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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2024**

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**

SONOMA PHARMACEUTICALS, INC.

(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.)
5445 Conestoga Court, Suite 150, Boulder, CO	**80301**
(Address of principal executive offices)	(Zip Code)

(800) 759-9305
(Registrant's telephone number, including area code)

N/A
(Former name or former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, $0.0001 par value	SNOA	The Nasdaq Stock Market LLC

Indicate by check mark 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No □

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

Large accelerated Filer □
Non-accelerated Filer ☒
Emerging Growth Company □

Accelerated Filer □
Smaller reporting company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. □

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

The number of shares outstanding of the registrant's common stock, par value $0.0001 per share, as of November 7, 2024 was 1,339,170.

SONOMA PHARMACEUTICALS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)

	September 30, 2024	March 31, 2024
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,078	$ 3,128
Accounts receivable, net	3,157	2,898
Inventories, net	2,837	2,719
Prepaid expenses and other current assets	1,929	3,541
Current portion of deferred consideration, net of discount	220	262
Total current assets	12,221	12,548
Property and equipment, net	255	365
Operating lease, right of use assets	162	286
Deferred tax asset	792	1,145
Deferred consideration, net of discount, less current portion	179	330
Other assets	76	66
Total assets	$ 13,685	$ 14,740
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 770	$ 607
Accrued expenses and other current liabilities	2,022	2,113
Deferred revenue, current portion	319	478
Short-term debt	82	323
Operating lease liabilities, current portion	116	198
Total current liabilities	3,309	3,719
Deferred revenue, net of current portion	45	87
Withholding tax payable	4,933	4,710
Operating lease liabilities, less current portion	46	87
Total liabilities	8,333	8,603
Commitments and Contingencies (Note 5)		
Stockholders' Equity:		
Convertible preferred stock, $0.0001 par value; 714,286 shares authorized at September 30, 2024 and March 31, 2024, respectively, no shares issued and outstanding at September 30, 2024 and March 31, 2024, respectively	–	–
Common stock, $0.0001 par value; 50,000,000 and 24,000,000 shares authorized at September 30, 2024 and March 31, 2024, respectively, 1,338,615 and 780,371 shares issued and outstanding at September 30, 2024 and March 31, 2024, respectively (Note 1) (Note 7)	–	–
Additional paid-in capital	205,651	203,209
Accumulated deficit	(196,102)	(194,349)
Accumulated other comprehensive loss	(4,197)	(2,723)
Total stockholders' equity	5,352	6,137
Total liabilities and stockholders' equity	$ 13,685	$ 14,740

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

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Loss
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Revenues	$ 3,579	$ 2,731	$ 6,970	$ 6,158
Cost of revenues	2,218	1,741	4,303	3,964
Gross profit	1,361	990	2,667	2,194
Operating expenses				
Research and development	506	536	976	861
Selling, general and administrative	1,705	1,662	3,714	3,781
Total operating expenses	2,211	2,198	4,690	4,642
Loss from operations	(850)	(1,208)	(2,023)	(2,448)
Other income (expense), net	387	(90)	563	(301)
Loss from operations before income taxes	(463)	(1,298)	(1,460)	(2,749)
Income tax expense	(147)	(186)	(293)	(153)
Net loss	$ (610)	$ (1,484)	$ (1,753)	$ (2,902)
Net loss per share: basic and diluted	$ (0.59)	$ (5.75)	$ (1.86)	$ (11.47)
Weighted-average number of shares: basic and diluted	1,034	258	943	253
Other comprehensive loss				
Net loss	$ (610)	$ (1,484)	$ (1,753)	$ (2,902)
Foreign currency translation adjustments	(593)	(213)	(1,474)	298
Comprehensive loss	$ (1,203)	$ (1,697)	$ (3,227)	$ (2,604)

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

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended September 30,	
	2024	**2023**
Cash flows from operating activities:		
Net loss	$ (1,753)	$ (2,902)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	74	90
Stock-based compensation	121	307
Deferred income taxes	188	144
Changes in operating assets and liabilities:		
Accounts receivable, net	(427)	375
Inventories, net	(370)	403
Prepaid expenses and other current assets	1,134	47
Deferred consideration	99	104
Operating lease, right-of-use assets	102	79
Accounts payable	219	132
Accrued expenses and other current liabilities	62	(353)
Deferred revenue	(128)	(31)
Withholding tax payable	223	238
Operating lease liabilities	(102)	(79)
Net cash used in operating activities	(558)	(1,446)
Cash flows from investing activities:		
Purchases of property and equipment	(31)	(19)
Net cash used in investing activities	(31)	(19)
Cash flows from financing activities:		
Proceeds (costs) from issuance of common stock, net of offering expenses	2,289	(5)
Proceeds from exercise of employee stock options	33	–
Payments for fractional shares related to reverse-split	(1)	–
Principal payments on short-term debt	(241)	(259)
Net cash provided by (used in) financing activities	2,080	(264)
Effect of exchange rate on cash and cash equivalents	(541)	46
Net increase (decrease) in cash and cash equivalents	950	(1,683)
Cash and cash equivalents, beginning of period	3,128	3,820
Cash and cash equivalents, end of period	$ 4,078	$ 2,137
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 8	$ 10

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

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Six Months ended September 30, 2024 and 2023
(In thousands, except share amounts)
(Unaudited)

	Common Stock ($0.0001 par Value)		Additional Paid in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Loss	Total
Balance, March 31, 2024	780,371	$ –	$ 203,209	$ (194,349)	$ (2,723)	$ 6,137
Proceeds from At-the-Market sale of common stock, net of offering expenses	158,311	–	748	–	–	748
Proceeds from exercise of employee stock options	2,000	–	7	–	–	7
Employee stock-based compensation expenses	9,538	–	107	–	–	107
Foreign currency translation adjustment	–	–	–	–	(881)	(881)
Net loss	–	–	–	(1,143)	–	(1,143)
Balance, June 30, 2024	950,220	$ –	$ 204,071	$ (195,492)	$ (3,604)	$ 4,975
Proceeds from At-the-Market sale of common stock, net of offering expenses	381,433	–	1,541	–	–	1,541
Proceeds from exercise of employee stock options	7,250	–	26	–	–	26
Payments for fractional shares related to reverse-split	(288)	–	(1)	–	–	(1)
Employee stock-based compensation expenses	–	–	14	–	–	14
Foreign currency translation adjustment	–	–	–	–	(593)	(593)
Net loss	–	–	–	(610)	–	(610)
Balance, September 30, 2024	1,338,615	$ –	$ 205,651	$ (196,102)	$ (4,197)	$ 5,352

	Common Stock ($0.0001 par Value)		Additional Paid in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Loss	Total
Balance, March 31, 2023	246,678	$ –	$ 200,909	$ (189,514)	$ (3,418)	$ 7,977
Cost in connection with ATM	–	–	(5)	–	–	(5)
Employee stock-based compensation expenses	10,402	–	177	–	–	177
Foreign currency translation adjustment	–	–	–	–	511	511
Net loss	–	–	–	(1,418)	–	(1,418)
Balance, June 30, 2023	257,080	$ –	$ 201,081	$ (190,932)	$ (2,907)	$ 7,242
Employee stock-based compensation expenses	1,887	–	130	–	–	130
Foreign currency translation adjustment	–	–	–	–	(213)	(213)
Net loss	–	–	–	(1,484)	–	(1,484)
Balance, September 30, 2023	258,967	$ –	$ 201,211	$ (192,416)	$ (3,120)	$ 5,675

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

Note 1. Organization and Recent Developments

Organization

Sonoma Pharmaceuticals, 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 moved its principal office from Petaluma, California to Woodstock, Georgia in June 2020 and to Boulder, Colorado in October 2022. The Company is a global healthcare leader for developing and producing stabilized hypochlorous acid ("HOCl") products for a wide range of applications, including wound care, eye, oral and nasal care, dermatological conditions, podiatry, animal health care, and as a non-toxic disinfectant. The Company's products are clinically proven to reduce itch, pain, scarring, and irritation safely and without damaging healthy tissue. In-vitro and clinical studies of HOCl show it to safely manage skin abrasions, lacerations, minor irritations, cuts, and intact skin. The Company sells its products either directly or via partners in 55 countries worldwide.

Reverse Stock Split

Effective August 29, 2024, the Company effected a reverse stock split of its common stock, par value $0.0001 per share. Every twenty shares of common stock were reclassified and combined into one share of common stock. No fractional shares were issued as a result of the reverse stock split. Instead, each fractional share was settled with cash. The reverse stock split reduced the number of shares of the Company's common stock outstanding from 21,174,693 to 1,058,447. The total number of authorized shares of common stock was not proportionally decreased and the par value per share of the common stock continues to be $0.0001. The reverse stock split has been retroactively applied to all share and per share amounts in the condensed consolidated financial statements and accompanying footnotes.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial statements and are in the form prescribed by the Securities and Exchange Commission (the "SEC") in instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The accompanying condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial position, results of operations and cash flows for the periods indicated. All material intercompany accounts and transactions have been eliminated in consolidation. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended March 31, 2024, and notes thereto included in the Company's annual report on Form 10-K, which was filed with the SEC on June 17, 2024.

Note 2. Liquidity and Financial Condition

The Company reported a net loss of $610,000 and $1,484,000 for the three months ended September 30, 2024 and 2023, respectively, and $1,753,000 and $2,902,000 for the six months ended September 30, 2024 and 2023, respectively. At September 30, 2024 and March 31, 2024, the Company's accumulated deficit amounted to $196,102,000 and $194,349,000, respectively. The Company had working capital of $8,912,000 and $8,829,000 as of September 30, 2024 and March 31, 2024, respectively. The cash balance at September 30, 2024 and March 31, 2024 was $4,078,000 and $3,128,000, respectively. During the six months ended September 30, 2024 and 2023, net cash used in operating activities amounted to $558,000 and $1,446,000, respectively.

Management believes that the Company has access to additional capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means; however, the Company cannot provide any assurance that other new financings will be available on commercially acceptable terms, if needed. If the economic climate in the U.S. deteriorates, the Company's ability to raise additional capital could be negatively impacted. If the Company is unable to secure additional capital, it may be required to take additional measures to reduce costs in order to conserve its cash in amounts sufficient to sustain operations and meet its obligations. These measures could cause significant delays in the Company's continued efforts to commercialize its products, which is critical to the realization of its business plan and the future operations of the Company. This uncertainty along with the Company's history of losses indicates that there is substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The accompanying condensed consolidated financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP 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 valuation allowance relating to the Company's deferred tax assets, valuation of equity and the estimated amortization periods of upfront product licensing fees received from customers. Periodically, the Company evaluates and adjusts estimates accordingly.

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 following table provides the net loss for each period along with the computation of basic and diluted net loss per share:

	Three Months Ended September 30,		Six Months Ended September 30,	
(In thousands, except per share data)	**2024**	**2023**	**2024**	**2023**
Numerator:				
Net loss	$ (610)	$ (1,484)	$ (1,753)	$ (2,902)
Denominator:				
Weighted-average number of common shares outstanding: basic and diluted	1,034	258	943	253
Net loss per share: basic and diluted	$ (0.59)	$ (5.75)	$ (1.86)	$ (11.47)

The computation of basic loss per share for the three and six months ended September 30, 2024 and 2023 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	Three Months Ended September 30,		Six Months Ended September 30,	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Stock options	42	26	42	26
Warrants	–	5	–	5
Common stock units (1)	–	2	–	2
	42	33	42	33

(1) Consists of 1,533 restricted stock units and warrants to purchase 766 shares of common stock.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC"), Topic 606 Revenue from Contracts with Customers ("Topic 606"). Revenue is recognized when the Company transfers promised goods or services to the customer, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. In determining the appropriate amount of revenue to be recognized as the Company fulfills its obligations under the agreement, the Company performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation. The Company only applies the five-step model to contracts when it is probable that it will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer.

The Company derives the majority of its revenue through sales of its products directly to end users and to distributors. The Company also sells products to a customer base, including hospitals, medical centers, doctors, pharmacies, distributors and wholesalers. The Company has also entered into agreements to license its technology and products.

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. For each contract, the Company considers the promise to transfer products, each of which are distinct, to be the identified performance obligations. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which it expects to be entitled.

For all of the Company's sales to non-consignment distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e. when its performance obligation is satisfied), which typically occurs when title passes to the customer upon shipment but could occur when the customer receives the product based on the terms of the agreement with the customer. For product sales to its value-added resellers, non-stocking distributors and end-user customers, the Company grants return privileges to its customers, and because the Company has a long history with its customers, the Company is able to estimate the amount of product that will be returned.

The Company has entered into consignment arrangements, in which goods are left in the possession of another party to sell. As products are sold from the customer to third parties, the Company recognizes revenue based on a variable percentage of a fixed price. Revenue recognized varies depending on whether a patient is covered by insurance or is not covered by insurance. In addition, the Company may incur a revenue deduction related to the use of the Company's rebate program.

Sales to stocking distributors are made under terms with fixed pricing and limited rights of return (known as "stock rotation") of the Company's products held in their inventory. Revenue from sales to distributors is recognized upon the transfer of control to the distributor.

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

The Company assessed the promised goods and services in the technical support contract with Invekra for a ten-year period as being a distinct service that Invekra can benefit from on its own and as separately identifiable from any other promises within the contract. Given that the distinct service is not substantially the same as other goods and services within the Invekra contract, the Company accounted for the distinct service as a performance obligation.

Accounts Receivable

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

The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Other factors that the Company considers include its existing contractual obligations, historical payment patterns of its customers and individual customer circumstances, an analysis of days sales outstanding by customer and geographic region, and a review of the local economic environment and its potential impact on government funding and reimbursement practices. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company did not deem it necessary to record an allowance for doubtful accounts for probable credit losses at September 30, 2024 and March 31, 2024. Additionally, at September 30, 2024 and March 31, 2024, the Company has allowances of $66,000 and $27,000, respectively, related to potential discounts, returns, distributor fees and rebates. The allowances are included in Accounts Receivable, net in the accompanying condensed consolidated balance sheets.

Inventories

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

Due to changing market conditions, estimated future requirements, age of the inventories on hand and production of new products, the Company regularly reviews inventory quantities on hand and records a provision to write down excess and obsolete inventory to its estimated net realizable value. At September 30, 2024 and March 31, 2024, the Company recorded provisions to reduce the carrying amounts of inventories to their net realizable value in the amounts of $254,000 and $296,000, respectively, which is included in Inventories, net in the accompanying condensed consolidated balance sheets.

Recent Accounting Standards

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

Note 4. Condensed Consolidated Balance Sheet

Inventories, net

Inventories, net consist of the following:

	September 30, 2024	March 31, 2024
Raw materials	$ 1,670,000	$ 1,802,000
Finished goods	1,421,000	1,213,000
	3,091,000	3,015,000
Less: allowance for obsolete and excess inventory	(254,000)	(296,000)
Total inventories, net	$ 2,837,000	$ 2,719,000

Leases

The Company's operating leases are comprised primarily of facility leases. Balance sheet information related to the Company's leases is presented below:

	September 30, 2024	March 31, 2024
Operating leases:		
Operating lease right-of-use assets	$ 162,000	$ 286,000
Operating lease liabilities – current	116,000	198,000
Operating lease liabilities – non-current	46,000	87,000

Other information related to leases is presented below:

Six Months Ended September 30, 2024	
Operating lease cost	$ 186,000
Other information:	
Operating cash flows from operating leases	(102,000)
Weighted-average remaining lease term – operating leases (in months)	18.7
Weighted-average discount rate – operating leases	6.00%

As of September 30, 2024, the annual minimum lease payments of our operating lease liabilities were as follows:

For Years Ending March 31,	
2025 (excluding the six months ended September 30, 2024)	$ 87,000
2026	67,000
2027	14,000
2028	9,000
Total future minimum lease payments, undiscounted	177,000
Less: imputed interest	(15,000)
Present value of future minimum lease payments	$ 162,000

Note 5. Commitments and Contingencies

Legal Matters

The Company may be involved in legal matters arising in the ordinary course of business including matters involving proprietary technology from time to time. While management believes that such matters are currently insignificant, matters arising in the ordinary course of business for which the Company is or could become involved in litigation may have a material adverse effect on its business and financial condition of comprehensive loss.

Employment Matters

The Company has employment agreements in place with two of its key executives. These executive employment agreements provide, among other things, for the payment of up to eighteen months of severance compensation for terminations under certain circumstances.

As of September 30, 2024, with respect to these agreements, aggregated annual salaries was $586,000 and potential severance payments to these key executives is $1,300,000, if triggered.

Note 6. Debt

Financing of Insurance Premiums

On February 6, 2024, the Company entered into a note agreement for $373,000 with an interest rate of 8.42% per annum with final payment on November 1, 2024. This instrument was issued in connection with financing insurance premiums. The note is payable in nine monthly installment payments of principal and interest of $42,000, with the first installment beginning March 1, 2024. At September 30, 2024 and March 31, 2024, the outstanding principal on the note amounted to $82,000 and $323,000, respectively.

Note 7. Stockholders' Equity

Authorized Capital

Effective August 29, 2024, the Company increased its authorized shares from 24,000,000 to 50,000,000 shares of common stock with a par value of $0.0001 per share. Additionally, the Company is authorized to issue 714,286 shares of convertible preferred stock with a par value of $0.0001 per share.

Sale of Common Stock

In connection with the Equity Distribution Agreement that the Company entered into on December 15, 2023 with Maxim Group LLC ("Maxim"), as amended, from May 13, 2024 to September 18, 2024 the Company sold 539,744 shares of its common stock for gross proceeds of $2,490,000 and net proceeds of $2,289,000 after deducting commissions and other offering expenses paid by the Company.

Note 8. Stock-Based Compensation

For the three months ended September 30, 2024 and 2023, the Company incurred $14,000 and $130,000 of stock-based compensation expense, respectively. For the six months ended September 30, 2024 and 2023, the Company incurred $121,000 and $307,000 of stock-based compensation expense, respectively. All stock-based compensation incurred is included in selling, general and administrative expense in the accompanying condensed consolidated statements of comprehensive loss.

At September 30, 2024, there was unrecognized compensation costs of $229,000 related to stock options which is expected to be recognized over a weighted-average amortization period of 1.80 years.

Stock options award activity is as follows:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at April 1, 2024	51,675	$ 62.60
Options exercised	(9,250)	3.60
Options forfeited	(250)	3.60
Options expired	(10)	2,402
Outstanding at September 30, 2024	42,165	$ 75.77
Exercisable at September 30, 2024	28,335	$ 107.92

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock, or $3.07 per share at September 30, 2024.

Restricted stock award activity is as follows:

	Number of Shares	Weighted Average Award Date Fair Value per Share
Unvested restricted stock awards outstanding at April 1, 2024	–	$ –
Restricted stock awards granted	9,538	4.00
Restricted stock awards vested	(9,538)	4.00
Unvested restricted stock awards outstanding at September 30, 2024	–	$ –

The Company issues new shares of common stock upon exercise of stock options or release of restricted stock awards.

Note 9. Income Taxes

At the end of each interim reporting period, the Company determines the income tax provision by using an estimate of the annual effective tax rate, adjusted for discrete items occurring in the quarter.

Our effective tax rate for the three and six months ended September 30, 2024 was (31.5)% and (20.5)%, respectively. The Company's effective tax rate for the three and six months ended September 30, 2024 differed from the federal statutory tax rate of 21% primarily due to the valuation allowance recognized against deferred tax assets in the U.S., and permanent tax adjustment of intercompany interest expense in Mexico and Netherlands.

Judgment is required in determining whether deferred tax assets will be realized in full or in part. Management assesses the available positive and negative evidence on a jurisdictional basis to estimate if deferred tax assets will be recognized and when it is more likely than not that all or some deferred tax assets will not be realized, and a valuation allowance must be established. As of September 30, 2024, the Company continues to maintain a valuation allowance in the U.S.

Note 10. Revenue Disaggregation

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

The following table presents the Company's disaggregated revenues by revenue source:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2024	2023	2024	2023
Human Care	$ 2,957,000	$ 2,075,000	$ 5,833,000	$ 4,825,000
Animal Care	402,000	489,000	801,000	1,067,000
Service and Royalty	220,000	167,000	336,000	266,000
	$ 3,579,000	$ 2,731,000	$ 6,970,000	$ 6,158,000

The following table shows the Company's revenues by geographic region:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2024	2023	2024	2023
United States	$ 675,000	$ 590,000	$ 1,317,000	$ 1,396,000
Europe	1,506,000	1,201,000	2,794,000	2,271,000
Asia	776,000	346,000	1,253,000	1,208,000
Latin America	465,000	260,000	1,345,000	747,000
Rest of the World	157,000	334,000	261,000	536,000
Total	$ 3,579,000	$ 2,731,000	$ 6,970,000	$ 6,158,000

Note 11. Significant Customer Concentrations

The following table shows major customers revenues as a percentage of net revenue:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2024	2023	2024	2023
Customer A	*%	13%	*%	14%
Customer B	13%	10%	19%	12%
Customer C	19%	21%	19%	17%
Customer D	12%	*%	*%	*%

The following table shows major customers accounts receivable balances as a percentage of net accounts receivables:

	September 30,	
	2024	2023
Customer A	16%	11%
Customer C	11%	13%
Customer D	20%	20%

* Represents less than 10%

Note 12. Subsequent Events

Management has evaluated subsequent events or transactions occurring through the date the condensed consolidated financial statements were issued. The Company does not have subsequent events to report.

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, 2024 and our audited consolidated financial statements for the year ended March 31, 2024 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on June 17, 2024.

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 "anticipate," "suggest," "estimate," "plan," "aim," "seek," "project," "continue," "ongoing," "potential," "expect," "predict," "believe," "intend," "may," "will," "should," "could," "would," "likely," "proposal," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to the risks described in our Annual Report on Form 10-K including: our ability to become profitable; our dependence on third-party distributors; certain tax impacts of inter-company loans between us and our Mexican subsidiary; 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 and capabilities relating to the sales and marketing of our current products and our product candidates; our ability to compete with other companies that are developing or selling products that are competitive with our products; the establishment of strategic partnerships for the development or sale of products; the risk our research and development efforts do not lead to new products; the timing of commercializing our products; our ability to penetrate markets through our sales force, distribution network, and strategic business partners to gain a foothold in the market and generate attractive margins; the 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 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; the risk we may need to indemnify our distributors or other third parties; risks attendant with conducting a significant portion of our business outside the United States; our ability to comply with complex federal and state fraud and abuse laws, including state and federal anti-kickback laws; risks associated with changes to health care laws; 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; our ability to protect our information technology and infrastructure; and the impact of 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 are a global healthcare leader for developing and producing stabilized hypochlorous acid, or HOCl, products for a wide range of applications, including wound care, eye care, oral care, dermatological conditions, podiatry, animal health care and non-toxic disinfectants. Our products are clinically proven to reduce itch, pain, scarring, and irritation safely and without damaging healthy tissue. In-vitro and clinical studies of HOCl show it to safely manage skin abrasions, lacerations, minor irritations, cuts, and intact skin. We sell our products either directly or via partners in 55 countries worldwide.

Business Channels

Our core market differentiation is based on being the leading developer and producer of stabilized hypochlorous acid, or HOCl, solutions. We have been in business for over 20 years, and in that time, we have developed significant scientific knowledge of how best to develop and manufacture HOCl products backed by decades of studies and data collection. HOCl is known to be among the safest and most-effective ways to relieve itch, inflammation and burns while stimulating natural healing through increased oxygenation and eliminating persistent microorganisms and biofilms.

We sell our products into many markets both in the U.S. and internationally. In international markets, we ship a variety of products to 55 countries. Our core strategy is to work with partners both in the United States and around the world to market and distribute our products. In some cases, we market and sell our own products.

Dermatology

We have developed unique, differentiated, prescription-strength and safe dermatologic products that support paths to healing among various key dermatologic conditions. Our products are primarily targeted at the treatment of redness and irritation, the management of scars and symptoms of eczema/atopic dermatitis. We are strategically focused on introducing innovative new products that are supported by human clinical data with applications that address specific dermatological procedures currently in demand. In addition, we look for markets where we can provide effective product line extensions and pricing to new product families.

In the United States, we sell our prescription and office dispense dermatology products through a distributor, including Epicyn® Facial Cleanser, Levicyn® Antimicrobial Dermal Spray, Levicyn® Gel, Levicyn® Spray Gel, Celacyn® Scar Management Gel, Lasercyn® Dermal Spray and Lasercyn Gel®.

In October 2022, we launched two new over-the-counter dermatology products in the United States, Reliefacyn® Advanced Itch-Burn-Rash-Pain Relief Hydrogel for the alleviation of red bumps, rashes, shallow skin fissures, peeling, and symptoms of eczema/atopic dermatitis, and Rejuvacyn® Advanced Skin Repair Cooling Mist for management of minor skin irritations following cosmetic procedures as well as daily skin health and hydration.

In June 2022, the Natural Products Association certified Rejuvacyn Advanced as a Natural Personal Care Product. Reliefacyn Advanced received the National Eczema Association Seal of Acceptance™ in 2023.

In January 2023, we launched a line of office dispense products exclusively for skin care professionals, including two new prescription strength dermatology products, Reliefacyn Plus Advanced Itch-Burn-Rash-Pain Relief Hydrogel and Rejuvacyn Plus Skin Repair Cooling Mist. These products, along with Regenacyn Plus Scar Gel, are marketed and sold directly to dermatology practices and medical spas.

In January 2024, we launched Lumacyn™ Clarifying Mist, a direct-to-consumer skin care product in the United States. Lumacyn is an all-natural daily toner to soothe skin, reduce redness and irritation, and manage blemishes by reducing infection.

Our consumer products are available through Amazon.com, our online store and third-party distributors.

We sell dermatology products in Europe and Asia through distributors. In these international markets, we have a network of partners, ranging from country specific distributors to large pharmaceutical companies to full-service sales and marketing companies. We work with our international partners to create products they can market in their home country. Some products we develop and manufacture are custom label while others use branding we have already developed. We have created or co-developed a wide range of products for international markets using our core HOCl technology.

First Aid and Wound Care

Our HOCl-based wound care products are intended for the treatment of acute and chronic wounds as well as first- and second-degree burns, and as an intraoperative irrigation treatment. They work by first removing foreign material and debris from the skin surface and moistening the skin, thereby improving wound healing. Secondly, our HOCl products assist in the wound healing process by removing microorganisms. HOCl is an important constituent of our innate immune system, formed and released by the macrophages during phagocytosis. Highly organized cell structures such as human tissue can tolerate the action of our wound care solution while single-celled microorganisms cannot, making our products advantageous to other wound-irrigation and antiseptic solutions. Due to its unique chemistry, our wound treatment solution is also much more stable than similar products on the market and therefore maintains much higher levels of hypochlorous acid over its shelf life.

In the United States, we sell our wound care products directly to hospitals, physicians, nurses, and other healthcare practitioners and indirectly through non-exclusive distribution arrangements. In Europe, the Middle East and Asia, we sell our wound care products through a diverse network of distributors.

In March 2021, we received approval to market and use our HOCl products as biocides under Article 95 of the European Biocidal Products Regulation in France, Germany and Portugal. The approval applies to our products MucoClyns™ for human hygiene to be marketed and commercialized by us, MicrocynAH® for animal heath marketed and commercialized through our partner, Petagon Limited, and MicroSafe for disinfectant use to be marketed and commercialized through our partner, MicroSafe Group DMCC.

In June 2022, the Natural Products Association certified Microcyn OTC as a Natural Personal Care Product in the United States.

In June 2023, we announced a new application of our HOCl technology for intraoperative pulse lavage irrigation treatment, which can replace commonly used IV bags in a variety of surgical procedures. The intraoperative pulse lavage container is designed to be used in combination with a pulse lavage irrigation device, or flush gun, for abdominal, laparoscopic, orthopedic, and periprosthetic procedures. It is in trial use by hospitals in Europe and launched in the U.S. in November 2023.

In April 2024, we announced expansion of our Microcyn Negative Pressure Wound Therapy Solution products line, now available in 250mL, 450mL and 990mL sizes to meet the diverse needs of healthcare professionals and patients.

In July 2024, we announced an expansion of our distributor base in Europe through a new partnership with Smart Healthcare Company (SHC) s.r.o. for the distribution of Microdacyn60® wound care products into Ukraine.

In August, 2024, we entered into a distribution agreement with Medline Industries, LP, for the marketing and distribution of our wound care products in the United States. The agreement is for an initial term of five years, subject to automatic one-year renewal periods. In October 2024, we entered into an amendment to the agreement which allows Medline to also sell our wound care products in Canada, as well as to sell additional over-the-counter wound care products to retailers in both countries.

Eye Care

In September 2021, we launched Ocucyn® Eyelid & Eyelash Cleanser, which is sold directly to consumers on Amazon.com, through our online store, and through third party distributors. Ocucyn Eyelid & Eyelash Cleanser, designed for everyday use, is a safe, gentle, and effective solution for good eyelid and eyelash hygiene.

Our prescription product Acuicyn® Eyelid & Eyelash Cleanser is a prescription solution for symptoms of blepharitis and the daily hygiene of eyelids and lashes and helps manage red, itchy, crusty and inflamed eyes. It is strong enough to kill the bacteria that causes discomfort, fast enough to provide near instant relief, and gentle enough to use as often as needed.

In international markets we rely on distribution partners to sell our eye products. In May 2020, we entered into an expanded license and distribution agreement with our existing partner, Brill International S.L., for our Microdacyn60® Eye Care HOCl-based product. Under the license and distribution agreement, Brill has the right to market and distribute our eye care product under the private label Ocudox in Italy, Germany, Spain, Portugal, France, and the United Kingdom for a period of 10 years, subject to meeting annual minimum sales quantities. In return, Brill paid us a one-time fee, and the agreed upon supply prices. In parts of Asia, Dyamed Biotech markets our eye product under the private label Ocucyn.

Oral, Dental and Nasal Care

We sell a variety of oral, dental, and nasal products around the world.

In international markets, our product Microdacyn60 Oral Care treats mouth and throat infections and thrush. Microdacyn60 assists in reducing inflammation and pain, provides soothing cough relief and does not contain any harmful chemicals. It does not stain teeth, is non-irritating, non-sensitizing, has no contraindications and is ready for use with no mixing or dilution.

Our international nasal care product Sinudox™ based on our HOCl technology is an electrolyzed solution intended for nasal irrigation. Sinudox clears and cleans stuffy, runny noses and blocked or inflamed sinuses by ancillary ingredients that may have a local antimicrobial effect. Sinudox is currently sold through Amazon in Europe. In other parts of the world, we partner with distributors to sell Sinudox.

Podiatry

Our HOCl-based wound care products are also indicated for the treatment of diabetic foot ulcers. In the United States, we sell our wound care products directly to podiatrists as well as hospitals, nurses, and other healthcare practitioners and indirectly through non-exclusive distribution arrangements. In Europe, we sell our wound care products for podiatric use through a diverse network of distributors.

In April 2023, we launched Podiacyn™ Advanced Everyday Foot Care direct to consumers for over-the-counter use in the United States, intended for management of foot odors, infections, and irritations, as well as daily foot health and hygiene. Podiacyn is available through Amazon.com, our online store and third-party distributors.

Animal Health Care

MicrocynAH® is an HOCl-based topical product that cleans, debrides and treats a wide spectrum of animal wounds and infections. It is intended for the safe and rapid treatment of a variety of animal afflictions including cuts, burns, lacerations, rashes, hot spots, rain rot, post-surgical sites, pink eye symptoms and wounds to the outer ear.

For our animal health products sold in the U.S. and Canada, we partner with Compana Pet Brands. Compana distributes non-prescription products to national pet-store retail chains and farm animal specialty stores, such as PetSmart, Tractor Supply, Cabela's, PetExpress, Bass Pro Shops, and Menards. In August 2022, we announced the launch of a MicrocynVS® line of products exclusively for veterinarians for the management of wound, skin, ear and eye afflictions in all animal species.

For the Asian and European markets, in May 2019 we partnered with Petagon an international importer and distributor of quality pet food and products for an initial term of five years. We supply Petagon with all MicrocynAH products sold by Petagon. In August 2020, Petagon received a license from the People's Republic of China for the import of veterinary drug products manufactured by us. This is the highest classification Petagon and Sonoma can receive for animal health products in China.

Surface Disinfectants

Our HOCl technology has been formulated as a disinfectant and sanitizer solution for our partner MicroSafe and is sold in numerous countries. It is designed to be used to spray in aerosol format in areas and environments likely to serve as a breeding ground for the spread of infectious disease, which could result in epidemics or pandemics. The medical-grade surface disinfectant solution is used in hospitals worldwide to protect doctors and patients. In May 2020, Nanocyn® Disinfectant & Sanitizer received approval to be entered into the Australian Register of Therapeutic Goods, or ARTG for use against the coronavirus SARS-CoV-2, or COVID-19, and was also authorized in Canada for use against COVID-19. Nanocyn has also met the stringent environmental health and social/ethical criteria of Good Environmental Choice Australia, or GECA, becoming one of the very few eco-certified, all-natural disinfectant solutions in Australia.

Through our partner MicroSafe, we sell hard surface disinfectant products into Europe, the Middle East and Australia.

In July 2021, we granted MicroSafe the non-exclusive right to sell and distribute Nanocyn in the United States provided that MicroSafe secure U.S. EPA approval. In April of 2022, MicroSafe secured the EPA approval for Nanocyn® Disinfectant & Sanitizer, meaning that it can now be sold in the United States as a surface disinfectant, and it was subsequently added to the EPA's list N for use against COVID-19. In June 2022, the EPA added Nanocyn to List Q as a disinfectant for Emerging Viral Pathogens, including Ebola virus, Mpox, and SARS-CoV-2, and in March 2023 the EPA added Nanocyn to Lists G and H, for use against Methicillin Resistant Staphylococcus Aureus (MRSA), Salmonella, Norovirus, Poliovirus, and as a fungicide. Nanocyn also received the Green Seal® Certification after surpassing a series of rigorous standards that measure environmental health, sustainability and product performance. Nanocyn is currently sold by MicroSafe in Europe, the Middle East and Australia.

In August 2024, we announced that the Australian TGA approved extended claims for Nanocyn for use against Candida auris (C. auris) and Clostritium Difficile (C. diff.) in ten minutes.

Additional Information

Investors and others should note that we announce material financial information using our company website (www.sonomapharma.com), our investor relations website (ir.sonomapharma.com), SEC filings, press releases, public conference calls and webcasts. The information on, or accessible through, our websites is not incorporated by reference in this Quarterly Report on Form 10-Q.

Results of Operations

Comparison of the Three Months Ended September 30, 2024 and 2023

Revenue

The following table shows our consolidated total revenue and revenue by geographic region for the three months ended September 30, 2024 and 2023:

	Three Months Ended September 30,			
(In thousands)	**2024**	**2023**	**$ Change**	**% Change**
United States	$ 675	$ 590	$ 85	14%
Europe	1,506	1,201	305	25%
Asia	776	346	430	124%
Latin America	465	260	205	79%
Rest of the World	157	334	(177)	(53%)
Total	$ 3,579	$ 2,731	$ 848	31%

The increase in United States revenue of $85,000 for the three months ended September 30, 2024 was primarily due to increases in eye care and dermatology revenue.

The increase in Europe revenue for the three months ended September 30, 2024 of $305,000 was the result of a general increase in demand for our products.

The increase in Latin America revenue for the three months ended September 30, 2024 of $205,000 was primarily due to an increase in manufacturing orders.

The increase in Asia revenue of $430,000 for the three months ended September 30, 2024 was primarily due to timing of customer orders. The decrease in Rest of World revenue for the three months ended September 30, 2024 of $177,000 was primarily due to timing of customer orders. Revenues from these regions tend to be choppy when viewed on a quarterly basis due to customers placing larger, but less frequent, orders to benefit from quantity discounts and reduced shipping costs when ordering larger quantities.

Cost of Revenue and Gross Profit

The cost of revenue and gross profit metrics for the three months ended September 30, 2024 and 2023 are as follows:

	Three Months Ended September 30,			
(In thousands, except for percentages)	**2024**	**2023**	**$ Change**	**% Change**
Cost of Revenues	$ 2,218	$ 1,741	$ 477	27%
Cost of Revenue as a % of Revenues	62%	64%		
Gross Profit	$ 1,361	$ 990	$ 371	37%
Gross Profit as a % of Revenues	38%	36%		

The increase in gross profit of $371,000 for the three months ended September 30, 2024 was primarily due to an increase in revenue as compared to the prior period.

Research and Development Expense

The research and development expense metrics for the three months ended September 30, 2024 and 2023 are as follows:

	Three Months Ended September 30,			
(In thousands, except for percentages)	**2024**	**2023**	**$ Change**	**% Change**
Research and Development Expense	$ 506	$ 536	$ (30)	(6%)
Research and Development Expense as a % of Revenues	14%	20%		

Decreases in research and development expenses for the three months ended September 30, 2024 of $30,000 was primarily due to the timing of product development and regulatory efforts.

Selling, General and Administrative Expense

The selling, general and administrative expense metrics for the three months ended September 30, 2024 and 2023 are as follows:

	Three Months Ended September 30,			
(In thousands, except for percentages)	**2024**	**2023**	**Change**	**% Change**
Selling, General and Administrative Expense	$ 1,705	$ 1,662	$ 43	3%
Selling, General and Administrative Expense as a % of Revenues	48%	61%		

The increase in selling, general and administrative expenses for the three months ended September 30, 2024 of $43,000 was the result of fluctuations in timing of corporate spending.

Other Income (Expense), net

Other income (expense), net for the three months ended September 30, 2024 was $387,000 compared to other income (expense), net of $(90,000) for the three months ended September 30, 2023. The change in other income (expense), net primarily relates to exchange rate fluctuations.

Income Tax Expense

Income tax expense for the three months ended September 30, 2024 and 2023 was $147,000 and $186,000, respectively. The expense for each period is primarily related to the use of our deferred tax asset in Mexico and, to a lesser extent, our deferred tax asset in Netherlands.

Net Loss

The following table provides the net loss for each period along with the computation of basic and diluted net loss per share:

	Three Months Ended September 30,	
(In thousands, except per share data)	**2024**	**2023**
Net loss	$ (610)	$ (1,484)
Weighted-average shares outstanding: basic and diluted	1,034	258
Net loss per share: basic and diluted	$ (0.59)	$ (5.75)

Comparison of the Six Months Ended September 30, 2024 and 2023

Revenue

The following table shows our consolidated total revenue and revenue by geographic region for the six months ended September 30, 2024 and 2023:

	Six Months Ended September 30,			
(In thousands)	**2024**	**2023**	**$ Change**	**% Change**
United States	$ 1,317	$ 1,396	$ (79)	(6%)
Europe	2,794	2,271	523	23%
Asia	1,253	1,208	45	4%
Latin America	1,345	747	598	80%
Rest of the World	261	536	(275)	(51%)
Total	$ 6,970	$ 6,158	$ 812	13%

The decrease in United States revenue of $79,000 for the six months ended September 30, 2024 was primarily the result of fluctuations in timing of orders of over-the-counter animal health care products.

The increase in Europe revenue for the six months ended September 30, 2024 of $523,000 was the result of a general increase in demand for our products.

The increase in Latin America revenue for the six months ended September 30, 2024 of $598,000 was primarily due to an increase in manufacturing orders.

The increase in Asia revenue of $45,000 for the six months ended September 30, 2024 was primarily due to timing of customer orders. The decrease in Rest of World revenue for the six months ended September 30, 2024 of $275,000 was primarily due to timing of customer orders. Revenues from these regions tend to be choppy when viewed on a quarterly basis due to customers placing larger, but less frequent, orders to benefit from quantity discounts and reduced shipping costs when ordering larger quantities.

Cost of Revenue and Gross Profit

The cost of revenue and gross profit metrics for the six months ended September 30, 2024 and 2023 are as follows:

	Six Months Ended September 30,			
(In thousands, except for percentages)	**2024**	**2023**	**$ Change**	**% Change**
Cost of Revenues	$ 4,303	$ 3,964	$ 339	9%
Cost of Revenue as a % of Revenues	62%	64%		
Gross Profit	$ 2,667	$ 2,194	$ 473	22%
Gross Profit as a % of Revenues	38%	36%		

The increase in gross profit of $473,000 for the six months ended September 30, 2024 was primarily due to an increase in revenue, overall product mix, volume as compared to the prior period and transportation in the prior period.

Research and Development Expense

The research and development expense metrics for the six months ended September 30, 2024 and 2023 are as follows:

	Six Months Ended September 30,			
(In thousands, except for percentages)	**2024**	**2023**	**$ Change**	**% Change**
Research and Development Expense	$ 976	$ 861	$ 115	13%
Research and Development Expense as a % of Revenues	14%	14%		

Increases in research and development expenses for the six months ended September 30, 2024 of $115,000 was primarily due to increased product development and expanded regulatory efforts in the U.S. and Europe to support new product releases and increases in regulatory demands in Europe.

Selling, General and Administrative Expense

The selling, general and administrative expense metrics for the six months ended September 30, 2024 and 2023 are as follows:

	Six Months Ended September 30,			
(In thousands, except for percentages)	**2024**	**2023**	**Change**	**% Change**
Selling, General and Administrative Expense	$ 3,714	$ 3,781	$ (67)	(2%)
Selling, General and Administrative Expense as a % of Revenues	53%	61%		

The decline in selling, general and administrative expenses for the six months ended September 30, 2024 of $67,000 was the result of ongoing efforts to contain expenses across all parts of the company.

Other Income (Expense), net

Other income (expense), net for the six months ended September 30, 2024 was $563,000 compared to other income (expense), net of $(301,000) for the six months ended September 30, 2023. The change in other income (expense), net primarily relates to exchange rate fluctuations.

Income Tax Expense

Income tax expense for the six months ended September 30, 2024 and 2023 was $293,000 and $153,000, respectively. The expense for each period is primarily related to the use of our deferred tax asset in Mexico and, to a lesser extent, our deferred tax asset in Netherlands.

Net Loss

The following table provides the net loss for each period along with the computation of basic and diluted net loss per share:

	Six Months Ended September 30,	
(In thousands, except per share data)	**2024**	**2023**
Net loss	$ (1,753)	$ (2,902)
Weighted-average shares outstanding: basic and diluted	943	253
Net loss per share: basic and diluted	$ (1.86)	$ (11.47)

Liquidity and Capital Resources

We reported a net loss of $610,000 and $1,484,000 for the three months ended September 30, 2024 and 2023, respectively, and $1,753,000 and $2,902,000 for the six months ended September 30, 2024 and 2023, respectively. At September 30, 2024 and March 31, 2024, our accumulated deficit amounted to $196,102,000 and $194,349,000, respectively. At September 30, 2024 and March 31, 2024, we had cash and cash equivalents of $4,078,000 and $3,128,000, respectively. At September 30, 2024 and March 31, 2024, we had working capital of $8,912,000 and $8,829,000, respectively.

Sources of Liquidity

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 and the sale of certain assets to customers.

Since October 1, 2023, substantially all of our operations have been financed through cash on hand and the following transactions:

- Proceeds of $1,446,000, net of offering expenses, from the sale of common stock on October 26, 2023.
- Proceeds of $343,000, net of offering expenses, from the sale of common stock on January 11, 2024.
- Proceeds of $2,289,000, net of offering expenses, from the sale of common stock in the six months ended September 30, 2024.

Cash Flows

The following table presents a summary of our consolidated cash flows for operating, investing and financing activities for the six months ended September 30, 2024 and 2023 as well balances of cash and cash equivalents and working capital:

	Six Months Ended September 30,	
(In thousands)	**2024**	**2023**
Net cash provided by (used in):		
Operating activities	$ (558)	$ (1,446)
Investing activities	(31)	(19)
Financing activities	2,080	(264)
Effect of exchange rates on cash	(541)	46
Net change in cash and cash equivalents	950	(1,683)
Cash and cash equivalents, beginning of the period	3,128	3,820
Cash and cash equivalents, end of the period	$ 4,078	$ 2,137
Working capital [(1)], end of period	$ 8,912	$ 8,277

(1) Defined as current assets minus current liabilities.

Net cash used in operating activities during the six months ended September 30, 2024 was $558,000, primarily due to a net loss of $1,753,000 offset by decrease in prepaid expenses of $1,134,000.

Net cash used in operating activities during the six months ended September 30, 2023 was $1,446,000, primarily due to a net loss of $2,902,000, offset by a decrease in accounts receivables of $375,000, a decrease in inventory of $403,000 and stock compensation of $307,000.

Net cash used in investing activities was $31,000 for six months ended September 30, 2024, primarily related to the purchase of equipment.

Net cash used in investing activities was $19,000 for the six months ended September 30, 2023, primarily related to purchases of equipment.

Net cash provided by financing activities was $2,080,000 for the six months ended September 30, 2024, primarily due to net proceeds from the sale of common stock of $2,289,000 offset by $241,000 of principal payments on a short-term loan related to financing of insurance premiums.

Net cash used in financing activities was $264,000 for the six months ended September 30, 2023, primarily due to principal payments on short-term debt.

Material Trends and Uncertainties

We rely on certain key customers for a significant portion of our revenues. In the future, a small number of customers may continue to represent a significant portion of our total revenues in any given period. These customers may not consistently purchase our products at a particular rate over any subsequent period.

We are exposed to risk from foreign currency devaluation for both the Mexico Peso and the Euro versus the US dollar. Risk related to foreign currency valuation tends to be unpredictable and can be affected by various factors outside of our control.

We face a substantial Mexico tax liability, intercompany debt, unpaid technical assistance charges and accrued interest. These amounts are due in 2027. At this time, management believes there are sufficient assets on the balance sheet to more than cover any tax obligation without interrupting our operations or business. We have engaged tax professionals to review all options to limit our exposure to these amounts and to proceed in a manner that is most advantageous to us.

We also closely monitor overall economic conditions and consumer sentiment and the prospect of a recession in the United States which may impact our financial results.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 valuation allowance relating to our deferred tax assets, valuation of equity and the estimated amortization periods of upfront product licensing fees received from customers. Periodically, we evaluate and adjust estimates accordingly.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's 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.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of our most recent fiscal quarter. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2024 due to the fact that material weaknesses in our internal controls over financial reporting exist at period end.

Notwithstanding our ineffective disclosure controls and procedures, management believes the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. generally accepted accounting principles.

Evaluation of Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rule 13a-15(f) and 15d-15(f). Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *2013 Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was not effective as of September 30, 2024. We determined that there was a lack of separation of duties with preparation and review of the reported numbers, among other things. We believe we have taken steps to correct this, but the controls are currently being tested and have not been working for a sufficient period of time to remove this weakness.

Management's Remediation Measures

Management, with oversight from the Audit Committee of our Board of Directors, is actively engaged in remediation efforts to address the material weaknesses identified in the management's evaluation of internal controls and procedures. Management has taken a number of actions to remediate the material weaknesses described above, including the following:

- Improved monitoring and risk assessment activities to address these control deficiencies.
- Hired an experienced Chief Financial Officer and Controller in 2023.
- Separated the preparation of the financial reports from review of the financial reports.
- Developed and delivered further internal controls training to individuals associated with these control deficiencies and enhanced training provided to all personnel who have financial reporting or internal control responsibilities in these areas. The training includes a review of individual roles and responsibilities related to internal controls, proper oversight and reemphasizes the importance of completing the control procedures.

These improvements are targeted at strengthening our internal control over financial reporting and remediating the material weaknesses. We remain committed to an effective internal control environment, and management believes that these actions and the improvements management expects to achieve as a result will effectively remediate the material weaknesses. However, the material weaknesses in our internal control over financial reporting will not be considered remediated until the controls operate for a sufficient period of time and management has concluded, through testing that these controls operate effectively. As of the date of filing this Quarterly Report on Form 10-Q, management is in the process of testing and evaluating these additional controls to determine whether they are operating effectively. We have hired appropriate accounting staff to establish effective internal controls and processes.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not finished testing our controls and sufficient time has not elapsed to make the determination these controls are operating effectively.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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, 2024, as filed with the SEC June 17, 2024.

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

We did not issue any unregistered securities during the quarter ended September 30, 2024 and through November 7, 2024.

Item 3. Default Upon Senior Securities

We did not default upon any senior securities during the quarter ended September 30, 2024.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the quarter ended September 30, 2024, no director or officer adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

Amendment to Code of Business Conduct

On November 5, 2024, our Board of Directors adopted changes to our Code of Business Conduct (the "Code"). The Code governs the conduct of all our employees, directors and officers, including our management. The changes to the Code were made to update the Code to current best practices. In addition to some clerical changes, the Code now explicitly reflects the definition of "code of ethics" in Item 406 of Regulation S-K. The Code also updates reporting procedures, including updates to our anonymous reporting hotline. No waivers have been granted under the Code to date.

A copy of the Code of Business Conduct of Sonoma Pharmaceuticals, Inc., as adopted by the Board of Directors on November 5, 2024, is filed as Exhibit 14.1 to this Quarterly Report on Form 10-Q.

Bonus Award to Executive Vice President and Chief Operating Officer

On November 5, 2024, the Compensation Committee of our Board of Directors approved a one-time cash bonus of $7,500 to Bruce Thornton, Executive Vice President and Chief Operating Officer of the Company, for contributions in obtaining a new 510(k) clearance for the Company's products.

Approval of Tax Gross-Up

On June 16, 2023, the Compensation Committee approved an equity award of 100,000 shares of the Company's common stock to each of Ms. Trombly and Mr. Thornton, to be issued on June 30, 2023, at a valuation based on the five day weighted-average stock price on the date of grant. In addition, the Compensation Committee approved a one-time cash payment by the Company as reimbursement for estimated taxes payable with respect to such equity awards. On November 5, 2024, the Compensation Committee approved an additional tax payment in the amount of $8,411 to of Ms. Trombly and $10,925 to Mr. Thornton to make up a deficiency in the prior reimbursement.

Item 6. Exhibits

Exhibit Index

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., effective January 30, 2006 (included as exhibit 3.1 of the Company's Annual Report on Form 10-K filed June 20, 2007, and incorporated herein by reference).
3.2	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., effective October 22, 2008 (included as exhibit A in the Company's Definitive Proxy Statement on Schedule 14A filed July 21, 2008, and incorporated herein by reference).
3.4	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended, effective March 29, 2013 (included as exhibit 3.1 to the Company's Current Report on Form 8-K filed March 22, 2013, and incorporated herein by reference).
3.5	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended, effective December 4, 2014 (included as exhibit 3.1 to the Company's Current Report on Form 8-K filed December 8, 2014, and incorporated herein by reference).
3.6	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended, effective October 22, 2015 (included as exhibit 3.1 to the Company's Current Report on Form 8-K filed October 27, 2015, and incorporated herein by reference).
3.7	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended, effective June 24, 2016 (included as exhibit 3.1 to the Company's Current Report on Form 8-K filed June 28, 2016, and incorporated herein by reference).
3.8	Certificate of Amendment of Restated Certificate of Incorporation of Sonoma Pharmaceuticals, Inc., as amended, effective December 6, 2016 (included as exhibit 3.1 to the Company's Current Report on Form 8-K filed December 7, 2016, and incorporated herein by reference).
3.9	Amended and Restated Bylaws, as amended, of Sonoma Pharmaceuticals, Inc., effective December 6, 2016 (included as exhibit 3.2 to the Company's Current Report on Form 8-K filed December 7, 2016, and incorporated herein by reference).
3.10	Amendment No. 1 to Amended and Restated Bylaws, as amended, of Sonoma Pharmaceuticals, Inc., effective June 14, 2024 (included as exhibit 3.10 to the Company's Annual Report on Form 10-K filed June 17, 2024, and incorporated herein by reference).
3.11	Certificate of Designation of Preferences, Rights and Limitations of Series A 0% Convertible Preferred Stock, filed with the Delaware Secretary of State on April 24, 2012 (included as exhibit 4.2 to the Company's Current Report on Form 8-K, filed April 25, 2012, and incorporated herein by reference).
3.12	Certificate of Designation of Series B Preferred Stock, effective October 18, 2016 (included as exhibit 3.1 to the Company's Current Report on Form 8-K filed October 21, 2016, and incorporated herein by references).
3.13	Certificate of Amendment of Restated Certificate of Incorporation of Sonoma Pharmaceuticals, Inc., as amended, effective June 19, 2019 (included as exhibit 3.1 to the Company's Current Report on Form 8-K filed June 19, 2019, and incorporated herein by reference).
4.1	Specimen Common Stock Certificate (included as exhibit 4.1 to the Company's Annual Report on Form 10-K filed June 28, 2017, and incorporated herein by reference).
4.2	Section 382 Rights Agreement, dated as of October 18, 2016, between Oculus Innovative Sciences, Inc. and Computershare Inc., which includes the Form of Certificate of Designation of Series B Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (included as exhibit 4.1 to the Company's Current Report on Form 8-K filed October 21, 2016, and incorporated herein by reference).
10.1	Form of Indemnification Agreement between Oculus Innovative Sciences, Inc. and its officers and directors (included as exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.2	Office Lease Agreement, dated May 18, 2006, between Oculus Technologies of Mexico, S.A. de C.V. and Antonio Sergio Arturo Fernandez Valenzuela (translated from Spanish) (included as exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.3	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).

10.4	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).
10.5	Amendment to Office Lease Agreement, effective February 15, 2008, by and between Oculus Innovative Sciences Netherlands B.V. and Artikona Holding B.V. (translated from Dutch) (included as exhibit 10.44 to the Company's Annual Report on Form 10-K filed June 13, 2008, and incorporated herein by reference).
10.6†	Exclusive Sales and Distribution Agreement, dated November 6, 2015, by and between Oculus Innovative Sciences, Inc. and Manna Pro Products, LLC (included as exhibit 10.1 to the Company's 8-K filed March 23, 2016 and incorporated herein by reference).
10.7†	Asset Purchase Agreement dated October 27, 2016, between Oculus Innovative Sciences, Inc. and Invekra, S.A.P.I de C.V. (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed October 31, 2016, and incorporated herein by reference).
10.8†	Amendment Agreement to Acquisition Option dated October 27, 2016, by and between More Pharma Corporation S. de R.L. de C.V. and Oculus Technologies of Mexico, S.A. de C.V. (included as exhibit 10.2 to the Company's Current Report on Form 8-K filed October 31, 2016, and incorporated herein by reference).
10.9	2016 Equity Incentive Plan (included as exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed July 29, 2016, and incorporated herein by reference).
10.10‡+	Asset Purchase Agreement dated May 14, 2019, between Sonoma Pharmaceuticals, Inc. and Petagon, Ltd. (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed May 22, 2019, and incorporated herein by reference).
10.11‡+	Asset Purchase Agreement dated February 21, 2020, between Sonoma Pharmaceuticals, Inc. and MicroSafe Group, DMCC (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed February 27, 2020, and incorporated herein by reference.)
10.12‡+	License, Distribution and Supply Agreement by and between Sonoma Pharmaceuticals, Inc. and Brill International, S.L. dated May 19, 2020 (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed May 26, 2020, and incorporated herein by reference.)
10.13‡	Licensing Agreement between Sonoma Pharmaceuticals, Inc. and MicroSafe Group, effective July 27, 2020 (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed August 6, 2020, and incorporated herein by reference).
10.14‡	Exclusive Supply and Distribution Agreement between the Company and EMC Pharma, LLC, dated March 26, 2021 (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed March 31, 2021, and incorporated herein by reference).
10.15	2021 Equity Incentive Plan (included as appendix on the Company's Definitive Proxy Statement on Schedule 14A filed July 29, 2021 and incorporated herein by reference).
10.16+‡	Exclusive License and Distribution Agreement between the Company and Dyamed Biotech Pte Ltd., dated November 4, 2021 (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed November 9, 2021, and incorporated herein by reference).
10.17+‡	Exclusive License and Distribution Agreement between Sonoma Pharmaceuticals, Inc. and Anlicare International dated January 18, 2022 (included as exhibit 10.2 to the Company's Current Report on Form 8-K filed January 20, 2022, and incorporated herein by reference).
10.18	Sonoma Pharmaceuticals, Inc. Non-Employee Director Compensation Program and Stock Ownership Guidelines, revised by the Board of Directors on December 29, 2022 (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed December 30, 2022, and incorporated herein by reference).
10.19	Amended and Restated Employment Agreement by and between the Company and Amy Trombly, dated June 16, 2023 (included as exhibit 10.38 to the Company's Annual Report on Form 10-K filed June 21, 2023, and incorporated herein by reference).
10.20	Amended and Restated Employment Agreement by and between the Company and Bruce Thornton, dated June 16, 2023 (included as exhibit 10.39 to the Company's Annual Report on Form 10-K filed June 21, 2023, and incorporated herein by reference).
10.21	First Amendment to the Lease between the Company and Westland Development Services, Inc., dated June 21, 2023 (included as exhibit 10.38 to the Company's Quarterly Report on Form 10-Q filed November 13, 2023, and incorporated herein by reference).
10.22	Equity Distribution Agreement, by and between Sonoma Pharmaceuticals, Inc. and Maxim Group LLC, dated December 15, 2023 (included as exhibit 1.1 to the Company's Current Report on Form 8-K filed December 15, 2023, and incorporated herein by reference).
10.23	Offer letter to Jerome Dvonch dated February 7, 2024 (included as exhibit 10.41 to the Company's Quarterly Report on Form 10-Q filed February 8, 2024, and incorporated herein by reference).
10.24	Offer letter to John Dal Poggetto dated February 7, 2024 (included as exhibit 10.42 to the Company's Quarterly Report on Form 10-Q filed February 8, 2024 and incorporated herein by reference).

10.25	Amendment No. 1 to Equity Distribution Agreement, by and between Sonoma Pharmaceuticals, Inc. and Maxim Group LLC., dated March 8, 2024 (included as exhibit 1.1 to the Company's Current Report on Form 8-K filed March 8, 2024, and incorporated herein by reference).
10.26†+	Distribution Agreement, dated August 19, 2024, by and between Sonoma Pharmaceuticals, Inc. and Medline Industries, LP (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed August 21, 2024, and incorporated herein by reference).
10.27+	Amendment No. 1 to Distribution Agreement, dated October 17, 2024, by and between Sonoma Pharmaceuticals, Inc. and Medline Industries, LP (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed October 22, 2024, and incorporated herein by reference).
14.1*	Code of Business Conduct, as revised and adopted on November 5, 2024.
21.1	List of Subsidiaries (included as exhibit 21.1 to the Company's Annual Report on Form 10-K June 28, 2017, and incorporated herein by reference).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in inline XBRL, and included in exhibit 101).

* Filed herewith.

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

ǂ Certain portions of the exhibit have been omitted to preserve the confidentiality of such information. The Company will furnish copies of any such information to the SEC upon request.

\+ The schedules to the exhibit have been omitted from this filing pursuant to Item 601(a)(5) of Regulation S-K. The Company will furnish copies of any such schedules to the SEC upon request.

Copies of above exhibits not contained herein are available to any stockholder, upon payment of a reasonable per page fee, upon written request to: Chief Financial Officer, Sonoma Pharmaceuticals, Inc., 5445 Conestoga Court, Suite 150, Boulder, Colorado 80301.

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.

Date: November 7, 2024

By: /s/ Amy Trombly
Amy Trombly
President and Chief Executive Officer,
(Principal Executive Officer)

Date: November 7, 2024

By: /s/ Jerome Dvonch
Jerome Dvonch
Chief Financial Officer
(Principal Financial and
Principal Accounting Officer)

Code of Business Conduct
Revised November 5, 2024

Introduction

It is the general policy of Sonoma Pharmaceuticals, Inc. (the "Company") to conduct its business activities and transactions with the highest level of integrity and ethical standards and in accordance with all applicable laws. In carrying out this policy, the Board of Directors of the Company has adopted the following Code of Business Conduct (the "Code") in order to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the "SEC") and in other public communications made by the Company;
- compliance with applicable governmental laws, rules and regulations;
- the prompt internal reporting of violations of the code to an appropriate person or persons identified in this Code; and
- accountability for adherence to this Code.

This Code covers a wide range of business practices and procedures. It does not cover every issue that may arise, but it sets out basic principles to guide all employees, officers and directors of the Company. All such persons must conduct themselves accordingly and seek to avoid even the appearance of improper behavior. Those who violate the standards in this Code or who fail to cooperate with management directions given to effect compliance with this Code may be subject to disciplinary action, possibly including termination of employment. For guidance with respect to issues not addressed in this Code, employees should follow the Company's internal policies and procedures.

If you have any questions regarding this Code, you should address these questions to your supervisor, or to the general counsel or other person identified by the Company as its compliance officer (the "Compliance Officer").

Basic Principles and Practices

Honest and Ethical Conduct

The Company's policy is to promote high standards of integrity by conducting its affairs honestly and ethically. Each director, officer and employee must act with integrity and observe the highest ethical standards of business conduct in their dealings with the Company's customers, suppliers, partners, service providers, competitors, employees and anyone else with whom they have contact in the course of performing their job.

Compliance with Laws, Rules and Regulations

Company policy requires that our business activities comply with both the letter and the spirit of all applicable laws, rules and regulations. The Company's products are subject to a variety of laws and regulations that govern healthcare and pharmaceutical products, including marketing approvals, conduct of clinical studies, good manufacturing practices and standards, labeling and advertising/promotion requirements. Although not all employees, directors or officers are expected to know the details of these laws, it is important to know enough to determine when to seek advice from supervisors, managers or other appropriate personnel or counsel.

Confidentiality

Directors, officers and employees should maintain the confidentiality of information entrusted to them by the Company or by its customers, suppliers or partners, except when disclosure is expressly authorized or legally required. Employees, directors and officers who come into possession of non-public Company information must safeguard the information from the public and not intentionally or inadvertently communicate it to any person (including family members and friends) unless the person has a need to know the information for legitimate, Company-related reasons. This duty of confidentiality is important both as to the Company's competitive position and with respect to the securities laws applicable to the Company as a public company. Confidential information cannot be disclosed by any employee, director and officer to any third party unless the third party has signed a nondisclosure agreement approved by the Company's management, and should be divulged only to persons having a need to know the information in order to carry out their job responsibilities. You must also abide by any specific agreements, such as an Employment, Confidential Information and Invention Assignment, regarding confidentiality between you and the Company.

Consistent with the foregoing, all employees, directors and officers should be discreet with respect to confidential information about the Company and not discuss it in public places.

Confidential information related to the Company can include a variety of materials and information regarding the ongoing operations and plans of the Company, and also includes information that customers or collaborators have provided to the Company. For example, confidential information can include product development plans, clinical and research results, regulatory matters, patents, trademarks, copyrights, laboratory processes, product information, information regarding the financial health of the Company, salary and personnel information and marketing and sales plans.

Nothing in this Code shall prevent employees, directors or officers from reporting suspected wrongdoing to the SEC.

Conflicts of Interest

A "conflict of interest" arises when a person's loyalties or actions are divided between the interests of the Company and those of another, such as a competitor, supplier or customer, or personal business. A conflict of interest can arise when an employee, director or officer (or a member of their family) takes actions or has interests that may make it difficult to perform their work objectively and effectively. A conflict of interest may also arise when an employee, director or officer, or members of their family, receives an improper personal benefit as a result of their position in, or relationship with, the Company. Moreover, the appearance of a conflict of interest alone can adversely affect the Company and its relations with customers, suppliers and employees.

Employees, directors and officers are expected to use good judgment, to adhere to high ethical standards and to avoid situations that create an actual or potential conflict of interest. It is almost always a conflict of interest for employees or officers to work simultaneously for a competitor, customer or supplier. In this regard, employees shall not have any undisclosed financial interest in any competitor, supplier, customer, or strategic partner if that interest would create a conflict of interest with the Company. If there is such an interest, the employee should disclose the nature of the interest to the Compliance Officer; provided, however, that employees, directors and officers may maintain small investments in publicly held companies in which such individual has no influence or control.
A conflict of interest can also arise with respect to employment of relatives and persons with close personal relationships. If an employee or someone with whom an employee has a close relationship (e.g., a family member or close companion) has a financial or employment relationship with an actual or potential competitor, supplier or customer, the employee must disclose this fact in writing to the Compliance Officer. The Company may take any action that it deems necessary in its sole discretion to avoid or remedy an actual, prospective or perceived conflict of interest, including a reassignment of some or all of the employee's duties or change of the employee's position.

Loans by the Company to, or guarantees by the Company of obligations of, employees or their family members are of special concern and could constitute improper personal benefits to the recipients of such loans or guarantees, depending on the facts and circumstances. Loans by the Company to, or guarantees by the Company of obligations of, any director or officer or their family members are expressly prohibited.

A conflict of interest may not always be clear; therefore, employees should consult with higher levels of management in case of any questions. Any employee who becomes aware of a conflict or a potential conflict should bring it to the attention of the Compliance Officer. Directors and executive officers must seek determinations and prior authorizations or approvals of potential conflicts of interest exclusively from the Audit Committee.

Corporate Opportunities

All employees, directors and officers owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises. Employees, directors and officers are prohibited from taking for themselves personally (or for the benefit of friends or family members) opportunities that are discovered through the use of Company assets, property or confidential information or their position without the consent of the Board or its designees. No employee, director or officer may use corporate property, information or their position for improper personal gain (including gain of friends or family members), and no employee, director or officer may compete with the Company directly or indirectly while they are engaged or employed by the Company.

Fair Dealing

Although the prosperity of our Company depends on our ability to outperform our competitors, the Company is committed to achieving success by fair and ethical means. We seek to maintain a reputation for honesty and fair dealing among our competitors and the public alike. Each employee, director and officer must deal fairly with the Company's customers, suppliers, competitors, employees, service providers and anyone else with whom they have contact in the course of performing their job. No employee, director or officer should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair business practice.

Company personnel are prohibited from receiving a payment or anything of value from a vendor or other entities/individuals in the private sector in exchange for a purchasing decision, subject to exception for gifts or nominal value (e.g. non-lavish meals, marketing materials, t-shirts, caps, etc.).

Donations, Gifts, Payments to Customers and Physicians

The U.S. and most other countries have laws and regulations that govern the Company's provision of donations, gifts, or payments to customers or physicians. The Company's policy is that its employees, directors and officers will comply with all such laws and regulations. The Company will not pay or otherwise remunerate a physician or customer in exchange for ordering, prescribing, purchasing, or recommending the Company's products. All business courtesies such as meals, transportation, and entertainment provided to a physician or customer must be modest in amount and related to a legitimate business purpose. Donations to customers or organizations closely affiliated with customers shall entail a benefit to society and be made to promote better health care, demonstrate good corporate leadership, or serve a genuine educational function. The Company may enter into legitimate agreements to compensate customers and physicians for consulting, research, or other services rendered, and reasonable costs incurred, where the services have value to the Company and are provided for fair market value. All such agreements must be in writing.

Advertising and Promotion

The advertising and promotion of the Company's products are subject to extensive regulation. For example, companies may not promote medical device or drug products or product indications that are not approved by regulatory authorities. These regulations also require that employees, directors and officers represent the Company's products in a manner consistent with applicable labeling and market approvals. It is the Company's policy to promote and market its products in a lawful and truthful manner in accordance with the applicable laws and regulations. To help ensure compliance in this area, all promotional materials must be reviewed and approved by the appropriate internal departments prior to distribution.

Health and Safety

The Company strives to provide a safe and healthy work environment. All employees are responsible for maintaining a safe and healthy workplace for all other employees by following the Company's safety and health rules, policies and practices and reporting accidents, injuries and unsafe equipment, practices or conditions.

Insider Trading

No director, officer or employee may purchase or sell any Company securities while in possession of material non-public information regarding the Company, nor may any director, officer or employee purchase or sell another company's securities while in possession of material non-public information regarding that company. Employees, directors and officers are not permitted to use, share or disseminate confidential information for stock trading purposes or for any other purpose except the conduct of our business. To use confidential information for personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical but also illegal.

Payments to Government Personnel

The United States Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country.

In addition, the United States government has a number of laws and regulations regarding business gratuities which may be accepted by U.S. government personnel. The promise, offer or delivery to an official or employee of the U.S. government of a gift, favor, or other gratuity in violation of these rules would not only violate Company policy but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules.

Protection and Proper Use of Company Assets

No secret or unrecorded fund of Company assets or cash shall be established or maintained for any purpose. Anyone spending or obligating Company funds should be certain that the transaction is properly and appropriately documented and that the Company receives appropriate value in return.

All employees, directors and officers should endeavor to protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability and are prohibited. Any suspected incident of fraud or theft should be immediately reported for investigation. Company assets should only be used for legitimate Company business, though incidental personal use may be permitted.

The obligation to protect Company assets includes the Company's proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks, and copyrights, as well as business and marketing plans, engineering and manufacturing ideas, designs, databases, records and any non-public financial data or reports. Unauthorized use or distribution of this information is prohibited and could also be illegal and result in civil or criminal penalties.

Record Keeping

The Company requires honest and accurate recording and reporting of information in order to make responsible business decisions. If you use a business expense account, expenses to be reimbursed must be documented and recorded accurately. If you are not sure whether an expense is appropriate, ask your supervisor.

All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Company's transactions and must conform both to applicable legal requirements and to the Company's system of internal controls. All Company business data, records and reports must be prepared truthfully and accurately. The Company's business records must be maintained for the periods specified in the Company's applicable record retention policies.

Employees, directors and officers who contribute to or prepare the Company's public filings, submissions or communications should do so in accordance with the following guidelines:

- All accounting records, as well as reports produced from those records, must be prepared in accordance with the laws of each applicable jurisdiction.
- All records must fairly and accurately reflect the transactions or occurrences to which they relate.
- All records must fairly and accurately reflect, in reasonable detail, the Company's assets, liabilities, revenues and expenses.
- The Company's accounting records must not contain any false or intentionally misleading entries.
- No transactions should be intentionally misclassified as to accounts, departments or accounting periods.
- All transactions must be supported by accurate documentation in reasonable detail and recorded in the proper account and in the proper accounting period.
- No information should be concealed from the Company's auditors.
- Compliance with the Company's system of internal accounting controls is required.

Business records and communications often become public, and employees, directors and officers should avoid exaggeration, derogatory remarks, guesswork or inappropriate characterizations of people and companies that can be misunderstood. This applies equally to e-mail, internal memos and formal reports.

Disclosure

The Company's periodic reports and other documents filed with the SEC, including all financial statements and other financial information, must comply with applicable federal securities laws and SEC rules.

Each director, officer and employee who contributes in any way to the preparation or verification of the Company's financial statements and other financial information must ensure that the Company's books, records and accounts are accurately maintained. Each director, officer and employee must cooperate fully with the Company's accounting and internal audit departments, as well as the Company's independent public accountants and counsel.

Each director, officer and employee who is involved in the Company's disclosure process must (a) be familiar with and comply with the Company's disclosure controls and procedures and its internal control over financial reporting; and (b) take all necessary steps to ensure that all filings with the SEC and all other public communications about the financial and business condition of the Company provide full, fair, accurate, timely and understandable disclosure.

Implementation

All employees, officers and directors must sign a statement certifying that they have read and understand this Code and are aware of the consequences of non-compliance with it; such certification shall be renewed annually. Violations of this Code or of any direction given by management in order to effect the provisions, goals, and aims of this Code may result in disciplinary action, up to and including termination of employment.

Waiver

Any waiver of this Code for executive officers or directors may be made only in writing (including an explanation of the reason for such waiver) by the Board of Directors, and will be promptly disclosed as required by SEC and Nasdaq rules. Any waiver of this Code for other employees must be approved in writing by the Compliance Officer.

Reporting Violations of this Code

Employees, directors and officers are responsible for being aware of the corporate policies applicable to their activities and to comply with them fully. If you become aware of a violation of this Code or believe that a violation may take place in the future, you must promptly report the matter. Failure to report a known violation allows misconduct to go unremedied and is itself grounds for discipline. Ordinarily, the report may be made to the employee's immediate supervisor, the human resources department, the general counsel of the Company or any senior manager of the Company, who, in turn, must report it to the Compliance Officer. If the report pertains to concerns regarding questionable accounting or auditing matters, the employee should direct the report to the Compliance Officer or to the Chair of the Audit Committee of the Board of Directors. Directors and management of the Company shall report any material violations of this Code to the Audit Committee of the Board of Directors. Actions prohibited by this Code involving directors or executive officers must be reported to the Audit Committee. The Audit Committee shall, on a periodic basis review the Code and discuss its implementation and any potential revisions to the Code with the Board of Directors.

Reports concerning potential violations of this Code may also be made using the Company's designated hotline, and may be anonymous, at the employee's discretion. Contact information is provided at the time of hire and posted in the Company's offices.

After receiving a report of an alleged prohibited action, the Audit Committee or the Compliance Officer must promptly take all appropriate actions necessary to investigate. All directors, officers and employees are expected to cooperate in any internal investigation of misconduct.

Employees, directors and officers submitting a report on an anonymous basis are strongly encouraged to keep a copy of the report (if made in writing) and a record of the time and date of their submission, as well as a description of the matter as reported if the report was not in writing.

Employees, directors and officers are encouraged to provide as much specific information as possible, including names, dates, places and events that took place, relevant documents and the employee's perception of why the incident(s) may be misconduct.

If possible, the individual should provide a means by which she/he can be contacted in the event that an investigator needs to follow-up or wants to report back to the employee.

The Company does not tolerate acts of retaliation against any director, officer or employee who makes a good faith report of known or suspected acts of misconduct or other violations of this Code. We will not allow retaliation against an employee, director or officer for reporting a possible violation of this Code unless it can be shown that the report was knowingly false. Retaliation for reporting a federal offense is illegal under federal law and prohibited under this Code. Such retaliation will result in discipline up to and including termination of employment and may also result in criminal prosecution. The employee, director or officer is protected from retaliation even if the investigator does not agree that there has been a violation. However, if the employee, director or officer making the report was involved in improper activity, the fact that they reported it will not necessarily prevent him or her from being disciplined for their participation in the violation. In these circumstances, the Company may consider the individual's conduct in promptly reporting the information as a mitigating factor in any disciplinary decision.

Enforcement

The Company must ensure prompt and consistent action against violations of this Code. If, after investigating a report of an alleged prohibited action by a director or executive officer, the Audit Committee determines that a violation of this Code has occurred, the Audit Committee will report such determination to the Board of Directors.

If, after investigating a report of an alleged prohibited action by any other person, the Compliance Officer determines that a violation of this Code has occurred, the Compliance Officer will report such determination to the Audit Committee.

Upon receipt of a determination that there has been a violation of this Code, the Board of Directors or the Audit Committee will take such preventative or disciplinary action as it deems appropriate, including, but not limited to, reassignment, demotion, dismissal and, in the event of criminal conduct or other serious violations of the law, notification of appropriate governmental authorities.

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, Amy Trombly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonoma Pharmaceuticals, Inc. for the quarter ended September 30, 2024;

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/ Amy Trombly
Amy Trombly
Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2024

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, Jerome Dvonch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonoma Pharmaceuticals, Inc. for the quarter ended September 30, 2024;

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/ Jerome Dvonch
Jerome Dvonch
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: November 7, 2024

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 Sonoma Pharmaceuticals, 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, 2024 (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 7, 2024

By: /s/ Amy Trombly
Amy Trombly
Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2024

By: /s/ Jerome Dvonch
Jerome Dvonch
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)