank:	Citibank N.A. (New York)
SWIFT Code:	CITIUS33
Account Number:	36838868
Bank Address:	388 Greenwich Street, New York, NY 10013
Payment Details (Line 70):	NIH 75080031 License Number (L-XXX-XXXX) Name of Licensee
Detail of Charges (line 71a):	Charge Our

Checks

All checks should be made payable to "NIH Patent Licensing"

Checks drawn on a **U.S. bank account** and sent by US Postal Service should be sent directly to the following address:

National Institutes of Health (NIH)
P.O. Box 979071
St. Louis, MO 63197-9000

Checks drawn on a U.S. bank account and sent by **overnight or courier** should be sent to the following address:

US Bank
Government Lockbox SL-MO-C2GL
1005 Convention Plaza
St. Louis, MO 63101
Phone: 314-418-4087

Checks drawn on a **foreign bank account** should be sent directly to the following address:

National Institutes of Health (NIH)
Office of Technology Transfer
Royalties Administration Unit
6011 Executive Boulevard
Suite 325, MSC 7660
Rockville, Maryland 20852

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

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

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

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

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

Date: November 3, 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 September 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

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

Date: November 3, 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 September 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: November 3, 2011

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

Date: November 3, 2011

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