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

Form 10-K

(Mark One)

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

For the fiscal year ended March 31, 2013

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

For transition period from _____ to _____

Commission File Number: 001-33216

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

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

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

(707) 283-0550
(Registrant's telephone number, including area code)

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

Common Stock, $0.0001 par value	NASDAQ Capital Market
(Title of Each Class)	(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted 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 and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on September 30, 2012 was approximately $26.9 million based on a total of 4,082,109 shares of the registrant's common stock held by non-affiliates on September 30, 2012, at the closing price of $6.58 per share, as reported on the NASDAQ Capital Market. Share and per share data was adjusted to reflect the registrant's 1 for 7 reverse stock split, effective April 1, 2013.

There were 6,583,150 shares of the registrant's common stock issued and outstanding on June 3, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors and Section 16(a) Beneficial Ownership Reporting Compliance), 11, 12, 13 and 14 of Part III will incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2013 Annual Meeting of Stockholders.

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PART I

This report includes "forward-looking statements." The words "may," "will," "anticipate," "believe," "estimate," "expect," "intend," "plan," "aim," "seek," "should," "likely," and similar expressions as they relate to us or our management are intended to identify these forward-looking statements. All statements by us regarding our expected financial position, revenues, cash flows and other operating results, business strategy, legal proceedings and similar matters are forward-looking statements. Our expectations expressed or implied in these forward-looking statements may not turn out to be correct. Our results could be materially different from our expectations because of various risks, including the risks discussed in this report under "Part I — Item 1A — Risk Factors." Any forward-looking statement speaks only as of the date as of which such statement is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances, including unanticipated events, after the date as of which such statement was made.

ITEM 1. *Business*

Corporate Information

We incorporated under the laws of the State of California in April 1999 as Micromed Laboratories, Inc. In August 2001, we changed our name to Oculus Innovative Sciences, Inc. In December 2006, we reincorporated under the laws of the State of Delaware. Our principal executive offices are located at 1129 N. McDowell Blvd., Petaluma, California, 94954, and our telephone number is (707) 283-0550. We have three principal subsidiaries: Ruthigen, Inc., organized in Nevada; Oculus Technologies of Mexico, S.A. de C.V., organized in Mexico; and Oculus Innovative Sciences Netherlands, B.V., organized in the Netherlands. References to our Company contained herein include our wholly owned subsidiary, Ruthigen, Inc., except where the context otherwise requires. Our fiscal year end is March 31. Our website is www.oculusis.com. We do not intend for information on our website to be incorporated into this annual report.

Our Business

We are a global healthcare company that designs, produces, and markets prescription and non-prescription products in over 20 countries. We are pioneering innovative products for the dermatology, surgical, advanced wound and tissue care, and animal healthcare markets. Our primary focus is on the commercialization of our proprietary technology platform called Microcyn® Technology. This technology is based on electrically charged oxychlorine small molecules designed to target a wide range of organisms that cause disease (pathogens). These organisms include viruses, fungi, spores and antibiotic-resistant strains of bacteria, such as methicillin-resistant *Staphylococcus aureus*, or MRSA, and vancomycin-resistant *Enterococcus,* or VRE, as well as *Clostridium difficile,* or C. diff, a highly contagious bacteria spread by human contact. Several Microcyn® Technology tissue care products are designed to treat infections and enhance healing while reducing the need for antibiotics. Infection is a serious potential complication in both chronic and acute wounds, and controlling infection is a critical step in wound healing.

We do not have the necessary regulatory approvals to market Microcyn® as a drug or as a medical device with an antimicrobial or wound healing indication in the United States. Through our wholly owned subsidiary, Ruthigen, Inc., we expect to apply to the U.S. Food and Drug Administration, or FDA, for clearance as an antimicrobial drug.

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

While we do not have the necessary regulatory clearance for an antimicrobial or wound healing indication in the United States, several factors, including our global product experience, clinical and laboratory testing, physician-led clinical studies based on our technology and scientific papers authored about our technology, suggest that our Microcyn® Technology may help reduce a wide range of pathogens in acute and chronic wounds, while curing or improving infection, and concurrently enhancing wound healing through modes of action unrelated to the treatment of infection. These physician-led clinical studies suggest that our Microcyn® Technology is safe, easy to use and complementary to many existing treatment methods in wound care. Physician-led clinical studies and usage of our products in the United States suggest that our 510(k) cleared products may shorten hospital stays, lower aggregate patient care costs and, in certain cases, reduce the need for systemic antibiotics.

Common methods of controlling infection, including topical antiseptics and antibiotics, have proven to be only moderately effective in combating infection in the wound bed. However, topical antiseptics tend to inhibit the healing process due to their toxicity and may require specialized preparation or handling. Antibiotics can lead to the emergence of resistant bacteria, such as MRSA and VRE. Systemic antibiotics may be less effective in controlling infection in patients with disorders affecting circulation, such as diabetes, which are commonly associated with chronic wounds. As a result, no single treatment is used across all types of wounds and stages of healing and we believe Microcyn® Technology can fill a niche in the skin care and chronic and acute wound care markets.

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

Our goal is to become a worldwide leader as the standard of care in the treatment and irrigation of open wounds and skin care. We currently have, and intend to seek additional, regulatory clearances and approvals to market our Microcyn-based products worldwide. In July 2004, we first began selling Microdacyn60™ in Mexico after receiving approval from the Mexican Ministry of Health, for use as an antiseptic, disinfectant and sterilant. Since then, physicians and scientists in the United States, Europe, India, Pakistan, China and Mexico have conducted more than 40 clinical and scientific studies of Microcyn® Technology, generating data suggesting that the technology is non-irritating to healthy tissue, reduces microbial load, accelerates wound healing, reduces pain, shortens treatment time and may have the potential to reduce costs to healthcare providers and patients. Most of these studies were not intended to be rigorously designed or controlled clinical trials and, as such, did not have all of the controls required for clinical trials used to support a new drug application submission to the FDA. A number of these studies did not include blinding, randomization, predefined clinical end points, use of placebo and active control groups or U.S. Good Clinical Practice (GCP) requirements. We used the data generated from certain of these studies to support our CE Mark application with the European Union for certification of our Microcyn® Technology products for wound cleaning and reduction of microbial load in the European Economic Area. We received a Class II CE Mark in November 2004, subsequently upgraded to a Class III CE Mark in early 2013, and have also received additional international approvals in China, Canada, Mexico, India and select Latin America, Asian and Middle East countries. To date, our Microcyn-based products have received seven FDA 510(k) clearances in the United States. Many of these clearances are for use as a medical device in wound cleaning, or debridement, lubricating, moistening and dressing, including traumatic wounds and acute and chronic dermal lesions.

In December 2011, we initiated a voluntary recall of select lot numbers of certain of our Microcyn-based products due to product labeling. The voluntary recall was prompted after notification by the FDA that a limited number of our products were improperly labeled. The recall was classified by the FDA as a Class II recall, which means the probability of serious health consequences was remote. Customer safety and product quality are critically important to us and to date, we have received no complaints regarding customer safety or product quality issues. The costs of the voluntary recall were nominal and there were no restrictions on our future sales of Microcyn-based products, other than revising our product labeling for certain products. The voluntary recall did not materially impact revenues.

The FDA requirements for device and drug approvals are discussed in greater detail under *Government Regulation.*

Planned Initial Public Offering of Novel Biotechnology Business

On January 10, 2013, we first announced our proposal to spin-off our novel biotechnology business, Ruthigen, Inc., to stockholders as a separate company. In the past six months, management, bankers, tax professionals and securities counsel have evaluated the planned spin-off. As part of this analysis, we determined that a distribution would likely be taxable to our shareholders and our Company. For this reason and others, we have decided not to pursue a distribution at this time. On May 28, 2013, we announced that our wholly owned subsidiary, Ruthigen, Inc., filed a confidential registration statement with the Securities and Exchange Commission for a possible initial public offering of Ruthigen stock. We will continue to explore the best path for maximizing value for our stockholders.

We anticipate entering into a separation agreement with Ruthigen in the near future, which will set forth the terms of the separation of our business and our novel biotechnology business into two separate, publicly-traded companies (the "Separation"). In order to effect the Separation, we anticipate an initial public offering of Ruthigen's common stock, after which we hold certain shares of Ruthigen's common stock. We anticipate the final terms of the separation agreement will outline such customary representations as indemnification, handing of employee matters and tax sharing, among other items.

Microcyn® Technology Platform

Mechanism of Action

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

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

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

Current Regulatory Approvals and Clearances

The majority of our current products are based on our Microcyn® Technology platform. We are able to modify the chemistry of Microcyn® by changing the oxidation-reduction potential, pH level and concentrations of specific ions or chemicals, which allows us to manufacture a variety of solutions, each specifically designed for maximum efficacy and safety by indication. The indications for our products vary from country to country due to different regulatory requirements and standards from jurisdiction to jurisdiction. The indications below are summaries of the indications approved by the regulatory authority or authorities in the listed jurisdiction, but do not, however, include pending product approvals including for our Microcyn® Scar Management Hydrogel. The similarly named products have similar formulations; however, they may not have identical specifications due to varying requirements in different jurisdictions' regulatory agencies. The following is a list of the regulatory approvals and clearances that Microcyn-based products have received for our most significant or potentially significant markets:

Region	Approval or Clearance Type	Year of Approval or Clearance	Summary Indication
United States	510(k)	2005	Moistening and lubricating absorbent wound dressings for traumatic wounds requiring a prescription.
	510(k)	2005	Moistening and debriding acute and chronic dermal lesions requiring a prescription.
	510(k)	2006	Moistening absorbent wound dressings and cleaning minor cuts as an over-the-counter product.
	510(k)	2009	Management of exuding wounds such as leg ulcers, pressure ulcers, diabetic ulcers and for the management of mechanical or surgical debridement of wounds in a gel form and required as a prescription.
	510(k)	2009	Debridement of wounds, such as stage I-IV pressure ulcers, diabetic foot ulcers, post-surgical wounds, first- and second-degree burns, grafted and donor sites as preservative, which can kill listed bacteria such as MRSA & VRE and required as a prescription.
	510(k)	2010	As a hydrogel, for management of dermal irritation, sores, injuries and ulcers of dermal tissue including itch and pain relief associated with dermal irritation, sores, injuries and ulcers of dermal tissue as a prescription. As an over-the-counter product, the hydrogel is intended to relieve itch and pain from minor skin irritations, lacerations, abrasions and minor burns. It is also indicated for management of irritation and pain from minor sunburn.
	510(k)	2011	As a hydrogel, for management and relief of burning, itching and pain experienced with various types of dermatoses, including atopic dermatitis and radiation dermatitis.
European Union	CE Mark	2004	Debriding, irrigating and moistening acute and chronic wounds in comprehensive wound treatment by reducing microbial load and creating moist environment.
Mexico	Product Registration	2003	Antiseptic disinfection solution for high level disinfection of medical instruments, and/or equipment and clean-rooms, areas of medical instruments, equipment and clean room areas.
	Product Registration	2004	Antiseptic treatment of wounds and infected areas.
Canada	Medical Device (Inactive)	2004	Moistening, irrigating, cleansing and debriding acute and chronic dermal lesions, diabetic ulcers and post-surgical wounds.
India	Medical Device	2006	Cleaning and debriding in wound management.
China	Medical Device	2008	Reducing the propagation of microbes in wounds and creating a moist environment for wound healing (Dermacyn® Wound Care)
		2012	Acute and chronic derma wounds moistening, healing and repair and debridement (Microcyn® Hydrogel)
Kuwait	Medical Device	2010	Cleaning and debriding in wound management
United Arab Emirates	Medical Device	2011	Cleaning and debriding in wound management
Iraq	Medical Device	2011	Cleaning and debriding in wound management
Jordan	Medical Device	2007	Cleaning and debriding in wound management
Saudi Arabia	Medical Device	2010	Cleaning and debriding in wound management
Panama	Drug	2012	Sterilizer and antiseptic
El Salvador	Medical Device	2013	Disinfecting in cleaning and debriding in wound management as well as sterilization of medical equipment
Honduras	Medical Device	2013	Disinfecting in cleaning and debriding in wound management as well as sterilization of medical equipment

Singapore	Medical Device	2010	Cleaning and debriding in wound management
Malaysia	Medical Device	2008	Cleaning and debriding in wound management

Clinical Trials

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

Physician Clinical Studies

In addition to the Phase II trial mentioned above, several physicians and scientists have completed more than 40 clinical and scientific studies of Microcyn® Technology generating data suggesting that the technology is non-irritating to healthy tissue, reduces microbial load, accelerates wound healing, reduces pain, shortens treatment time and may have the potential to reduce costs to healthcare providers and patients. We have sponsored many of the physicians performing these studies by supplying Microcyn-based products, unrestricted research grants, paying expenses or providing honoraria. In some cases, the physicians who performed these studies also hold, or held at one time, equity in our Company. The studies were performed in the United States, Europe, India, Pakistan, China and Mexico, and used various endpoints, methods and controls (for example, saline, antiseptics and antibiotics). These studies were not intended to be rigorously designed or controlled clinical trials and, as such, did not have all of the controls required for clinical trials used to support a new drug application submission to the FDA in that they did not necessarily include blinding, randomization, predefined clinical endpoints, use of placebo and active control groups or U.S. Good Clinical Practice requirements.

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

Leading Physician	Country	Number of Patients	Publication
David E. Allie, MD (1)	U.S.	40	Allie D. Super-Oxidized Dermacyn in Lower-Extremity Wounds. Wounds. 2006; 18(Suppl):3-6.
Tom Wolvos, MD (2)	U.S.	26	Wolvos TA. Advanced Wound Care with Stable, Super-Oxidized Water. A look at how combination therapy can optimize wound healing. Wounds. 2006; 18(Suppl):11-13.
Cheryl Bongiovanni, PhD (3)	U.S.	8	Bongiovanni CM. Superoxidized Water Improves Wound Care Outcomes in Diabetic Patients. Diabetic Microvascular Complications Today. 2006 May-Jun:11-14.
		3	Bongiovanni CM. Nonsurgical Management of Chronic Wounds in Patients with Diabetes. Journal of Vascular Ultrasound. 2006; 30:215-218.
Luca Dalla Paola, MD (4)	Italy	218	Dalla Paola L, Brocco E, Senesi A, Merico M, De Vido D, Assaloni R, DaRos R. Super-Oxidized Solution (SOS) Therapy for Infected Diabetic Foot Ulcers. Wounds. 2006; 18: 262-270. Dalla Paola L. Treating diabetic foot ulcers with super-oxidized water. Wounds. 2006; 18(Suppl):14-16.
Alberto Piagessi, MD (5)	Italy	33	Goretti C, Mazzurco S, Ambrosini Nobili L, Macchiarini S, Tedeschi A, Palumbo F, Scatena A, Rizzo L, Piaggesi A. Clinical Outcomes of Wide Postsurgical Lesions in the Infected Diabetic Foot Managed With 2 Different Local Treatment Tegimes Compared Using a Quasi-Experimental Study Design: A Preliminary Communication. Int. J. Lower Extremity Wounds. 2007; 6:22-27.
	Italy	40	Piaggesi A et al. A Randomized Controlled Trial to Examine the Efficacy and Safety of Microcyn® Technology on wide post-surgical lesions in the infected diabetic foot. Int. J. Lower Extremity Wounds. March 9, 2010.
Ariel Miranda, MD (5)	Mexico	64	Miranda-Altamirano A. Reducing Bacterial Infectious Complications from Burn Wounds. A look at the use of Oculus Microcyn60 to treat wounds in

Leading Physician	Country	Number of Patients	Publication
Lenka Veverkova, MD (3)	Czech Republic	27	Veverkova L, Jedlicka V, Vesely M, Tejkalova R, Zabranska S, Capov I, Votava M. Methicilin-resistent Staphylococcus aureus — problem in health care. J Wound Healing. 2005; 2:201-202.
Elia Ricci, MD (6)	Italy	40	Ricci E, Astolfi S, Cassino R. Clinical results about an antimicrobial solution (Dermacyn Wound Care) in the treatment of infected chronic wounds. Poster presented at: 17th Conference of the European Wound Management Association (EWMA); 2007 May 2-4; Glasgow, UK.
Alfredo Barrera, MD (5)	Mexico	40	Barrera-Zavala A, Guillen-Rojas M, Escobedo-Anzures J, Rendon J, Ayala O, Gutiérrez AA. A pilot study on source control of peritonitis with a neutral pH — super oxidized solution. Poster presented at: 16th World Congress of the International Association of Surgeons and Gastroenterologists (IASG); 2006 25-27 May; Madrid, Spain.
D. Peterson, MD	U.S.	5	Peterson D, Hermann K, Niezgoda J. Dermacyn Effective in Treatment of Chronic Wounds with Extensive Bioburden While Reducing Local Pain Levels. Presented at: Symposium on Advanced Wound Care and Wound Healing Society; 2007 April 28-May 1; Tampa, FL.
P. Steenvoorde, MD; L.P. Van Doorn, MA; C.E. Jacobi, PhD; and J. Oskam, MD, PhD (3)	Netherlands	10	An unexpected effect of Dermacyn on infected leg ulcers. J Wound Care. 2007; 16:60-61.
Fermin Martinez, MD	Mexico	45	Martínez-De Jesús FR, Ramos-De la Medina A, Remes-Troche JM, Armstrong DG, Wu SC, Lázaro Martínez JL, Beneit-Montesinos JV. Efficacy and safety of neutral pH superoxidised solution in severe diabetic foot infections. Int Wound J. 2007; 4:353-362.
SF Hadi, MD (3)	Pakistan	100	Hadi SF, Khaliq T, Bilal N, Sikandar I, Saaiq M, Zubair M, Aurangzeb S. Treating infected diabetic wounds with superoxidized water as anti-septic agent: a preliminary experience. J Coll Physicians Surg Pak. 2007; 17:740-743.
BT Monaghan, DPM (3)	Ireland	10	Monaghan BT, Cundell JH. Dermacyn as the Local Treatment for Infected Diabetic Foot Wounds. A case series. Presented at: 5th International Symposium on the Diabetic Foot. 2007 May 9-12; Noordwijkerhout, The Netherlands.
Fernando Uribe, MD (6)	Mexico	80	Uribe F. Effect of neutral pH Superoxidized solution in the healing of diabetic foot ulcers. Poster presented at: 47th Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC). Poster L-1144. 2007 Sept 17-20; Chicago, IL.
Ning Fanggang, MD (3)	China	20	Fanggang N, Guoan Z. The clinical efficacy of Dermacyn on deep partial thickness burn wounds.
Amar Pal Suri, DPM (6)	India	100	Suri AP. The Effectiveness of Stable Neutral Super-oxidized Solution for the Treatment of Infected Diabetic Foot Wounds. Presented at: Diabetic Foot Global Conference. 2008 March 13-15; Hollywood, CA.
Robert G. Frykberg, DPM, MPH (6)	U.S.	23	Frykberg RG, Tallis A, Tierney E. Wound Healing in Chronic Lower Extremity Wounds Comparing Super-Oxidized Solution (SOS) vs. Saline. Presented at: Diabetic Foot Global Conference. 2008 March 13-15; Hollywood, CA.

Leading Physician	Country	Number of Patients	Publication
Matthew Regulski, DPM (5)	U.S.	18	Regulski M, Floros R, Petranto R, Migliori V, Alster H, Pfeiffer D. Efficacy and Compatibility of Combination Therapy with Super-Oxidized Solution and a Skin Substitute for Lower Extremity Wounds. Presented at: Symposium on Advanced Wound Care and Wound Healing Society. 2008 April 24-28; San Diego, CA.
Adam Landsman, DPM, PhD (5); Andres A. Gutierrez, MD, PhD(1); and Oculus Collaborative Group	U.S.	48	Landsman A, Blume P, Palladino M, Jordan D, Vayser DJ, Halperin G, Gutierrez AA and Oculus Collaborative Group. An Open Label, Three Arm Study of the Safety and Clinical Efficacy of Topical Wound Care vs. Oral Levofloxacin vs. Combined Therapy for Mild Diabetic Foot Infections. Presented at: Diabetic Foot Global Conference. 2008 March 13-15; Hollywood, CA.
Christopher J. Gauland, DPM. (3)	U.S.	5	Gauland C. Sickle Cell Disease. Presented at: Symposium on Advanced Wound Care and Wound Healing Society. 2008 April 24-28; San Diego, CA.
	U.S.	16	Gauland C. Comparison of Microcyn and Amerigel in the Podiatric Clinical Setting.
R.K. Chittoria	India	20	Chittoria RK, Yootla M, Sampatrao LM, Raman SV. The role of super oxidized solution in the management of diabetic foot ulcer: our experience. Nepal Med Coll J. 2007; 9:125-128.
A.R. Anand	India	50	Anand AR. Comparative Efficacy and Tolerability of Oxum against Povidone Iodine Topical Application in the Post-caesarean Section Wound Management. Indian Medical Gazette. December 2007: 498-505.
S.B. Dharap	India	30	Dharap SB, Ghag GS, Kulkarni KP, Venkatesh V. Efficacy and safety of Oxum in the treatment of the venous ulcer. J Indian Med Assoc. 2008; 106:326-330.
H. Dhusia	India	41	Dhusia H, Comparative Efficacy and Tolerability of Microcyn Superoxidized Solution (Oxum) against Povidone Iodine Application in Orodental Infections. Indian Medical Gazette. February 2008; 68-75.
M.G. Khairulasri	Malaysia	178	Khairulasri MG, Ramzisham ARM, Ooi JSM, Zamrin DM. Dermacyn irrigation in reducing sternotomy wound infection following coronary artery bypass graft surgery. Presented at: 11th Scientific Conference. 2008. Kota Bharu, Malaysia.
Andres Tirado-Sanchez and RosaMaria Ponce-Olivera	Mexico	89	Tirado-Sanchez A, Ponce-Olivera R. Efficacy and tolerance of superoxidized solution in the treatment of mild to moderate inflammatory acne. A double-blinded, placebo-controlled, parallel-group, randomized, clinical trial. Journal of Dermatological Treatment. 2009; 20:289–292.

(1) Indicates that the physician is, or at one time was, a stockholder of our Company. The physician was also a member of our Medical and Business Advisory Board, which we dissolved in April 2007, and served as a paid consultant and received research grants, expense payments, honorarium and Microcyn® to complete the study.

(2) Indicates that the physician was a paid consultant, received expenses in connection with corporate development and licensing evaluations and is, or at one time was, a holder of warrants to purchase common stock of our Company.

(3) Indicates that the physician received Microcyn® to complete the study.

(4) Indicates that the physician was a paid consultant, was a member of our Medical and Business Advisory Board, which we dissolved in April 2007, and received expense payments and Microcyn® to complete the study.

(5) Indicates that the physician received payments, expense payments and Microcyn® to complete the study.

(6) Indicates that the physician received reimbursement of travel expenses and Microcyn® to complete the study.

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

Researchers	Country	Publication
Landa-Solis C, González-Espinosa D, Guzman B, Snyder M, Reyes-Terán G, Torres K, Gutiérrez AA (1)	Mexico	Microcyn™: a novel super-oxidized water with neutral pH and disinfectant activity. J Hosp Infect (UK). 2005; 61: 291-299.
Gutiérrez AA (1)	U.S.	The science behind stable, super-oxidized water. Exploring the various applications of super-oxidized solutions. Wounds. 2006; 18(Suppl):7-10.
Dalla Paola L (2), Faglia E	Italy	Treatment of diabetic foot ulcer: an overview. Strategies for clinical approach. Current Diabetes Reviews. 2006; 2:431-447.
González-Espinosa D, Pérez-Romano L, Guzman Soriano B, Arias E, Bongiovanni, CM (3), Gutiérrez AA (1)	Mexico, U.S.	Effects of neutral super-oxidized water on human dermal fibroblasts in vitro. Int Wound J. 2007; 4:241-250.
Medina-Tamayo J, Balleza-Tapia H, López X, Cid ME, González-Espinosa D, Gutiérrez AA (1), González-Espinosa C	Mexico, U.S.	Super-oxidized water inhibits IgE-antigen- induced degranulation and cytokine release in mast cells. International Immunopharmacology. 2007; 7:1013-1024.
Le Duc Q	UK	A cytotoxic analysis of antiseptic medication on skin substitutes and autograft. Br J Dermatology. 2007; 157:33-40.
McCurdy B	U.S.	Emerging Innovations in Treatment. Podiatry Today. 2006; 1940-48.
Zahumensky E	Czech Republic	Infections and diabetic foot syndrome in field practice. *Vnitr Lek.* 2006; 52:411-416.
Rose R, Setlow B, Monroe A, Mallozzi M, Driks A, Setlow P (5)	U.S.	Comparison of the properties of Bacillus subtilis spores made in liquid or on agar plates. Submitted 2008.
Paul M, Setlow B, Setlow P (5)	U.S.	The killing of spores of *Bacillus subtilis* by Microcyn(TM), a stable superoxided water. Submitted 2008.
Thatcher E (4), Gutierrez AA (1)	U.S.	The Anti-Bacterial Efficacy of a New Super-Oxidized Solution. Paper presented at: 47th Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC). 2007 Sept 17-20; Chicago, IL.
Taketa-Graham M (5), Gutierrez AA (1), Thatcher E (4)	U.S.	The Anti-Viral Efficacy of a New Super-Oxidized Solution. Poster presented at: 47th Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC). Poster L-1144. 2007 Sept 17-20; Chicago, IL.
Dardine J, Martinez C, Thatcher E (4)	U.S.	Activity of a pH Neutral Super-Oxidized Solution Against Bacteria Selected for Sodium Hypochlorite Resistance. Poster presented at: 47th Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC). Poster L-1144. 2007 Sept 17-20; Chicago, IL.
Sauer K, Vazquez G, Thatcher E (4), Northey R (5) , Gutierrez AA (1)	U.S.	Neutral super-oxidized solution is effective in killing *P. aeruginosa* biofilms. Biofouling. 2009 January; 25(1): 45-54.

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

Sales and Marketing

We generate revenue through established and scalable commercial operations including manufacturing in Mexico and the United States, and product sales via our domestic and international strategic business partners.

We launched sales of Microcyn® Technology products in October 2008 and our initial sales were in the podiatry market in the United States. In the second quarter of 2009, we expanded our sales efforts to include wound care centers, hospitals, nursing homes, urgent care clinics and home healthcare, utilizing a contract sales organization to aid our sales force. We continue to seek opportunities to expand the applicability of our products into current and new markets. Our products are primarily purchased by, among others, hospitals, physicians, nurses, and other healthcare practitioners who are the primary caregivers to patients, both human and animal, being treated for acute or chronic wounds or undergoing surgical procedures as well as to dermatologists for treatment of various skin afflictions.

We currently make Microcyn-based human advanced wound and tissue care products available, both as prescription and over-the-counter products, under our seven 510(k) clearances in the United States, primarily through a combination of partnerships with Advocos LLC, a specialty U.S. contract sales organization, and in collaboration with such partners as Amneal Enterprises and Eloquest Healthcare, Inc., a subsidiary of Ferndale Pharma, Inc., as described in greater detail below. We have announced the commercialization of a Microcyn® product for advanced wound care sold through a contract sales force and by Eloquest Healthcare, and the commercialization of Microcyn® products for dermatology through a partnership with Quinnova Pharmaceuticals.

Through our animal healthcare partner Innovacyn, Inc., we currently make available Microcyn® Technology-based animal healthcare products, designed specifically for the care of horses, dogs, cats, exotic pets and farm/ranch animals and branded as Vetericyn®, in the United States and Europe. We are currently introducing Vetericyn®- branded products into Canada and Asia.

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

Animal Healthcare

On January 26, 2009, we entered into a commercial agreement with VetCure, Inc., a California corporation, to market and sell our Microcyn® Technology-based animal healthcare products branded as Vetericyn® products. VetCure, Inc. later changed its name to Vetericyn, Inc. This agreement was amended on February 24, 2009, July 24, 2009, June 1, 2010, and November 1, 2010. Pursuant to the agreement, we provide Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Microcyn® Technology-based animal healthcare products branded as Vetericyn®. We receive a fixed amount for each bottle of Vetericyn® sold by Vetericyn, Inc.

On September 15, 2009, we entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell certain of our Microcyn over-the-counter liquid and gel products. V&M Industries, Inc. subsequently changed their name to Innovacyn, Inc. On June 1, 2010, September 1, 2010, and November 1, 2010, we amended this agreement granting Innovacyn, Inc. the exclusive right to sell certain of our over-the-counter products.

Additionally, on July 1, 2011, Vetericyn, Inc. and Innovacyn, Inc. began to share profits with us related to the Vetericyn® and Microcyn® over-the-counter sales, resulting in about a 30% royalty of net revenue.

Dermatology

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

We currently derive a significant portion of our revenues from our dermatology products, which are sold in partnership with Quinnova. We anticipate our presence in the market to continue to grow. Quinnova launched the Atrapro™ family of products formulated from our Microcyn® Technology platform in late February 2012. In partnership with Quinnova, we now market the following products, all three of which were launched during the past year and have shown significant growth thus far:

- Atrapro™ Antipruritic Hydrogel, a non-oily, quick drying gel designed for the relief of pain, burning and itching associated with various dermatoses (pruritus), which may include the treatment of atopic dermatitis and radiation dermatitis.

- Atrapro™ Dermal Spray with Preservatives, a non-cytotoxic, non-irritating, and non-sensitizing spray for the management via debridement of wounds such as partial- and full-thickness wounds, post-surgical wounds, first- and second-degree burns, and grafted and donor sites.

- A convenience kit for the treatment of various dermatoses which packages together Quinnova's Neosalus® Cream with Proderm Technology® and Atrapro™ Antipruritic Hydrogel, a product based on our Microcyn® Technology.

We also sold the option to exclusively sell and distribute our proprietary Microcyn-based acne drug candidate to AmDerma Pharmaceuticals, LLC, an Amneal alliance member, for a one-time non-refundable payment of $500,000. On June 23, 2011, AmDerma exercised its option to license rights to the drug candidate. On June 21, 2012, we entered into a collaboration agreement with AmDerma. Pursuant to the agreement, AmDerma is responsible for the development of a Microcyn-based acne drug candidate in the United States, including all activities required to gain regulatory approvals. AmDerma will also be responsible for all costs. Additionally, within one year of the first commercial sale by AmDerma, AmDerma shall identify at least one secondary indication that AmDerma will develop. If AmDerma declines to pursue such secondary indication, then the right to develop such secondary indication will revert back to us. We granted AmDerma an exclusive, royalty-bearing perpetual license in the United States and India, with the right to sublicense and subcontract in certain circumstances, and a right of first refusal to expand the territory of the license to include the European Union, Canada, Brazil, and Japan. We retained rights to the "rest of world." Additionally, we agreed to credit $250,000 of the option payment of $500,000 against future milestone payments in the transaction.

Acute Care in U.S. Hospitals

On August 1, 2011, we entered into a multi-year licensing agreement with Eloquest Healthcare, Inc., a subsidiary of Ferndale Pharma Group, Inc. Under this agreement, we granted Eloquest Healthcare an exclusive license to market certain Microcyn-based wound care products under the Microcyn brand to hospitals, ambulatory surgical and acute care centers in the United States. In March 2012, Ferndale/ Eloquest launched a family of Microcyn-based wound care products.

Critical Care

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

International Sales and Marketing by Our Strategic Business Partners

Europe

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

People's Republic of China

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

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

Mexico, South and Central America, and the Caribbean

On August 9, 2012, we, along with our Mexican subsidiary and manufacturer Oculus Technologies of Mexico S.A. de C.V. entered into a license, exclusive distribution and supply agreement with More Pharma Corporation, S. de R.L. de C.V. ("More Pharma"). For a one-time payment of $500,000, we granted More Pharma an exclusive license, with the right to sublicense under certain conditions and with our consent, to all of our proprietary rights related to certain of our pharmaceutical products for human application that utilize our Microcyn Technology within Mexico. For an additional one-time payment of $3,000,000, we also agreed to appoint More Pharma as the exclusive distributor of certain of our products in Mexico for the term of the agreement. Additionally, we granted More Pharma an exclusive license to certain of our then-held trademarks in exchange for a payment of $100,000. The term of the agreement is twenty-five years from the effective date of August 15, 2012. The term of the license agreement will automatically renew after the twenty-five year term for successive two year terms as long as More Pharma has materially complied with any and all of the obligations under the license agreement, including but not limited to, meeting the minimum purchase requirements set forth therein.

On August 9, 2012, we also entered into an exclusive distribution and supply agreement with More Pharma. For a one-time payment of $1,500,000, we granted More Pharma exclusive ability to market and sell certain of our pharmaceutical products for human application that utilize our Microcyn Technology. We also appointed More Pharma as our exclusive distributor, with the right to execute sub-distribution agreements under certain conditions and with our consent, within the following countries: Antigua & Barbuda, Argentina, Aruba & Curacao, Bahamas, Barbados, Belize, Bolivia, Bonaire, Brazil, British Guyana, British Islands, Cayman Islands, Chile, Colombia, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, French Guyana, Grenada, Guadalupe, Guatemala, Haiti, Honduras, Jamaica, Martinique, Nicaragua, Paraguay, Peru, St. Bartolome, St. Vincent & Grenades, Surinam, Trinidad & Tobago, Turks & Caicos Islands, Uruguay, Venezuela and Virgin Islands.

In May 2013, we obtained, in close collaboration with our global partner More Pharma, new regulatory approvals for Microcyn®-based antiseptic products, under the brand name Microdacyn®, in Panama and El Salvador. More Pharma intends to begin commercialization of these new antiseptic products in both countries in the summer of 2013, and to continue to expand product offerings of Microcyn-based products into the other countries of South and Central America, and the Caribbean in the near future.

"Rest of World"

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

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

In April 2013, we announced that our Singapore business partner, Dyamed Biotech Pte. Ltd, is initiating the rollout of five new Microcyn® Technology-based products in Singapore and Malaysia, both in the hospital and consumer markets. The five products, which include Dermacyn™ BabyGuard, Dermacyn DermaGuard, Dermacyn SkinGuard Solution, Dermacyn SkinGuard Hydrogel and Dermacyn Wound Care Hydrogel, will be rolled out sequentially with all products expected to be commercialized by year's end.

In April 2013, we obtained new regulatory approvals in Dubai, United Arab Emirates, Kuwait, and Iraq for three new Microcyn®-based consumer products: Face Cool™, a hydrogel for the treatment of acne and various dermatoses; Baby Cool™, a hydrogel for treatment of baby rash; and Lady Cool™, a feminine hygiene wash. All products are targeted to be launched in the fall of 2013.

Ruthigen, Inc.

On January 18, 2013, our wholly owned subsidiary, Ruthigen, Inc., was incorporated in the State of Nevada. Ruthigen has established independent offices in Santa Rosa, California.

On June 6, 2013, we announced that we entered into two key agreements, which establish the license and supply as well as shared services with our wholly owned subsidiary, Ruthigen, an entity focused on the discovery, development, and commercialization of pharmaceutical-grade hypochlorous acid-based therapeutics. We expect to negotiate and enter into a third agreement (the "Separation Agreement") governing other terms of our business relationship with Ruthigen. The effective date for all three agreements would be the closing date of Ruthigen's proposed initial public offering, if any should occur.

License and Supply Agreement

Pursuant to the license and supply agreement, we agreed to exclusively license certain of our proprietary technology to Ruthigen to enable Ruthigen's research and development and commercialization of the newly discovered RUT58-60, and any improvements to it, in the United States, Canada, European Union and Japan, referred to as the Territory, for certain invasive procedures in human treatment as defined in the license and supply agreement.

In addition, the license and supply agreement provides Ruthigen with the exclusive option, exercisable within the first five years following the effective date of the agreement, to expand the license to certain other therapeutic indications upon payment of a license expansion fee of $10 million within the first two years following the effective date of the agreement or, after the two–year period, the same fee plus certain out-of-pocket costs we may incur in developing products for any of the indications. Additionally, we will be prohibited from using the licensed proprietary technology to sell products that compete with Ruthigen's products within the Territory, and Ruthigen cannot sell any device or product that competes with our products being sold or developed as of the effective date of the license and supply agreement.

Ruthigen will be required to make a total of $8,000,000 in payments to us based upon the completion of certain development and other future milestones, and at the time of drug approval, if any should occur, supplemented with royalty payments, which will vary between three percent and 20 percent, increasing upon achievement of various net annual sales thresholds and dependent upon the country of sale.

Shared Services Agreement

We also entered into a shared services agreement with Ruthigen that would take effect upon the completion of Ruthigen's proposed initial public offering, if any should occur, pursuant to which we will provide Ruthigen with general services, including general accounting, human resources, laboratory personnel and shared R&D resources while Ruthigen plans to establish an independent facility and systems. As a wholly owned subsidiary of our Company, Ruthigen will be financed by us until the completion of the proposed initial public offering, if any should occur, and after such event, Ruthigen would become responsible for its own expenses.

Separation Agreement

We anticipate entering into the Separation Agreement with Ruthigen in the near future, which will set forth the terms of the separation of our business and our novel biotechnology business into two separate, publicly-traded companies (the "Separation"). In order to effect the Separation, we anticipate an initial public offering of Ruthigen's common stock, after which we hold certain shares of Ruthigen's common stock. We anticipate the final terms of the Separation Agreement will outline such customary representations as indemnification, handing of employee matters and tax sharing, among other items.

NVN Therapeutics

We established a nutritional products division in the beginning of 2012 to expand our product pipeline. NVN Therapeutics is based out of Sacramento, California. This division aims to develop and manufacture medical foods that combine the best of science and nature to create products that provide patients with natural healthcare therapies. This division is currently focused on the development of products for the diabetic and women's health markets.

In April 2012, we launched our first nutritional product, Glucorein™ Green Tea with chlorogenic acid, a medical food intended for the dietary management of glucose levels in both pre-diabetics and type 2 diabetics under the supervision of a medical professional. Our product is currently being test-marketed in the United States and by medical professionals. Our second product, Glucorein™ PCOS, was launched in the women's health market and is intended for the dietary management of Polycystic Ovary Syndrome (PCOS). PCOS afflicts approximately 10% of women of reproductive age and is thought to be one of the leading causes of female subfertility and the most frequent endocrine problem in women of reproductive age.

Our competition in this segment is generally from other consumer and healthcare manufacturers. Competitive factors include consumer advertising, formulation, packaging, scientific innovation, intellectual property, price, and availability of product forms. A significant aspect of competition is the search for ingredient innovations. The introduction of new products by competitors, changes in medical practices and procedures, and regulatory changes can result in product obsolescence. In addition, private label and local manufacturers' products may increase competitive pressure.

Contract Testing

We also operate a microbiology contract testing laboratory division that provides consulting and laboratory services to medical companies that design and manufacture biomedical devices and drugs, as well as testing on our products and potential products. Our testing laboratory complies with U.S. Current Good Manufacturing Practices (CGMPs) and Quality Systems Regulations.

Manufacturing and Packaging

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

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

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

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

Intellectual Property

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

As of June 2013, we own a total of 35 issued patents, consisting of five issued U.S. patents, 12 issued EU patents and 18 issued international patents. We also have 109 pending U.S. and foreign patent applications generally relating to electrolyzed water. The issued U.S. and foreign patents expire in 2022 with the exception of one U.S. patent that expires in 2027.

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

We have also licensed the exclusive global rights to a unique endotracheal tube (ETT) from the National Institutes of Health. The patented ETT technology is potentially useful in mitigating ventilator-associated pneumonia.

Although we work diligently to protect our technology, we cannot assure you that any patent will be issued from our currently pending patent applications or from future patent applications. We also cannot assure you that the scope of any patent protection will exclude competitors or provide competitive advantages to us, that any of our patents will be held valid if subsequently challenged, or that others will not claim rights in or ownership of our patents and proprietary rights. Furthermore, we cannot assure you that others have not developed or will not develop similar products, will not duplicate any of our products or design around our patents.

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

Competition

Dermatology

The dermatology market is and remains highly competitive. We believe, however, we have identified a lucrative niche in the industry with our development of products for the relief of pain, burning and itching associated with various dermatoses, including atopic dermatitis, eczema and radiation dermatitis. Our dermatology products face competition in the United States from several prescription products, including Novartis' Elidel® Cream, a prescription medicine used on the skin (topical) to treat eczema (atopic dermatitis), and Astellas' Protopic®, a prescription ointment used to treat moderate to severe eczema.

Advanced Wound and Tissue Care Markets

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

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

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

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

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

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

Government Regulation

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

Medical Device Regulation

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

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

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

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

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

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

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

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

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

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

Other Regulation in the United States

Health Care Coverage and Reimbursement by Third-Party Payors

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

Fraud and Abuse Laws

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

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

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

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

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

Health Information Privacy and Security

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

Foreign Regulation

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

European Union Regulation

Medical Device Regulation. Our Dermacyn® products are classified as medical devices in the European Union. In order to sell our medical device products within the European Union, we are required to comply with the requirements of the Medical Devices Directive, and its national implementations, including affixing CE Marks on our products. In order to comply with the Medical Devices Directive, we must meet certain requirements relating to the safety and performance of our products and, prior to marketing our products, we must successfully undergo verification of our product's regulatory compliance, or conformity assessment.

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

We received our CE certificate for Dermacyn® Wound Care as a Class IIB medical device in February 2005. The classification of Dermacyn® Wound Care was upgraded to a Class III CE Mark by the British Standards Institution (BSI), which is the world's largest certification body, and the Medicines and Healthcare products Regulatory Agency (MHRA) in the United Kingdom in late 2012. We may not be able to maintain the requirements established for CE Marks for any or all of our products or be able to produce these products in a timely and profitable manner while complying with the requirements of the Medical Devices Directive and other regulatory requirements.

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

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

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

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

Mexican Regulation

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

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

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

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

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

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

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

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

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

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

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

Research and Development

Research and development expense consists primarily of personnel expenses, clinical and regulatory services and supplies. For the years ended March 31, 2013 and 2012, research and development expense amounted to $2,223,000 and $1,981,000, respectively. None of these expenses were borne by our customers.

Significant Customers

Although we have a significant number of customers in each of the geographic markets that we operate in, we rely on certain key customers for a significant portion of our revenues. During the year ended March 31, 2013, one customer represented 25%, and one customer represented 13%, respectively, of net revenues. During the year ended March 31, 2012, one customer represented 26% of net revenues.

Our Employees

As of May 24, 2013, we employed a total of 42 employees in the United States and the Netherlands, 41 of which were full-time. Additionally, we had 39 employees in Mexico, all of which were contracted through an employment agency. We are not a party to any collective bargaining agreements. We believe our relations with our employees are good.

Available Information

Our website is located at www.oculusis.com. We make available on our website, free of charge, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. Our website and the information contained therein or connected thereto are not intended to be incorporated into this annual report on Form 10-K.

ITEM 1A. ***Risk Factors***

Risks Related to Our Business

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

On January 10, 2013, we first announced our proposal to spin-off our novel biotechnology business, Ruthigen, to stockholders as a separate company. In the past six months, management, bankers, tax professionals and securities counsel have evaluated the planned separation. As part of this analysis, we determined that a distribution would likely be taxable to our shareholders and our Company. For this reason and others, we have decided not to pursue a distribution at this time. On May 28, 2013, we announced that our wholly owned subsidiary, Ruthigen, filed a confidential registration statement with the Securities and Exchange Commission for a possible initial public offering of Ruthigen stock.

There are various uncertainties and risks relating to this proposed separation that could have, and in some cases have had, a negative impact on our business operations, operating results or assets, including: (i) the distraction of management and disruption of operations; (ii) perceived uncertainties as to our future direction may result in increased difficulties in recruiting and retaining employees, particularly highly qualified employees; (iii) perceived uncertainties as to our future direction may have a negative impact on our relationships with our customers, suppliers, vendors and partners and may result in the loss of business opportunities; (iv) the process of completing the separation may be time consuming and expensive and may result in the loss of business opportunities; and (v) we may not be able to successfully achieve the benefits of any strategic alternative undertaken by us.

We have a history of losses, we expect to continue to incur losses and we may never achieve profitability.

We incurred net losses of $5,431,000 and $7,329,000 for the years ended March 31, 2013 and 2012, respectively. At March 31, 2013, our accumulated deficit amounted to $137,745,000. During the year ended March 31, 2013, net cash provided by operating activities amounted to $1,150,000. At March 31, 2013, our working capital amounted to $6,407,000. We expect to continue incurring losses for the foreseeable future and may never achieve or sustain profitability. We may need to raise additional capital to pursue product development initiatives and to penetrate markets for the sale of our products. We believe that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means. If the economic climate in the United States does not improve or further deteriorates, our ability to raise additional capital could be negatively impacted. If we are unable to secure additional capital, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash in amounts sufficient to sustain operations and meet our obligations. These measures could cause significant delays in our efforts to commercialize our products in the United States, which are critical to the realization of our business plan and to future operations.

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

Our common stock is currently listed on The NASDAQ Capital Market. Continued listing of a security on The NASDAQ Capital Market is conditioned upon compliance with certain continued listing requirements and continued listing standards set forth in the NASDAQ Listing Rules for NASDAQ Capital Market companies. There can be no assurance we will continue to satisfy the requirements for maintaining a NASDAQ Capital Market listing.

On June 18, 2012, we received a letter from Listing Qualifications staff of The NASDAQ Stock Market LLC, notifying us that, for the previous 30 consecutive business days, we failed to comply with NASDAQ Listing Rule 5550(a)(2), which requires us to maintain a minimum bid price of $1.00 per share for our common stock. In accordance with Listing Rule 5810(c)(3)(C), NASDAQ granted us a period of 180 calendar days, or until December 17, 2012, to regain compliance with the Rule. On December 18, 2012, we received a second letter from NASDAQ notifying us that we had not regained compliance with Listing Rule 5550(a)(2) within the grace period allowed by NASDAQ.

Although we failed to regain compliance with Listing Rule 5550(a)(2) by December 18, 2012, we appealed NASDAQ's delisting determination to a NASDAQ Hearings Panel on February 21, 2013. On February 27, 2013, the NASDAQ Hearings Panel notified us that the Panel granted our request for continued listing on The NASDAQ Capital Market, subject to the following conditions: 1) on or before April 15, 2013, we must evidence a closing bid price of $1.00 or more for our common stock for a minimum of ten prior consecutive trading days; and 2) we must demonstrate continued compliance with all requirements for continued listing on The NASDAQ Capital Market.

A Special Meeting of our Stockholders was held on March 22, 2013. At the Special Meeting, our stockholders approved a proposal that authorized our Board of Directors, in its discretion, to effect a reverse stock split by a ratio of not less than 1-for-3 and not more than 1-for-7 of our outstanding common stock. On the same day, at a special board meeting, our Board of Directors approved the implementation of a reverse stock split and determined the appropriate reverse stock ratio to be a ratio of 1-for-7. On March 22, 2013, pursuant to board and stockholder approval, we filed a Certificate of Amendment to our Restated Certificate of Incorporation, as amended with the State of Delaware to effectuate the reverse stock split at a ratio of 1:7 of our outstanding common stock, with a legal effective date of March 29, 2013. The total number of authorized common stock which we shall have the authority to issue as set forth in our Restated Certificate of Incorporation, as amended was also proportionally decreased in conjunction with the reverse stock split. The marketplace effective date of the reverse stock split was April 1, 2013. On April 16, 2013, the Panel notified us that we had regained compliance with the applicable minimum bid price rule, as required by the Panel's decision dated February 27, 2013, and we were is in compliance with all other applicable requirements set forth in the decision and required for listing on The NASDAQ Capital Market.

However, if we fail to maintain such compliance, our common stock will likely be delisted from The NASDAQ Capital Market and an associated decrease in liquidity in the market for our common stock may occur. In addition, the delisting of our common stock could materially adversely affect our access to the capital markets, and any limitation on liquidity or reduction in the price of our common stock could materially adversely affect our ability to raise capital on terms acceptable to us or at all. Delisting from The NASDAQ Capital Market could also result in the potential loss of confidence by our business partners and suppliers, the loss of institutional investor interest and fewer business development opportunities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have established a nutritional products division under the name NVN Therapeutics, and if the products we create in our new division are not accepted by the marketplace, we may cease operations in this division.

We established a nutritional products division under the name Napa Valley Nutritionals in the beginning of 2012 to expand our product pipeline. The name of the division was subsequently changed to NVN Therapeutics. Under this division based out of Sacramento, California, we aim to focus on the development and manufacture of medical foods that combine the best of science and nature to create products which provide patients with natural healthcare therapies with an initial focus on the development of products for the diabetic and women's health markets. Additionally, our division has launched two products, Glucorein™ Green Tea with chlorogenic acid and Glucorein™ PCOS. We do not have experience in the medical food products industry. Furthermore, we have only begun to test market these products and we do not yet know whether either product will be accepted by the market. It is possible we may not succeed in marketing Glucorein™ Green Tea with chlorogenic acid and Glucorein™ PCOS or other similar products we may develop. If we cannot generate sufficient revenues from the medical food products we develop, we may cease operations in this division.

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

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

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

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

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

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

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

Our business strategy and our short- and long-term operating results will depend in part on our ability to execute on existing strategic collaborations and to license or partner with new strategic partners. We believe collaborations allow us to leverage our resources and technologies and to access markets that are compatible with our own core areas of expertise while avoiding the cost of establishing or maintaining a direct sales force in each market. We may incur significant costs in the use of third parties to identify and assist in establishing relationships with potential collaborators.

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

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

We have very limited commercialization capability in the United States and primarily make Microcyn-based products available through our website and several regional distributors. We plan for a more aggressive commercialization and product launch in the event we obtain drug approval from the FDA or obtain other clearance or approval with wound healing claims. Developing a sales force is expensive and time consuming, and the lack of qualified sales personnel could delay or limit the success of our product launch in the United States. Our domestic sales force, if established, will be competing with the sales operations of our competitors, which are better funded and more experienced. We may not be able to develop domestic sales capacity on a timely basis, or at all.

Our dependence on a commission-based sales force and distributors for sales could limit or prevent us from selling our products and from realizing long-term revenue growth.

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

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

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

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

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

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

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

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

We also have agreed to certain prohibitions on our intellectual property. Pursuant to a license and supply agreement we entered into with our wholly owned subsidiary, Ruthigen, Inc., we agreed to exclusively license certain of our proprietary technology to Ruthigen to enable Ruthigen's research and development and commercialization of the newly discovered RUT58-60, and any improvements to it, in the United States, Canada, European Union and Japan for certain invasive procedures in human treatment as defined in the license and supply agreement. Under the terms of the agreement, we are also prohibited from using the licensed proprietary technology to sell products that compete with Ruthigen's products within the defined territory. Such agreement will take effect as of the closing date of Ruthigen's proposed initial public offering, if any should occur. In addition, we granted a security interest in our assets, excluding certain intellectual property under specific circumstances, under a loan and security agreement. If we do not protect our rights adequately, third parties could use our technology, and our ability to compete in the market would be reduced.

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

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

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

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

The policies we use to protect our trade secrets may not be effective in preventing misappropriation of our trade secrets by others. In addition, confidentiality and invention assignment agreements executed by our employees, consultants and advisors may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosures. We cannot be certain that the steps we have taken will prevent the misappropriation and use of our intellectual property in the United States, or in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

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

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

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

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

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

In addition, given ongoing federal and state government initiatives directed at lowering the total cost of health care, the United States Congress and state legislatures will likely continue to focus on health care reform, lowering the cost of prescription pharmaceuticals and Medicare and Medicaid payment systems reform. While we cannot predict whether any proposed cost-containment measures will be adopted, the announcement or adoption of these proposals could reduce the price that we receive for our Microcyn® products in the future.

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

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

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

We have material international operations in Mexico and Europe. During the years ended March 31, 2013 and 2012, approximately 50% and 56% of our total revenues were generated from sales outside of the United States. Our business is highly regulated for the use, marketing and manufacturing of our Microcyn-based products both domestically and internationally. Our international operations are subject to risks, including:

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

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

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

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

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

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

Although we have a significant number of customers in each of the geographic markets that we operate in, we rely on certain key customers for a significant portion of our revenues. During the year ended March 31, 2013, one customer represented 25%, and one customer represented 13%, respectively, of net revenues. During the year ended March 31, 2012, one customer represented 26% of net revenues. In the future, a small number of customers may continue to represent a significant portion of our total revenues in any given period. These customers may not consistently purchase our products at a particular rate over any subsequent period. The loss of any of these customers could adversely affect our revenues.

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

We grant credit to our business customers, which are primarily located in Mexico, Europe and the United States. Collateral is generally not required for trade receivables. We maintain allowances for potential credit losses. At March 31, 2013, one customer represented 34%, one customer represented 26%, and one customer represented 15% of the net accounts receivable balance. At March 31, 2012, one customer represented 13% and two customers each represented 12% of the net accounts receivable balance. While we believe we have a varied customer base and have experienced strong collections in the past, if current economic conditions disproportionately impact any one of our key customers, including reductions in their purchasing commitments to us or their ability to pay their obligations, it could have a material adverse effect on our revenues and liquidity. We have not purchased insurance on our accounts receivable balances.

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

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

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

We maintained key-person life insurance only on Mr. Alimi in our fiscal year ended March 31, 2013. We may discontinue this insurance in the future, it may not continue to be available on commercially reasonable terms or, if continued, it may prove inadequate to compensate us for the loss of Mr. Alimi's services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In December 2011, we initiated a voluntary recall of select lot numbers of certain of our Microcyn-based products due to product labeling. The voluntary recall was prompted after notification by the FDA that a limited number of our products were improperly labeled. The recall was classified by the FDA as a Class II recall, which means the probability of serious health consequences was remote. Customer safety and product quality are critically important to us and to date we have received no complaints regarding customer safety or product quality issues. The costs of the voluntary recall were nominal and there were no restrictions on our future sales of Microcyn-based products, other than revising our product labeling for certain products. The voluntary recall did not materially impact revenues.

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

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

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

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

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

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

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

Declining general economic or business conditions may have a negative impact on our business.

Concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the United States have contributed to increased volatility and diminished expectations for the global economy and expectations of slower global economic growth going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated a global economic slowdown. If the economic climate in the United States does not improve or further deteriorates, our business, including our patient population, our suppliers and our third-party payors, could be negatively affected, resulting in a negative impact on our business.

Risks Related to Our Common Stock

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

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

- demand by physicians, other medical staff and patients for our Microcyn-based products;
- reimbursement decisions by third-party payors and announcements of those decisions;
- clinical trial results published by others in our industry and publication of results in peer-reviewed journals or the presentation at medical conferences;
- the inclusion or exclusion of our Microcyn-based products in large clinical trials conducted by others;
- actual and anticipated fluctuations in our quarterly financial and operating results;
- developments or disputes concerning our intellectual property or other proprietary rights;
- issues in manufacturing our product candidates or products;
- new or less expensive products and services or new technology introduced or offered by our competitors or by us;
- the development and commercialization of product enhancements;
- changes in the regulatory environment;
- delays in establishing new strategic relationships;
- costs associated with collaborations and new product candidates;
- introduction of technological innovations or new commercial products by us or our competitors;
- litigation or public concern about the safety of our product candidates or products;
- changes in recommendations of securities analysts or lack of analyst coverage;
- failure to meet analyst expectations regarding our operating results;
- additions or departures of key personnel; and
- general market conditions.

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

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

Although our common stock is listed on The NASDAQ Capital Market, an active and liquid trading market for our common stock has not yet and may not ever develop or be sustained. You may not be able to sell your shares quickly or at or above the price you paid for our stock if trading in our stock is not active.

Anti-takeover provisions in our charter and by-laws and under Delaware law may make it more difficult for stockholders to change our management and may also make a takeover difficult.

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

- the ability of our board of directors to issue and designate, without stockholder approval, the rights of up to 5,000,000 shares of convertible preferred stock, which rights could be senior to those of common stock;
- limitations on persons authorized to call a special meeting of stockholders; and
- advance notice procedures required for stockholders to make nominations of candidates for election as directors or to bring matters before meetings of stockholders.

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

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

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

Our charter allows us to issue up to 14,285,715 shares of our common stock and to issue and designate, without stockholder approval, the rights of up to 5,000,000 shares of convertible preferred stock. In the event we issue additional shares of our capital stock, dilution to our stockholders could result. In addition, if we issue and designate a class of convertible preferred stock, these securities may provide for rights, preferences or privileges senior to those of holders of our common stock.

Risks Related to Planned Separation

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

The strategic, operating and financial benefits expected to result from the Separation may be delayed or may never be realized at all. For instance, there can be no assurance that by separating the businesses that either our Company or Ruthigen will be better positioned to capitalize on future market opportunities or that either company will be able to increase their respective shareholder value.

After the planned Separation, conflicts of interest, or the appearance of conflicts of interest, may develop between the management and directors of our Company, on the one hand, and the management and directors of Ruthigen, on the other hand.

After the planned Separation and the planned completion of Ruthigen's initial public offering, it is anticipated that our management and directors may own both Oculus capital stock and Ruthigen capital stock. This ownership overlap could create, or appear to create, potential conflicts of interest when the directors and executive officers of our Company and the directors and executive officers of Ruthigen face decisions that could have different implications for our Company and Ruthigen.

In addition, Mr. Hojabr Alimi, our founder and former President and Chief Executive Officer, will serve as President and Chief Executive Officer of Ruthigen, and may maintain his role as Chairman of our Board of Directors. The fact that Mr. Alimi holds positions with both Ruthigen and our Company, and, in addition, was one of the founders of our Company, could create, or appear to create, potential conflicts of interest for Mr. Alimi when he faces decisions that may affect both Ruthigen and our Company. Mr. Alimi may also face conflicts of interest with regard to the allocation of his time between Ruthigen and our Company. Even the appearance of a conflict of interest, whether or not one actually exists, may cause the value of our stock to decline.

ITEM 2. ***Properties***

We currently lease 13,840 square feet of office, research and manufacturing space in Petaluma, California, which serves as our principal executive offices. On October 10, 2012, we entered into Amendment No. 7 to our property lease agreement, extending the lease on our Petaluma facility to September 30, 2017. Pursuant to the amendment, in exchange for certain improvements on the building, we agreed to increase the lease payment from $10,380 to $11,072 per month.

We also share certain office and laboratory space, as well as certain laboratory equipment, in a building located at 454 North 34th Street, Seattle, Washington. The space is rented for $2,700 per month and requires a ninety day notice for cancellation.

Our wholly owned subsidiary, Ruthigen, rents office space in Santa Rosa, California. The office space is rented on a month to month basis requiring a thirty day notice for cancellation.

We have also entered into a property lease agreement for two properties in Sacramento, California to assist in the operations of our NVN Therapeutics division:

- 3045 65th Street, Suite 13, Sacramento, California 95820
- 3021 65th Street, Sacramento, California 95820

On October 31, 2011, we leased approximately 1,800 square feet of office and manufacturing space in Sacramento, California. On August 30, 2012, we entered into an amendment to our lease dated October 31, 2011 for the property located at 3045 65th Street, Suite 13, Sacramento, California 95820, to amend the lease to include a 3,000 square foot industrial unit located at 3021 65th Street, Sacramento, California, and to extend the lease on both properties to October 31, 2013. The total rent for both properties is $2,610 per month.

We currently lease approximately 12,000 square feet of office and manufacturing space and approximately 5,000 square feet of warehouse space in Zapopan, Mexico, under leases that are set to expire on April 30, 2015 and October 31, 2014, respectively.

We currently rent approximately 800 square feet of sales office space in Herten, the Netherlands. The office space is rented on a month to month basis requiring a sixty day notice for cancellation.

As we expand, we may need to establish manufacturing facilities in other countries.

We believe that our properties will be adequate to meet our needs through March 31, 2014.

ITEM 3. ***Legal Proceedings***

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

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

ITEM 4. ***Mine Safety Disclosures.***

Not applicable.

PART II

ITEM 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

Our common stock is traded on The NASDAQ Capital Market under the symbol "OCLS" and has been trading since our initial public offering on January 25, 2007.

Effective as of the open of business on April 1, 2013, we effected a reverse stock split of our common stock, par value $0.0001 per share. Every 7 shares of common stock were reclassified and combined into one share of common stock. No fractional shares were issued as a result of the reverse stock split. Instead, each resulting fractional share of common stock was rounded up to one whole share. The reverse stock split reduced the number of shares of common stock outstanding from 46,080,513 to 6,583,150. The total number of authorized shares of common stock was also proportionally decreased by a ratio of 1:7 and the par value per share of the common stock continued to be $0.0001. All prices have been adjusted to reflect a 1 for 7 reverse stock split, effective April 1, 2013.

The following table sets forth the range of high and low sales prices for our common stock for each quarter during the last two fiscal years, based on the last daily sale in each of the quarters:

	Year Ended March 31, 2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Stock price-high	$ 9.31	$ 7.00	$ 6.30	$ 5.74
Stock price-low	$ 4.55	$ 4.48	$ 3.64	$ 2.80

	Year Ended March 31, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Stock price-high	$ 15.05	$ 12.46	$ 11.69	$ 9.80
Stock price-low	$ 11.13	$ 8.26	$ 6.86	$ 6.23

Holders

As of June 3, 2013, we had approximately 402 holders of record of our common stock. Holders of record include nominees who may hold shares on behalf of multiple owners.

Dividends

We have never declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends on our common stock in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required to be disclosed by Item 201(d) of Regulation S-K, "Securities Authorized for Issuance Under Equity Compensation Plans," is incorporated herein by reference. Refer to Item 12 of Part III of this annual report on Form 10-K for additional information.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

On March 12, 2013, we closed an underwritten public offering of 1,232,143 shares of common stock at an offering price to the public of $2.80 per share, including 160,715 shares of common stock to cover the underwriters' over-allotment. Aegis Capital Corp. acted as the sole book-running manager for the offering. Dawson James Securities, Inc. acted as co-manager for the offering. The underwriting discount was 7% of the public offering price of the shares, or $0.196 per share.

We also registered warrants to purchase 53,571 shares of our common stock (5% of the shares sold) with an initial exercise price per share equal to $3.50, which is 125% of the public offering price (the "Underwriters' Warrants"), and were issued to the underwriters in accordance with the underwriting agreement we entered into with Aegis Capital Corp. as representative of the several underwriters listed on Schedule C on March 6, 2013. The Underwriters' Warrants are exercisable from March 12, 2014 through March 12, 2016.

The gross proceeds from the offering were $3,450,000, before deducting underwriting discounts and commissions and other estimated offering expenses of $399,000. We intend to use the proceeds for the repayment of debt and for general corporate purposes.

The offering of these securities were made only by means of a prospectus. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission (SEC). The registration statement may be accessed through the SEC's website at http://www.sec.gov.

Issuer Purchases of Equity Securities

There were no repurchases made by us or on our behalf, or by any "affiliated purchaser," of shares of our common stock during the quarter ended March 31, 2013.

ITEM 6. ***Selected Financial Data***

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 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Business Overview

We are a global healthcare company that designs, produces, and markets prescription and non-prescription products in over 20 countries. We are pioneering innovative products for the dermatology, surgical, advanced wound and tissue care, and animal healthcare markets. Our primary focus is on the commercialization of our proprietary technology platform called Microcyn® Technology. This technology is based on electrically charged oxychlorine small molecules designed to target a wide range of organisms that cause disease (pathogens). These organisms include viruses, fungi, spores and antibiotic-resistant strains of bacteria, such as methicillin-resistant *Staphylococcus aureus*, or MRSA, and vancomycin-resistant *Enterococcus,* or VRE, as well as *Clostridium difficile,* or C. diff, a highly contagious bacteria spread by human contact. Several Microcyn® Technology tissue care products are designed to treat infections and enhance healing while reducing the need for antibiotics. Infection is a serious potential complication in both chronic and acute wounds, and controlling infection is a critical step in wound healing.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to exercise its judgment. We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and disclosure of commitments and contingencies at the date of the consolidated financial statements.

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

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

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

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

Stock-based Compensation

We account for share-based awards exchanged for employee services based on the estimated fair value of the award on the grant date. We estimate the fair value of employee stock awards using the Black-Scholes option pricing model. We amortize the fair value of employee stock options on a straight-line basis over the requisite service period of the awards. Compensation expense includes the impact of an estimate for forfeitures for all stock options.

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

Revenue Recognition and Accounts Receivable

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

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

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

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

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

The selling prices of all goods are fixed, and agreed to with the customer, prior to shipment. Selling prices are generally based on established list prices. We do not customarily permit our customers to return any products for monetary refunds or credit against completed or future sales. We may, from time to time, replace expired goods on a discretionary basis. We record these types of adjustments, when made, as a reduction of revenue. Sales adjustments were insignificant during the years ended March 31, 2013 and 2012.

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

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

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

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

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

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

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

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

We recognize royalty revenues from licensed products upon the sale of the related products.

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

Inventory

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

Income Taxes

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

Use of Estimates

The preparation of 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Significant estimates and assumptions include reserves and write-downs related to receivables and inventories, the recoverability of long-lived assets, the valuation allowance related to our deferred tax assets, valuation of equity and derivative instruments, debt discounts, and the estimated amortization periods of upfront product licensing fees received from customers.

Recent Accounting Pronouncements

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

Comparison of Fiscal year Ended March 31, 2013 and 2012

Revenues

Total revenues were $15,452,000 for the fiscal year ended March 31, 2013 compared to $12,744,000 in the fiscal year ended March 31, 2012. Product revenues, including our receipt of product licensing fees, increased $2,730,000, or 23%, with increases in the United States, Mexico, China and Singapore, offset by a decline in Europe, India and Middle East.

Product revenue in the United States increased $2,126,000, or 45%, due to both unit growth and new product launches into the dermatology market, and higher unit growth and royalty fees received from our partner Innovacyn, Inc. We recorded revenue in the amounts of $3,906,000 and $3,367,000, respectively, for the fiscal years ended March 31, 2013 and 2012, from Innovacyn. Revenue growth attributed to our dermatology partners reflects strong unit growth as two new product lines were launched in the fourth quarter of the fiscal year ended March 31, 2012.

Product revenue in Mexico for the fiscal year ended March 31, 2013 increased $696,000, or 13%, when compared to the same period in the prior year. The increase for the fiscal year ended March 31, 2013 was driven by a 49% increase in unit volume of over 25 different types of products and the recognition of $932,000 related to the amortization of upfront fees paid by More Pharma, our new exclusive distributor in Mexico. The effective date of our entry into the distribution agreement with More Pharma was August 15, 2012. Accordingly, as a result of this agreement, revenues recognized during approximately the first fiscal year of the period ended March 31, 2012 were accounted for as we had traditionally reported in the past with the sales sold to the end customer. However, during approximately the last seven months ended March 31, 2013, we recognized revenue on the sell through basis for the products More Pharma purchased from us. The average pricing of the units sold to More Pharma is about half of the average unit price prior to the More Pharma transaction. Also, due to the transfer of the sales function of our products in Mexico to More Pharma, we reduced or transferred the cost of the sales people and promotions and thus, eliminated those certain operating costs. During the fiscal year ended March 31, 2013, we incurred about $410,000 of severance and related one-time costs in connection with the transfer of our sales function of our products in Mexico to More Pharma. In addition, an upfront product licensing fee of $5,100,000 will be recognized as revenue over a three to five year period, and such determination is based on the term of the agreements with More Pharma and an analysis of our experience with similar transactions.

Product revenue in Europe and Rest of World for the fiscal year ended March 31, 2013 decreased $92,000, or 5%, as compared to same period in the prior year, primarily as the result of decreases in sales in Europe, India and Middle East, partially offset by increases in China and Singapore.

The following table shows our product revenues by geographic region:

	Fiscal year Ended March 31, 2013	2012	$ Change	% Change
United States	$ 6,842,000	$ 4,716,000	$ 2,126,000	45%
Mexico	5,886,000	5,190,000	696,000	13%
Europe and Rest of World	1,855,000	1,947,000	(92,000)	(5%)
Total	$ 14,583,000	$ 11,853,000	$ 2,730,000	23%

Product licensing revenues of $1,686,000 and $359,000, respectively, are also included in our calculation of product revenues for the fiscal year ended March 31, 2013 and 2012 and are reflected in the table above under the respective geographic region where such licensing revenues were earned.

Service revenues decreased $22,000 for the fiscal year ended March 31, 2013 when compared to the same period in the prior year due to a decrease in the number of tests provided by our services business.

Gross Profit

We reported gross profit related to our Microcyn® products of $10,607,000 or 73% of product revenues, during the fiscal year ended March 31, 2013, compared to a gross profit of $8,599,000, or 73% of product revenues, for the same period in the prior year. Our reported gross margins are positively impacted by product license fees which are included in product revenues for the fiscal years ended March 31, 2013 and 2012. Additionally, in the fiscal year ended March 31, 2013, we experienced lower gross margins in Mexico due to reduced pricing as a result of execution of the More Pharma transaction.

Research and Development Expense

Research and development expense increased $242,000, or 12%, to $2,223,000 for the fiscal year ended March 31, 2013, compared to $1,981,000 for the same period in the prior year due to increased tests and studies conducted during the fiscal year ended March 31, 2013 and certain expenses incurred by our wholly owned subsidiary, Ruthigen, Inc. in the amount of $202,000.

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

Selling, General and Administrative Expense

Selling, general and administrative expense decreased $1,306,000, or 10%, to $11,894,000 during the fiscal year ended March 31, 2013 as compared to $13,200,000 for the same period in the prior year. The decrease for the fiscal year ended March 31, 2013 was primarily due to a $1,168,000 decline in stock compensation charges and lower selling expenses of $1,109,000 in Mexico partially offset by $410,000 of one-time severance costs incurred in Mexico; increased expenses related to the establishment and certain expenses of our wholly owned subsidiary, Ruthigen; as well as expenses related to new products, compensation, and investor-related costs in the United States.

We expect selling, general and administrative expenses to decline in the next period as we see the impact of lower sales-related expenses in Mexico.

Interest Expense and Interest Income

Interest expense increased $176,000 to $1,107,000 during the fiscal year ended March 31, 2013 as compared to $931,000 for the same period in the prior year. The increase relates to an additional $176,000 of non-cash interest incurred during the fiscal year ended March 31, 2013. The non-cash interest is related to borrowings from Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. Interest income for the fiscal year ended March 31, 2012 showed no material change from the same period in the prior year.

Other Expense, Net

Other expense, net decreased $92,000 to $125,000 for the fiscal year ended March 31, 2013, compared to other expense, net of $217,000 for the same period in the prior year. The change in other expense, net for the fiscal year ended March 31, 2013 was primarily related to unrealized foreign exchange gains and losses on intercompany transactions and tax accruals.

Derivative Liabilities

During the fiscal year ended March 31, 2013, we recorded a decrease in the fair value of our derivative liabilities of $767,000 and as a result, we recorded this amount as a non-cash gain. The change in the fair value of our derivative liabilities for the fiscal year ended March 31, 2013 were primarily the result of the expiration of common stock purchase warrants containing reset provisions, decrease in value of our common stock and the fair value recorded as a gain due to the modification of certain warrants with cash settlement provisions.

During the fiscal year ended March 31, 2012, we recorded a decrease in the fair value of our derivative liabilities of $282,000 and as a result we recorded this amount as a non-cash gain. The change in the fair value of our derivative liabilities for the year ended March 31, 2012 was primarily the result of decreases in our stock price and a decrease in the remaining life of the underlying warrants.

Fair Value of Common Stock Issued with Stock Purchase Agreement

During the fiscal year ended March 31, 2013, we recorded a loss of $1,599,000 on the fair value of common stock issued pursuant to the terms of a stock purchase agreement we entered into with Venture Lending & Leasing V, LLC and Venture Lending & Leasing VI, LLC on October 30, 2012 for the issuance to the entities of shares of our common stock having an aggregate fair market value equal to $3,500,000. This loss was due to a decrease in our stock price of $5.67 to $3.08 (both stock prices adjusted for our reverse stock split effective April 1, 2013) from the issuance date of October 30, 2012 to the reporting date of March 31, 2013.

Net Loss

Net loss for the fiscal year ended March 31, 2013 was $5,431,000, a decrease of $1,898,000, as compared to a net loss of $7,329,000 for the same period in the prior year.

Liquidity and Capital Resources

We reported a net loss of $5,431,000 for the year ended March 31, 2013. At March 31, 2013, our accumulated deficit amounted to $137,745,000. We had working capital of $6,407,000 as of March 31, 2013. In the future, we may raise additional capital from external sources in order to continue the longer term efforts contemplated under our business plan. We expect to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue our product development initiatives, to penetrate markets for the sale of our products and continue as a going concern. We cannot provide any assurances that we will be able to raise additional capital. Our management believes that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means, if needed; however, we have not secured any commitment for new financing at this time, nor can we provide any assurance that new financing will be available on commercially acceptable terms, if needed.

Sources of Liquidity

As of March 31, 2013, we had cash and cash equivalents of $7,900,000. Since our inception, substantially all of our operations have been financed through sales of equity securities. Other sources of financing that we have used to date include our revenues, as well as various loans.

Since April 1, 2011, substantially all of our operations have been financed through the following transactions:

- proceeds of $247,000 received from the exercise of common stock purchase warrants and options;
- proceeds of $2,500,000 received from the issuance of a debt instrument in the year ended March 31, 2012;
- net proceeds of $1,894,000 received from a registered direct offering of common stock on December 28, 2011;
- net proceeds of $2,797,000 received from a registered direct offering of common and preferred stock on April 22, 2012; and
- net proceeds of $3,052,000 received from an underwritten offering on March 12, 2013.

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

On May 1, 2010, we entered into a loan and security agreement and a supplement to the loan and security agreement with Venture Lending & Leasing V, Inc. ("VLL5") to borrow up to an aggregate of $3,000,000 (collectively, the "VLL5 Agreements"). On May 3, 2010, we borrowed $2,000,000 on the first tranche and on November 17, 2010, we borrowed $1,000,000 on the second tranche. The loan is secured by all assets of our Company excluding intellectual property under certain circumstances. Related to the first tranche, we made eight monthly interest-only payments of $16,660 through December 1, 2010. Thereafter, we made interest and principal payments of $75,000 per month through June 1, 2013. We also made a timely final balloon payment related to the first tranche of $132,000. Related to the second tranche, we paid monthly interest-only payments of $8,330 through May 1, 2012. We now make interest and principal payments of $37,500 per month through November 1, 2013. Additionally, we will make a final balloon payment related to the second tranche of $66,000 on November 1, 2013. The effective interest rate on the first and second tranche is 13.3%. During the years ended March 31, 2013 and 2012, we made interest payments of $179,000 and $317,000, respectively. During the years ended March 31, 2013 and 2012, we made principal payments of $1,171,000 and $974,000, respectively.

In connection with the VLL5 Agreements, we issued two warrants to Venture Lending & Leasing V, LLC, a Delaware limited liability company ("LLC5"), which, in the aggregate, had a total put option cash value of $750,000 (the "VLL5 Warrants"). The $750,000 cash value of the VLL5 Warrants was recorded as a cash settlement liability and a corresponding amount of $750,000 was recorded as a discount on the note payable. The discount is being accreted to non-cash interest expense over the term of the loan using the effective interest method. During the years ended March 31, 2013 and 2012, we recorded $255,000 and $237,000, respectively, of non-cash interest expense related to the loans. The remaining balance of the discount on the loans amounted to $98,000 at March 31, 2013. The remaining balance of the loans amounted to $694,000 at March 31, 2013, which is included in the current portion of long-term debt, net of debt discount in our accompanying consolidated balance sheet.

On June 29, 2011, we entered into a loan and security agreement and a supplement to the loan and security agreement with Venture Lending & Leasing VI, Inc. ("VLL6") to borrow up to an aggregate of up to $2,500,000 (collectively, the "VLL6 Agreements"). The VLL6 Agreements provided for a first tranche of $1,500,000 and, upon meeting certain financial milestones, a second tranche of $1,000,000. The loan is secured by the assets of our Company including intellectual property. On June 29, 2011, we borrowed $1,500,000 on the first tranche. On September 30, 2011, we met the financial milestones to borrow the second tranche. On November 10, 2011, we borrowed the second tranche. The cash interest or "streaming" rate on the loan is 10%. In connection with the first tranche, for the first nine months, we made monthly interest-only payments set at $12,500 through March 1, 2012. We now make principal and interest payments of $56,250 per month through September 1, 2014. Additionally, we will make a final balloon payment of $116,505 on September 29, 2014. In connection with the second tranche, for the first nine months, we made monthly interest-only payments set at $8,333 through August 31, 2012. We now make principal and interest payments of $37,500 per month through February 1, 2015. Additionally, we will make a final balloon payment of $77,670 on February 1, 2015, resulting in an effective interest rate of 13%. During the years ended March 31, 2013 and 2012, we made interest payments of $295,000 and $155,000, respectively. During the year ended March 31, 2013, we made principal payments of $684,000.

In connection with the VLL6 Agreements, we issued a warrant to Venture Lending & Leasing VI, LLC ("LLC6") for the purchase of 32,332 shares of our common stock at a purchase price per share equal to $11.592. Once we became eligible to draw the second tranche of the loan, we were required to issue a second warrant to LLC6 with coverage equal to $62,500 for the purchase of additional shares of our common stock at a strike price equal to the 10-day volume-weighted average price ("VWAP") ending on the trading day prior to the date we satisfied the second tranche milestones. On September 30, 2011, we met the second tranche milestones and we issued the second warrant for the purchase of 5,586 shares of our common stock at a purchase price per share equal to $11.189. On November 10, 2011, we borrowed the second tranche and therefore we became obligated to issue a third warrant to LLC6 with coverage equal to $62,500 for the purchase of additional shares of our common stock at a strike price equal to the 10-day VWAP ending on the trading day prior to the borrowing date of the second tranche. In connection with borrowing the second tranche, we issued the third warrant for the purchase of 5,884 shares of our common stock at a purchase price per share equal to $10.623. The three warrants issued to LLC6 are hereinafter collectively referred to as the "VLL6 Warrants," and had a total put option cash value, in the aggregate, of $1,250,000. We recorded the $1,250,000 cash value of the VLL6 Warrants as a cash settlement liability and a corresponding amount of $1,250,000 was recorded as a discount on the note payable. The discount is being accreted to non-cash interest expense over the term of the loan using the effective interest method. For the year ended March 31, 2013 and 2012, we recorded $369,000 and $211,000 of non-cash interest related to the loan, respectively. The remaining balance of the discount on the loan amounted to $670,000 at March 31, 2013. The remaining balance of the loan amounted to $1,817,000 at March 31, 2013, of which $931,000 is included in the current portion of long-term debt in our accompanying consolidated balance sheet.

On October 30, 2012, we entered into respective letter agreements with VLL5 and VLL6 to amend the repayment terms of our outstanding debt obligations. Prior to the execution of these agreements, LLC5 and LLC6 held an aggregate of 79,517 warrants (adjusted for the reverse stock split effective April 1, 2013) to purchase common stock, which, in the aggregate, had a total put option cash value of $2,000,000 (the "Cash Settlement Liability") and was included in long term liabilities on our consolidated balance sheets.

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

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

(a) If and when the Shares are sold by WTI during the Grace Period, the fair value of the proceeds received will be retained by WTI as consideration for surrendering the Cash Settlement Liability, up to a maximum value of $2,000,000.

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

(c) If and when the Shares are sold by WTI during the Grace Period, any additional proceeds received from the sale of the Shares in excess of $3,500,000 (approximately $5.67 per share) up to $4,500,000 (approximately $7.28 per share) shall be the sole possession and property of WTI, in accordance with the terms of the stock purchase agreement.

(d) If the Shares are sold by WTI during the Grace Period for value in excess of $4,500,000 (approximately $6.72 per share), 50% of the amount of the proceeds in excess of the $4,500,000 will be the sole possession and property of WTI and 50% of the amount of the proceeds shall be applied as a prepayment of a portion of the then outstanding debt based on the terms of the stock purchase agreement.

(e) If the Shares are sold by WTI during the Grace Period for value less than $2,000,000 (approximately $3.22 per share), we are required to make a cash payment to WTI until the total Cash Settlement Liability of $2,000,000 has been recovered ("Cash Shortfall").

If the Shares are not sold during the Grace Period, then the then fair value of the stock is to be determined at either of the Settlement Dates and the repayment of the Cash Settlement Liability, prepayment of outstanding, distribution of gains from the sale of the Shares, or calculation of the Cash Shortfall will consummate. On October 30, 2012, upon the issuance of the Shares, we recorded a prepayment of $2,000,000 and $1,500,000 net against the Cash Settlement Liability and the outstanding notes payable, respectively, on that date.

At March 31, 2013, the Shares had not yet been sold by WTI and the fair value of the Shares at March 31, 2013 amounted to $1,901,000 (approximately $3.08 per share).

April 2012 Registered Direct Offering

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

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

March 2013 Underwritten Public Offering

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

Cash Flows

As of March 31, 2013, we had cash and cash equivalents of $7,900,000, compared to $3,351,000 as of March 31, 2012.

Net cash provided by operating activities during the year ended March 31, 2013 was $1,150,000 primarily due to the receipt of a $5,100,000 upfront payment from More Pharma offset by our net loss of $5,431,000 for the period. Additionally, we had non-cash transactions during the year ended March 31, 2013, including: $1,601,000 of stock-based compensation expenses; a $767,000 gain on the fair value adjustment of our derivative liabilities; an 1,599,000 loss on the fair value adjustment of common stock issued in connection with the stock purchase agreement dated October 30, 2012; and non-cash interest of $624,000.

Net cash used in operating activities during the year ended March 31, 2012 was $4,032,000, primarily due to the $7,329,000 net loss for the period. These increases were offset in part by non-cash charges including $2,799,000 of stock-based compensation and $448,000 of non-cash interest expense.

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

Net cash used in investing activities was $360,000 for the year ended March 31, 2012 related to the purchase of equipment.

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

Net cash provided by financing activities was $3,449,000 for the year ended March 31, 2012. We received net proceeds from the issuance of a debt instrument of $2,500,000 during this period, offset by principal payments on the debt in the amount of $1,164,000. Additionally, we received proceeds of $219,000 related to the exercise of common stock options and common stock purchase warrants, and net proceeds of $1,894,000 related to a registered direct common stock offering.

Contractual Obligations

As of March 31, 2013, we had contractual obligations as follows (long-term debt amounts include principal payments only (in thousands):

	Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	After 3 Years
Long-term debt	$ 2,704	$ 1,780	$ 924	$ –
Operating leases	985	327	592	66
Total	$ 3,689	$ 2,107	$ 1,516	$ 66

Operating Capital and Capital Expenditure Requirements

We incurred a net loss of $5,431,000 for the year ended March 31, 2013. At March 31, 2013 and 2012, our accumulated deficit amounted to $137,745,00 and $132,314,000, respectively. At March 31, 2013, our working capital amounted to $6,407,000.

We may need to raise additional capital from external sources in order to continue the longer term efforts contemplated under our business plan. We expect to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue our product development initiatives and to penetrate markets for the sale of our products.

In order for us to potentially commercialize Microcyn® as a drug product in the United States, we must conduct clinical trials, which can be costly. Therefore, commencement of such pivotal clinical trials will be delayed until we find a strategic partner to assist with funding. Without a strategic partner or additional capital, our pivotal clinical trials will be delayed for a period of time that is currently indeterminate.

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

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

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 7A. ***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 8. ***Consolidated Financial Statements and Supplementary Data***

Oculus Innovative Sciences, Inc.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Oculus Innovative Sciences, Inc. and Subsidiaries (the "Company") as of March 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, changes in stockholders' equity (deficiency), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oculus Innovative Sciences, Inc. and Subsidiaries as of March 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum LLP
Marcum LLP
New York, NY
June 25, 2013

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31,	
	2013	**2012**
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,900	$ 3,351
Accounts receivable, net	1,707	2,151
Inventories, net	992	953
Prepaid expenses and other current assets	935	505
Total current assets	11,534	6,960
Property and equipment, net	800	806
Deferred offering costs	44	–
Other assets	187	72
Total assets	$ 12,565	$ 7,838
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 808	$ 816
Accrued expenses and other current liabilities	703	844
Current portion of cash settlement liability (See Note 9)	37	–
Deferred revenue	2,320	1,619
Current portion of long-term debt, net of debt discount of $521 and $624 at March 31, 2013 and March 31, 2012, respectively	1,259	1,415
Derivative liability	–	55
Total current liabilities	5,127	4,749
Deferred revenue, less current portion	2,619	133
Long-term debt, net of debt discount of $248 and $769 at March 31, 2013 and March 31, 2012, respectively, less current portion	676	1,824
Cash settlement liability, less current portion (See Note 9)	62	2,000
Total liabilities	8,484	8,706
Commitments and Contingencies		
Stockholders' Equity (Deficiency)		
Convertible preferred stock, $0.0001 par value; 5,000,000 shares authorized, none issued and outstanding at March 31, 2013 and 2012, respectively		–
Common stock, $0.0001 par value; 14,285,715 shares authorized, 6,583,150 and 4,144,206 shares issued and outstanding at March 31, 2013 and 2012, respectively	1	–
Additional paid-in capital	144,816	134,499
Accumulated other comprehensive loss	(2,991)	(3,053)
Accumulated deficit	(137,745)	(132,314)
Total stockholders' equity (deficiency)	4,081	(868)
Total liabilities and stockholders' equity (deficiency)	$ 12,565	$ 7,838

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

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

	Year Ended March 31,	
	2013	2012
	(In thousands, except per share amounts)	
Revenues		
Product	$ 12,897	$ 11,494
Product licensing fees	1,686	359
Service	869	891
Total revenues	15,452	12,744
Cost of revenues		
Product	3,976	3,254
Service	733	776
Total cost of revenues	4,709	4,030
Gross profit	10,743	8,714
Operating expenses		
Research and development	2,223	1,981
Selling, general and administrative	11,894	13,200
Total operating expenses	14,117	15,181
Loss from operations	(3,374)	(6,467)
Interest expense	(1,107)	(931)
Interest income	7	4
Loss due to change in fair value of common stock (See Note 9)	(1,599)	–
Gain due to change in fair value of derivative liabilities	767	282
Other expense, net	(125)	(217)
Net loss	$ (5,431)	$ (7,329)
Preferred stock deemed dividend	1,062	–
Net loss available to common shareholders	$ (6,493)	$ (7,329)
Net loss per common share: basic and diluted	$ (1.30)	$ (1.87)
Weighted-average number of shares used in per common share calculations:		
Basic and diluted	4,977	3,912
Other comprehensive loss		
Net loss	$ (5,431)	$ (7,329)
Foreign currency translation adjustments	62	(152)
Comprehensive loss	$ (5,369)	$ (7,481)

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

OCULUS INNOVATIVE SCIENCES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
For the Years Ended March 31, 2013 and 2012
(In thousands, except share amounts)

	Convertible Preferred Stock ($0.0001 par Value)		Common Stock ($0.0001 par Value)		Additional Paid in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance, March 31, 2011	–	$ –	3,796,833	$ –	$ 129,587	$ (2,901)	$ (124,985)	$ 1,701
Issuance of common stock in connection with December 28, 2012 closing of offering, net of commissions, expenses and other offering costs	–	–	258,522	–	1,894	–	–	1,894
Issuance of common stock in connection with exercise of stock options	–	–	19,261	–	55	–	–	55
Issuance of common stock in connection with exercise of stock purchase warrants	–	–	20,675	–	164	–	–	164
Issuance of common stock for services	–	–	48,915	–	586	–	–	586
Fair value of common stock purchase warrants issued to service providers	–	–	–	–	42	–	–	42
Employee stock-based compensation expense, net of forfeitures	–	–	–	–	2,171	–	–	2,171
Foreign currency translation adjustment	–	–	–	–	–	(152)	–	(152)
Net loss	–	–	–	–	–	–	(7,329)	(7,329)
Balance, March 31, 2012	–	$ –	4,144,206	$ –	$ 134,499	$ (3,053)	$ (132,314)	$ (868)
Issuance of common stock in connection with April 22, 2012 closing of offering, net of commissions, expenses and other offering costs	–	–	337,143	–	1,890	–	–	1,890
Issuance of convertible preferred stock in connection with April 22, 2012 closing of offering, net of commissions, expenses and other offering costs	1,000	–	–	–	907	–	–	907

	Convertible Preferred Stock ($0.0001 par Value)		Common Stock ($0.0001 par Value)		Additional Paid in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Loss	Deficit	Total
Fair value of common stock purchase warrants issued with a cash settlement provision	–	–	–	–	(2,347)	–	–	(2,347)
Conversion of convertible preferred stock issued on April 22, 2012 into common stock	(1,000)	–	158,730	–	–	–	–	–
Issuance of common stock in connection with March 12, 2013 closing of offering, net of commissions, expenses and other offering costs	–	–	1,232,143	1	3,051	–	–	3,052
Issuance of common stock in connection with exercise of stock options		–	9,878	–	28	–	–	28
Issuance of common stock for services	–	–	71,534	–	443	–	–	443
Issuance of common stock to settle obligations	–	–	12,232	–	51	–	–	51
Fair value of common stock issued in connection with stock purchase agreement (See Note 9)	–	–	617,284	–	3,500	–	–	3,500
Reclassification of liability to equity related to the modification of common stock purchase warrants with a cash settlement provision	–	–	–	–	1,636	–	–	1,636
Common stock purchase warrants issued to consultants	–	–	–	–	4	–	–	4
Employee stock-based compensation expense, net of forfeitures	–	–	–	–	1,154	–	–	1,154
Foreign currency translation adjustment	–	–	–	–	–	62	–	62
Net loss	–	–	–	–	–	–	(5,431)	(5,431)
Balance, March 31, 2013	–	$ –	6,583,150	$ 1	$ 144,816	$ (2,991)	$ (137,745)	$ 4,081

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

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

	Year Ended March 31,	
	2013	2012
	(In thousands)	
Cash flows from operating activities		
Net loss	$ (5,431)	$ (7,329)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	268	326
Provision for doubtful accounts	33	2
Provision for obsolete inventory	85	61
Stock-based compensation	1,601	2,799
Change in fair value of derivative liability	(767)	(282)
Loss due to change in fair value of common stock (See Note 9)	1,599	–
Non-cash interest expense	624	448
Foreign currency transaction gains	11	26
Loss on disposal of property and equipment	2	–
Changes in operating assets and liabilities:		
Accounts receivable	411	(164)
Inventories	(103)	(309)
Prepaid expenses and other current assets	(262)	251
Accounts payable	(10)	158
Accrued expenses and other current liabilities	(141)	150
Deferred revenue and other liabilities	3,230	(169)
Net cash provided by (used in) operating activities	1,150	(4,032)
Cash flows from investing activities:		
Purchases of property and equipment	(257)	(336)
Long-term deposits	(113)	(24)
Net cash used in investing activities	(370)	(360)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	4,942	1,894
Proceeds from the issuance of convertible preferred stock, net of offering costs	907	
Deferred offering costs	(44)	–
Proceeds from issuance of common stock upon exercise of stock options and warrants	28	219
Proceeds from issuance of long-term debt	–	2,500
Principal payments on long-term debt	(2,083)	(1,164)
Net cash provided by financing activities	3,750	3,449
Effect of exchange rate on cash and cash equivalents	19	(77)
Net increase (decrease) cash and cash equivalents	4,549	(1,020)
Cash and cash equivalents, beginning of year	3,351	4,371
Cash and cash equivalents, end of year	$ 7,900	$ 3,351
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 483	$ 483
Non-cash operating and financing activities:		
Insurance premiums financed	$ 155	$ 160
Issuance of common stock to settle obligations	$ 51	$ –
Non-cash investing and financing activities:		
Common stock issued in connection with stock purchase agreement (See Note 9)	$ 3,500	$ –
Reclassification of derivative liabilities to paid in capital	$ 1,636	$ –
Warrants issued as derivative liabilities in connection with registered direct offering	$ 2,347	$ –
Debt discount in connection with long-term debt	$ –	$ 1,250

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

NOTE 1 — The Company

Organization

Oculus Innovative Sciences, Inc. (the "Company") was incorporated under the laws of the State of California in April 1999 and was reincorporated under the laws of the State of Delaware in December 2006. The Company's principal office is located in Petaluma, California. The Company is a global healthcare company that designs, produces, and markets prescription and non-prescription products in over 20 countries. It is pioneering innovative products for the dermatology, surgical, advanced wound and skin care, and animal healthcare markets. The Company's primary focus is on its proprietary technology platform called Microcyn® Technology. This technology is based on electrically charged oxychlorine small molecules designed to target a wide range of organisms that cause disease (pathogens). Several Microcyn® Technology tissue care products are designed to treat infections and enhance healing while reducing the need for antibiotics.

Reverse Stock Split

On January 23, 2013, the Company's board of directors adopted a resolution recommending the submission of a proposal to the Company's stockholders to amend the Company's Restated Certificate of Incorporation, as amended to reflect a reverse stock split at a whole number ratio in the range of 1:3 to 1:9, such ratio to be determined in the sole discretion of the board of directors, and to proportionally decrease the total number of shares that the Company is authorized to issue by a factor of 1:3 to 1:9, such ratio to be determined in the sole discretion of board of directors, in conjunction with the proposed reverse stock split, and calling a special meeting of the Company's stockholders for consideration thereof. The reverse stock split ratio was later ratified by the Company's board of directors to be in the range of 1:3 to 1:7 at a meeting of the board of directors held on March 22, 2013.

On March 22, 2013, at a special meeting of the stockholders of the Company held on March 22, 2013, a majority of the Company's stockholders entitled to vote thereon voted to approve the board's proposal to decrease the number of issued and outstanding shares of common stock of the Company by effecting a reverse stock split at a whole number ratio in the range of 1:3 to 1:7, such ratio to be determined in the sole discretion of the board of directors, and to proportionally decrease the total number of shares that the Company is authorized to issue by a factor of 1:3 to 1:7, such ratio to be determined in the sole discretion of the board of directors, in conjunction with the proposed reverse stock split.

At a special meeting of the board of directors of the Company, the Company's board of directors determined, in their judgment, that it was in the best interests of the Company and its stockholders to decrease the number of issued and outstanding shares of common stock of the Company by effecting a reverse stock split of the Company's outstanding common stock, $0.0001 par value per share, in the ratio of 1:7 of the common stock and to proportionally decrease the total number of shares that the Company is authorized to issue by the ratio of 1:7 of the issued common stock in conjunction with the proposed reverse stock split, and adopted a resolution to effectuate the reverse stock split with a ratio of 1:7 of the issued common stock of the Company.

On March 22, 2013, pursuant to board and stockholder approval, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation, as amended with the State of Delaware to effectuate the reverse stock split in a ratio of 1:7 of the issued common stock of the Company, with a legal effective date of March 29, 2013 and a marketplace effective date of April 1, 2013. The total number of authorized common stock which the Company shall have the authority to issue as set forth in the Company's Restated Certificate of Incorporation, as amended was also proportionally decreased in conjunction with the reverse stock split.

Effective April 1, 2013, the Company effected a reverse stock split of its common stock, par value $0.0001 per share. Every 7 shares of common stock were reclassified and combined into one share of common stock. No fractional shares were issued as a result of the reverse stock split. Instead, each resulting fractional share of common stock was rounded up to one whole share. The reverse stock split reduced the number of shares of common stock outstanding from 46,080,513 to 6,583,150. The total number of authorized shares of common stock was also proportionally decreased by a ratio of 1:7 and the par value per share of the Company's common stock continued to be $0.0001.

All common shares and per share amounts contained in the consolidated financial statements have been retroactively adjusted to reflect a 1 for 7 reverse stock split, effective April 1, 2013.

NOTE 2 — Liquidity and Financial Condition

The Company incurred a net loss of $5,431,000 for the year ended March 31, 2013. At March 31, 2013, the Company's accumulated deficit amounted to $137,745,000. The Company had working capital of $6,407,000 as of March 31, 2013. The Company may need to raise additional capital from external sources in order to continue the longer term efforts contemplated under its business plan. The Company expects to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue its product development initiatives, to penetrate markets for the sale of its products, and to continue as a going concern.

On April 22, 2012, the Company entered into agreements with certain investors to issue up to: a) 337,143 shares of common stock; b) 1,000 shares of Series A 0% Convertible Preferred Stock (the "Series A Preferred Stock"); and c) warrants to purchase up to 495,873 shares of common stock (the "Warrants"). The Company also offered up to 158,730 shares of common stock issuable upon conversion of the Series A Preferred Stock and 495,873 shares of common stock in the event the Warrants are exercised. The Warrants have an initial exercise price of $8.26 per share, were not exercisable for nine months from the date of issuance, and an initial exercise term of 2.5 years from the date of issuance. The Company received approximately $3,124,000 in gross proceeds from the sale of these securities. Net proceeds after deducting the placement agent commissions, legal expenses and other offering expenses, and assuming no exercise of the Warrants, was $2,797,000. The Company retained Rodman & Renshaw, LLC as the exclusive placement agent for this offering, and paid them approximately $219,000 in placement agent commissions. On May 4, 2012, the investor converted 1,000 shares of the Series A Preferred Stock purchased in the transaction into 158,730 shares of common stock. On October 29, 2012, the Company entered into a side letter agreement with the holders of the Warrants to amend the terms of the Warrants. The holders of the Warrants agreed to waive certain net-cash settlement features contained in the Warrants in exchange for the Company's agreement to a two-year extension of the expiration date of the Warrants. Accordingly, the expiration date of the Warrants was extended from October 25, 2014 to October 25, 2016.

On March 6, 2013, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Aegis Capital Corp. as representative of the underwriters, with respect to the issuance and sale by the Company of an aggregate of 1,071,429 shares of the Company's common stock, $0.0001 par value (the "Shares") in an underwritten public offering, at a price to the public of $2.80 per share. Pursuant to the Underwriting Agreement, the Company granted the underwriters a 45-day option to purchase up to an additional 160,714 shares at a price to the public of $2.80 per share. On March 12, 2013, the underwriters exercised their option and purchased 160,714 shares. The Company received $3,450,000 in gross proceeds from the sale of Shares, including the underwriters' option, in the offering. Net proceeds after deducting the placement agent commissions, legal expenses and other offering expenses, and assuming no exercise of the Warrants, was $3,052,000. The Company also issued warrants to purchase 53,571 shares of the Company's common stock with an initial exercise price per share equal to $3.50, which was 125% of the public offering price, to the underwriters in accordance with the Underwriting Agreement (the "Underwriters' Warrants"). The Underwriters' Warrants are exercisable from March 12, 2014 through March 12, 2016.

The Company currently anticipates that its cash and cash equivalents will be sufficient to meet its working capital requirements to continue its sales and marketing and research and development through at least April 1, 2014. However, in order to execute the Company's long-term Microcyn® product development strategy and to penetrate new and existing markets, the Company may need to raise additional funds through public or private equity offerings, debt financings, corporate collaborations or other means.

Management believes that the Company has access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means; however, the Company has not secured any commitment for new financing at this time, nor can it provide any assurance that new financing will be available on commercially acceptable terms, if needed. If the Company is unable to secure additional capital, it may be required to curtail its research and development initiatives and take additional measures to reduce costs in order to conserve its cash.

NOTE 3 — Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Significant estimates and assumptions include reserves and write-downs related to receivables and inventories, the recoverability of long-lived assets, the valuation allowance relating to the Company's deferred tax assets, valuation of equity and derivative instruments, debt discounts, and the estimated amortization periods of upfront product licensing fees received from customers.

Reclassifications

Certain prior period amounts have been reclassified for comparative purposes to conform to the fiscal 2013 presentation. These reclassifications have no impact on the Company's previously reported consolidated net loss.

Revenue Recognition

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

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

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

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

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

The selling prices of all goods that the Company sells are fixed, and agreed to with the customer, prior to shipment. Selling prices are generally based on established list prices. The Company does not customarily permit its customers to return any of its products for monetary refunds or credit against completed or future sales. The Company, from time to time, may replace expired goods on a discretionary basis. The Company records these types of adjustments, when made, as a reduction of revenue. Sales adjustments were insignificant during the years ended March 31, 2013 and 2012.

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

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

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

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

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

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

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

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

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

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

Sales Tax and Value Added Taxes

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

Cash and Cash Equivalents

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

Concentration of Credit Risk and Major Customers

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

The Company grants credit to its business customers, which are primarily located in Mexico, Europe and the United States. Collateral is generally not required for trade receivables. The Company maintains allowances for potential credit losses. At March 31, 2013, one customer represented 34%, one customer represented 26%, and one customer represented 15% of the net accounts receivable balance. At March 31, 2012, one customer represented 13% and two customers each represented 12% of the net accounts receivable balance. During the year ended March 31, 2013, one customer represented 25%, and one customer represented 13%, respectively, of net revenues. During the year ended March 31, 2012, one customer represented 26% of net revenues.

Accounts Receivable

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

The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Other factors that the Company considers include its existing contractual obligations, historical payment patterns of its customers and individual customer circumstances, an analysis of days sales outstanding by customer and geographic region, and a review of the local economic environment and its potential impact on government funding and reimbursement practices. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts at March 31, 2013 and 2012 represents probable credit losses in the amounts of $22,000 and $52,000, respectively.

Inventories

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

Due to changing market conditions, estimated future requirements, age of the inventories on hand and production of new products, the Company regularly reviews inventory quantities on hand and records a provision to write down excess and obsolete inventory to its estimated net realizable value. The Company recorded reserves to reduce the carrying amounts of inventories to their net realizable value in the amounts of $170,000 and $105,000 at March 31, 2013 and 2012, respectively, which is included in cost of product revenues on the Company's accompanying consolidated statements of comprehensive loss.

Fair Value of Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The fair value of capital lease obligations and equipment loans approximates their carrying amounts as a market rate of interest is attached to their repayment. The Company measures the fair value of financial assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company uses three levels of inputs that may be used to measure fair value:

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

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

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

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

	Fair Value Measurements at March 31, 2013 Using			
	Total March 31, 2013	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
Liabilities:				
Derivative liability - warrants	$ –	$ –	$ –	$ –

	Fair Value Measurements at March 31, 2012 Using			
	Total March 31, 2012	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant other unobservable inputs (Level 3)**
Liabilities:				
Derivative liability - warrants	$ 55	$ –	$ –	$ 55

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivative liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's accounting and finance department, who report to the Chief Financial Officer, determine its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's accounting and finance department and are approved by the Chief Financial Officer.

Level 3 Valuation Techniques:

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

The Company uses the Black-Scholes option valuation model to value Level 3 financial liabilities at inception and on subsequent valuation dates.

This model incorporates transaction details such as the Company's stock price, contractual terms, maturity, risk free rates, as well as volatility.

A significant decrease in the volatility or a significant decrease in the Company's stock price, in isolation, would result in a significantly lower fair value measurement. Changes in the values of the derivative liabilities are recorded in "(Loss) gain due to change in fair value of derivative liabilities" in the Company's condensed consolidated statements of comprehensive loss.

As of March 31, 2013, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

Property and Equipment

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

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

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

Impairment of Long-Lived Assets

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

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

When circumstances indicate that an impairment may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. In estimating these future cash flows, assets and liabilities are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other such groups. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, will be recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable. During the years ended March 31, 2013 and 2012, the Company had noted no indicators of impairment.

Research and Development

Research and development expense is charged to operations as incurred and consists primarily of personnel expenses, clinical and regulatory services and supplies. For the years ended March 31, 2013 and 2012, research and development expense amounted to $2,223,000 and $1,981,000, respectively.

Advertising Costs

Advertising costs are expensed are incurred. Advertising costs amounted to $91,000 and $177,000, for the years ended March 31, 2013 and 2012, respectively. Advertising costs are included in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive loss.

Shipping and Handling Costs

The Company classifies amounts billed to customers related to shipping and handling in sale transactions as product revenues. Shipping and handling costs incurred are recorded in cost of product revenues. For the years ended March 31, 2013 and 2012, the Company recorded revenue related to shipping and handling costs of $116,000 and $70,000, respectively.

Foreign Currency Reporting

The Company's subsidiary, OTM, uses the local currency (Mexican Pesos) as its functional currency and its subsidiary, OIS Europe, uses the local currency (Euro) as its functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date, and revenue and expense accounts are translated at average exchange rates during the period. Resulting translation adjustments were recorded in accumulated other comprehensive loss in the accompanying consolidated balance sheets at March 31, 2013 and March 31, 2012.

Foreign currency transaction gains (losses) relate primarily to trade payables and receivables between subsidiaries OTM and OIS Europe. These transactions are expected to be settled in the foreseeable future. The Company recorded foreign currency transaction gains of $11,000 and $26,000 for the years ended March 31, 2013 and 2012, respectively. The related gains were recorded in other expense, net, in the accompanying consolidated statements of comprehensive loss.

Stock-Based Compensation

The Company accounts for share-based awards exchanged for employee services at the estimated grant date fair value of the award. The Company estimates the fair value of employee stock awards using the Black-Scholes option pricing model. The Company amortizes the fair value of employee stock options on a straight-line basis over the requisite service period of the awards. Compensation expense includes the impact of an estimate for forfeitures for all stock options.

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

Income Taxes

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

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

Comprehensive Loss

Other comprehensive loss includes all changes in stockholders' equity during a period from non-owner sources and is reported in the consolidated statement of changes in stockholders' equity (deficiency). To date, other comprehensive loss consists of changes in accumulated foreign currency translation adjustments. Accumulated other comprehensive losses at March 31, 2013 and 2012 were $2,991,000 and $3,053,000, respectively.

Net Loss Per Share

The Company computes basic net loss per share by dividing net loss per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic net loss per share for the years ended March 31, 2013 and 2012 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	Year Ended March 31,	
	2013	2012
	(In thousands)	
Anti-dilutive securities excluded from the computation of basic and diluted net loss per share are as follows:		
Options to purchase common stock	975	895
Warrants to purchase common stock	1,318	1,213
	2,293	2,108

Common Stock Purchase Warrants and Other Derivative Financial Instruments

The Company classifies common stock purchase warrants and other free standing derivative financial instruments as equity if the contracts (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement), or (iii) contain reset provisions as either an asset or a liability. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that its freestanding derivatives, which principally consist of warrants to purchase common stock, satisfied the criteria for classification as equity instruments, other than certain warrants that contained reset provisions and certain warrants that required net-cash settlement that the Company classified as derivative liabilities as more fully described in Note 10.

Preferred Stock

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

Convertible Instruments

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

Subsequent Events

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

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This guidance improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*. ASU No. 2011-12 defers the requirement that companies present reclassification adjustments for each component of AOCI in both net income and OCI on the face of the financial statements. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. While the adoption of this standard required the Company to change the format of its consolidated financial statements, it did not have a material impact on the Company's consolidated financial position and results of operations.

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

NOTE 4 — Accounts Receivable

Accounts receivable consists of the following (in thousands):

	March 31,	
	2013	**2012**
Accounts receivable	$ 1,729	$ 2,203
Less: allowance for doubtful accounts	(22)	(52)
	$ 1,707	$ 2,151

Allowance for doubtful accounts activities are as follows (in thousands):

Year Ended March 31	**Balance at Beginning of Year**	**Additions Charged to Operations**	**Deductions Write-Offs**	**Balance at End of Year**
2012	$ 62	$ 2	$ (12)	$ 52
2013	$ 52	$ 33	$ (63)	$ 22

NOTE 5 — Inventories

Inventories consist of the following (in thousands):

	March 31,	
	2013	**2012**
Raw materials	$ 835	$ 558
Finished goods	327	500
	1,162	1,058
Less: inventory allowances	(170)	(105)
	$ 992	$ 953

Reserve for obsolete inventories activities are as follows (in thousands):

Year Ended March 31	**Balance at Beginning of Year**	**Additions Charged to Cost of Product Revenues**	**Deductions Write-Offs**	**Balance at End of Year**
2012	$ 158	$ 61	$ (114)	$ 105
2013	$ 105	$ 85	$ (20)	$ 170

NOTE 6 — Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	March 31,	
	2013	2012
Prepaid expenses	$ 784	$ 431
Value Added Tax receivable	1	8
Other current assets	150	66
	$ 935	$ 505

NOTE 7 — Property and Equipment

Property and equipment consists of the following (in thousands):

	March 31,	
	2013	2012
Manufacturing, lab, and other equipment	$ 2,731	$ 2,666
Office equipment	356	334
Furniture and fixtures	78	55
Leasehold improvements	282	269
	3,447	3,324
Less: accumulated depreciation and amortization	(2,647)	(2,518)
	$ 800	$ 806

Depreciation and amortization expense amounted to $268,000 and $326,000 for the years ended March 31, 2013 and 2012, respectively.

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

NOTE 8 — Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	March 31,	
	2013	2012
Salaries and related costs	$ 455	$ 547
Professional fees	141	155
Value Added Tax payable	56	121
Other	51	21
	$ 703	$ 844

NOTE 9 — Long-Term Debt

On August 29, 2009, the Company entered into a note agreement for principal amounting to $100,000 with an interest rate of 2.90% per annum. This instrument was issued in connection with financing an automobile. The note is payable in monthly installments of $1,800 through August 29, 2014. During each of the years ended March 31, 2013 and 2012, the Company made principal payments on this note in the amount of $20,000. During the years ended March 31, 2013 and 2012, the Company made interest payments related to this note in the amounts of $1,000 and $2,000, respectively. The remaining balance of this note amounted to $30,000 at March 31, 2013, of which $21,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

On October 7, 2009, the Company entered into a note agreement for principal amounting to $57,000 with an interest rate of 1.0% per annum. This instrument was issued in connection with financing an automobile. The note is payable in monthly installments of $900 through October 26, 2014. During each of the years ended March 31, 2013 and 2012, the Company made principal payments on this note in the amount of $11,000. During the years ended March 31, 2013 and 2012, the Company made interest payments related to this note in the amounts of $200 and $300, respectively. The remaining balance of this note amounted to $18,000 at March 31, 2013, of which $11,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

On August 12, 2010, the Company entered into a note agreement for $40,000 with an interest rate of 11.99% per year. This instrument was issued in connection with the financing of an automobile. During the years ended March 31, 2013 and 2012, the Company made interest payments related to this note in the amounts of $2,700 and $3,500, respectively. During the years ended March 31, 2013 and 2012, the Company made principal payments related to this note in the amounts of $7,000 and $6,000, respectively. The remaining balance of this note amounted to $19,000 at March 31, 2013, of which $7,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

On November 30, 2010, the Company entered into a note agreement for $27,000 with an interest rate of 8.90% per year. This instrument was issued in connection with the financing of an automobile. During the years ended March 31, 2013 and 2012, the Company made interest payments related to this note in the amount of $1,700 and $2,000, respectively. During each of the years ended March 31, 2013 and 2012, the Company made principal and interest payments related to this note in the amount of $5,000. The remaining balance of this note amounted to $16,000 at March 31, 2013, of which $6,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

On February 25, 2012, the Company entered into a note agreement for $141,000 with an interest rate of 4.76% per annum. This instrument was issued in connection with financing insurance premiums. The note is payable in monthly installments of $20,400 with the final payment on October 25, 2012. During the year ended March 31, 2013, the Company made principal and interest payments of $141,000 and $2,000, respectively.

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

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

On May 1, 2010, the Company entered into a loan and security agreement and a supplement to the loan and security agreement with Venture Lending & Leasing V, Inc. ("VLL5") to borrow up to an aggregate of $3,000,000 (collectively, the "VLL5 Agreements"). On May 3, 2010, the Company borrowed $2,000,000 on the first tranche and on November 17, 2010, the Company borrowed $1,000,000 on the second tranche. The loan is secured by all assets of the Company excluding intellectual property under certain circumstances. Related to the first tranche, the Company made eight monthly interest-only payments of $16,660 through December 1, 2010. Thereafter, the Company began making interest and principal payments of $75,000 per month through June 1, 2013. Related to the second tranche, the Company paid monthly interest only payments of $8,330 through May 1, 2012. Thereafter, the Company began making interest and principal payments of $37,500 per month through November 1, 2013. Additionally, the Company will make a final balloon payment related to the first tranche of $132,000 on June 1, 2013, and will make a final balloon payment related to the second tranche of $66,000 on November 1, 2013. The effective interest rate on the first and second tranche is 13.3%. During the years ended March 31, 2013 and 2012, the Company made interest payments of $179,000 and $317,000, respectively. During the years ended March 31, 2013 and 2012, the Company made principal payments of $1,171,000 and $974,000, respectively.

In connection with the VLL5 Agreements, the Company issued two warrants to Venture Lending & Leasing V, LLC, a Delaware limited liability company ("LLC5"), which, in the aggregate, had a total put option cash value of $750,000 (the "VLL5 Warrants"). The $750,000 cash value of the VLL5 Warrants was recorded as a cash settlement liability and a corresponding amount of $750,000 was recorded as a discount on the note payable. The discount is being accreted to non-cash interest expense over the term of the loan using the effective interest method. During the years ended March 31, 2013 and 2012, the Company recorded $255,000 and $237,000, respectively, of non-cash interest expense related to the loans. The remaining balance of the discount on the loans amounted to $98,000 at March 31, 2013. The remaining balance of the loans amounted to $694,000 at March 31, 2013, which is included in the current portion of long-term debt, net of debt discount in the Company's accompanying consolidated balance sheet.

On June 29, 2011, the Company entered into a loan and security agreement and a supplement to the loan and security agreement with Venture Lending & Leasing VI, Inc. ("VLL6") to borrow up to an aggregate of up to $2,500,000 (collectively, the "VLL6 Agreements"). The VLL6 Agreements provided for a first tranche of $1,500,000 and, upon meeting certain financial milestones, a second tranche of $1,000,000. The loan is secured by the assets of the Company including intellectual property. On June 29, 2011, the Company borrowed $1,500,000 on the first tranche. On September 30, 2011, the Company met the financial milestones to borrow the second tranche. On November 10, 2011, the Company borrowed the second tranche. The cash interest or "streaming" rate on the loan is 10%. In connection with the first tranche, for the first nine months, the Company made monthly interest-only payments set at $12,500 through March 1, 2012. The Company now makes principal and interest payments of $56,250 per month through September 1, 2014. Additionally, the Company will make a final balloon payment of $116,505 on September 29, 2014. In connection with the second tranche, for the first nine months, the Company made monthly interest-only payments set at $8,333 through August 31, 2012. The Company now makes principal and interest payments of $37,500 per month through February 1, 2015. Additionally, the Company will make a final balloon payment of $77,670 on February 1, 2015, resulting in an effective interest rate of 13%. During the years ended March 31, 2013 and 2012, the Company made interest payments of $295,000 and $155,000, respectively. During the year ended March 31, 2013, the Company made principal payments of $684,000.

In connection with the VLL6 Agreements, the Company issued a warrant to Venture Lending & Leasing VI, LLC ("LLC6") for the purchase of 32,332 shares of its common stock at a purchase price per share equal to $11.592. Once the Company became eligible to draw the second tranche of the loan, the Company was required to issue a second warrant to LLC6 with coverage equal to $62,500 for the purchase of additional shares of the Company's common stock at a strike price equal to the 10-day volume-weighted average price ("VWAP") ending on the trading day prior to the date the Company satisfied the second tranche milestones. On September 30, 2011, the Company met the second tranche milestones and the Company issued the second warrant for the purchase of 5,586 shares of its common stock at a purchase price per share equal to $11.189. On November 10, 2011, the Company borrowed the second tranche and therefore the Company became obligated to issue a third warrant to LLC6 with coverage equal to $62,500 for the purchase of additional shares of its common stock at a strike price equal to the 10-day VWAP ending on the trading day prior to the borrowing date of the second tranche. In connection with borrowing the second tranche, the Company issued the third warrant for the purchase of 5,884 shares of our common stock at a purchase price per share equal to $10.623. The three warrants issued to LLC6 are hereinafter collectively referred to as the "VLL6 Warrants," and had a total put option cash value, in the aggregate, of $1,250,000. The Company recorded the $1,250,000 cash value of the VLL6 Warrants as a cash settlement liability and a corresponding amount of $1,250,000 was recorded as a discount on the note payable. The discount is being accreted to non-cash interest expense over the term of the loan using the effective interest method. For the year ended March 31, 2013 and 2012, the Company recorded $369,000 and $211,000 of non-cash interest related to the loan, respectively. The remaining balance of the discount on the loan amounted to $670,000 at March 31, 2013. The remaining balance of the loan amounted to $1,817,000 at March 31, 2013, of which $931,000 is included in the current portion of long-term debt in the Company's accompanying consolidated balance sheet.

On October 30, 2012, the Company entered into respective letter agreements with VLL5 and VLL6 to amend the repayment terms of its outstanding debt obligations. Prior to the execution of these agreements, LLC5 and LLC6 held an aggregate of 79,517 warrants (adjusted for the reverse stock split effective April 1, 2013) to purchase common stock, which, in the aggregate, had a total put option cash value of $2,000,000 (the "Cash Settlement Liability") and was included in long term liabilities on the Company's consolidated balance sheets.

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

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

(a) If and when the Shares are sold by WTI during the Grace Period, the fair value of the proceeds received will be retained by WTI as consideration for surrendering the Cash Settlement Liability, up to a maximum value of $2,000,000.

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

(c) If and when the Shares are sold by WTI during the Grace Period, any additional proceeds received from the sale of the Shares in excess of $3,500,000 (approximately $5.67 per share) up to $4,500,000 (approximately $7.28 per share) shall be the sole possession and property of WTI, in accordance with the terms of the stock purchase agreement.

(d) If the Shares are sold by WTI during the Grace Period for value in excess of $4,500,000 (approximately $6.72 per share), 50% of the amount of the proceeds in excess of the $4,500,000 will be the sole possession and property of WTI and 50% of the amount of the proceeds shall be applied as a prepayment of a portion of the then outstanding debt based on the terms of the stock purchase agreement.

(e) If the Shares are sold by WTI during the Grace Period for value less than $2,000,000 (approximately $3.22 per share), the Company is required to make a cash payment to WTI until the total Cash Settlement Liability of $2,000,000 has been recovered ("Cash Shortfall").

If the Shares are not sold during the Grace Period, then the then fair value of the stock is to be determined at either of the Settlement Dates and the repayment of the Cash Settlement Liability, prepayment of outstanding, distribution of gains from the sale of the Shares, or calculation of the Cash Shortfall will consummate.

On October 30, 2012, upon the issuance of the Shares, the Company recorded a prepayment of $2,000,000 and $1,500,000 net against the Cash Settlement Liability and the outstanding notes payable, respectively, on that date.

At March 31, 2013, the Shares had not yet been sold by WTI and the fair value of the Shares at March 31, 2013 amounted to $1,901,000 (approximately $3.08 per share). Accordingly, in connection with the decrease in fair market value of the Shares, the Company recorded a loss on the fair value in the amount of $1,599,000, which is included in the accompanying consolidated statements of comprehensive loss for the year ended March 31, 2013. The fair value of the Shares will continue to be marked to market with any gain or loss recorded in the statement of comprehensive loss until either the Shares are sold by the holder or the Settlement Dates, whichever is earlier. As of March 31, 2013, the net Cash Settlement Liability was $99,000, of which $37,000 is included in the current portion of the Cash Settlement Liability on the accompanying consolidated balance sheet. The $1,901,000 fair value of the Shares has been recorded as a prepayment against the Cash Settlement Liability as of March 31, 2013.

A summary of principal payments due in years subsequent to March 31, 2013 for long-term debt, including owed to VLL5 and VLL6, is as follows (in thousands):

For Years Ending March 31,	
2014	1,780
2015	916
2016	8
Total principal payments	2,704
Less: current portion	(1,780)
Long-term portion	$ 924

NOTE 10 — Derivative Liability

Warrants Issued in Conjunction with the Company's August 13, 2007 Private Placement

The Company deems financial instruments which do not have fixed settlement provisions to be derivative instruments. The common stock purchase warrants issued with the Company's August 13, 2007 private placement, and the common stock purchase warrants issued to the placement agent in the transaction, do not have fixed settlement provisions because their exercise prices may be lowered if the Company issues securities at lower prices in the future. The Company was required to include the reset provisions in order to protect the warrant holders from the potential dilution associated with future financings. At issuance, the warrants were recognized as equity instruments and have since been re-characterized as derivative liabilities. Accordingly, the warrant obligations were adjusted to fair value at the end of each reporting period with the change in value reported in the consolidated statement of comprehensive loss. Such fair values were estimated using the Black-Scholes valuation model. Although the Company determined the common stock warrants include an implied down-side protection feature, it performed a Monte-Carlo simulation and concluded that the value of the feature is de minimis between the two models and the use of the Black-Scholes valuation model is considered to be a reasonable method to value the warrants. The Company will continue to adjust the derivative liability for changes in fair value until the earlier of the exercise, at which time the liability will be reclassified to stockholders' equity (deficiency), or expiration of the warrants.

On February 13, 2013, the stock purchase warrants issued with the August 13, 2007 private placement expired. Accordingly, the Company has decreased the derivative liability by $55,000, from the amount reported on March 31, 2012, to reflect the expiration of the warrants and related change in fair value. This amount is included as a gain due to the change in the fair value of derivative liabilities in the accompanying consolidated statement of comprehensive loss for the year ended March 31, 2013.

Warrants Issued in Conjunction with the Company's April 22, 2012 Registered Direct Offering

The Company deems financial instruments which require net-cash settlement as either an asset or a liability. The common stock purchase warrants issued in conjunction with the Company's April 22, 2012 registered direct offering originally contained a net-cash settlement feature which gave the warrant holder the right to net-cash settlement in the event certain transactions occur. Pursuant to the terms of the original warrants, if such a transaction occurred the warrant holder would be entitled to a net-cash settlement value calculated using the Black-Scholes valuation model using an expected volatility equal to the greater of 100% and the 100 day volatility obtained from the HVT function on Bloomberg, an expected term equal to the remaining term of the warrants, and applicable risk-free interest rate corresponding to the U.S. Treasury. On October 29, 2012, the Company entered into a side letter agreement with the holders of the warrants and the parties agreed to amend the terms of the warrants to eliminate the net-cash settlement feature contained in the warrants and extended the expiration date of the warrants by two years. Subsequent to the execution of the side letter agreement, the Company adjusted the fair value of the warrants to the modified fair value and recorded a $298,000 gain. Additionally, the Company recorded a $382,000 loss due to the incremental fair value adjustment resulting from the modification of the warrants from the April 2012 offering. Subsequent to the Company's entry into the side letter agreement, the Company reclassified the fair value of the warrants of $1,636,000 from a liability to additional paid-in capital as classified on the accompanying March 31, 2013 consolidated balance sheet.

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

	Modification Incremental Fair Value October 30, 2012	Pre-modification October 30, 2012	April 22, 2012
Expected life	4.00 years	2.00 years	2.50 years
Risk-free interest rate	0.74%	0.30%	0.40%
Dividend yield	0.00%	0.00%	0.00%
Volatility	89%	100%	100%
Warrants outstanding	495,874	495,874	495,874
Fair value of warrants	$ 1,636,000	$ 1,254,000	$ 2,347,000

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

	Year Ended March 31,	
	2013	2012
Beginning balance	$ (55)	$ (337)
Fair value of warrants issued	(2,347)	–
Mark to market net unrealized gain	1,148	282
Incremental fair value adjustment due to modification	(382)	–
Reclassification to additional paid in capital	1,636	–
Ending balance	$ –	$ (55)

NOTE 11 — Commitments and Contingencies

Lease Commitments

On October 10, 2012, the Company entered into Amendment No. 7 to its property lease agreement, extending the lease on its Petaluma, California facility to September 30, 2017. Pursuant to the amendment, in exchange for certain improvements on the building, the Company agreed to increase the lease payment from $10,380 to $11,072 per month.

On October 31, 2011, the Company leased approximately 1,800 square feet of office and manufacturing space in Sacramento, California. On August 30, 2012, the Company entered into an amendment to its lease dated October 31, 2011 for the property located at 3045 65th Street, Suite 13, Sacramento, California 95820, to amend the lease to include a 3,000 square foot industrial unit located at 3021 65th Street, Sacramento, California, and to extend the lease on both properties to October 31, 2013. The total rent for both properties is $2,610 per month.

Minimum lease payments for non-cancelable operating leases are as follows (in thousands):

For Years Ending March 31,	
2014	$ 327
2015	286
2016	171
2017	135
2018	66
Total minimum lease payments	$ 985

Rental expense amounted to $392,000 and $431,000 for the years ended March 31, 2013 and 2012, respectively and is recorded in the accompanying consolidated statement of comprehensive loss.

Legal Matters

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

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

Employment Agreements

As of March 31, 2013, the Company had employment agreements in place with five of its key executives. The agreements provide, among other things, for the payment of nine to twenty-four months of severance compensation for terminations under certain circumstances. With respect to these agreements, at March 31, 2013, potential severance amounted to $1,918,000 and aggregated annual salaries amounted to $1,360,000.

Related Party Agreements

On January 26, 2009, the Company entered into a commercial agreement with VetCure, Inc., a California corporation, to market and sell the Company's Microcyn® Technology-based animal healthcare products branded as Vetericyn®. VetCure, Inc. later changed its name to Vetericyn, Inc.. This agreement was amended on February 24, 2009, July 24, 2009, June 1, 2010, and November 1, 2010. Pursuant to the agreement, the Company provides Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Microcyn® Technology-based animal healthcare products branded as Vetericyn®. The Company receives a fixed amount for each bottle of Vetericyn® sold by Vetericyn, Inc.

On September 15, 2009, the Company entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell certain of the Company's Microcyn® over-the-counter liquid and gel products. V&M Industries, Inc. subsequently changed its name to Innovacyn, Inc. On June 1, 2010, September 1, 2010, and November 1, 2010, the Company amended this agreement granting Innovacyn, Inc. the exclusive right to sell certain of its over-the-counter products.

Additionally, on July 1, 2011, Vetericyn, Inc. and Innovacyn, Inc. began to share profits with the Company related to the Vetericyn® and Microcyn® over-the-counter sales with Vetericyn, Inc. and Innovacyn, Inc., resulting in about a 30% royalty of net revenue. During the years ended March 31, 2013 and 2012, the Company recorded revenue related to these agreements in the amounts of $3,906,000 and $3,367,000, respectively. The revenue is recorded in product revenues in the accompanying consolidated statements of comprehensive loss. At March 31, 2013 and 2012, the Company had outstanding accounts receivable of $264,000 and $290,000, respectively, related to Innovacyn, Inc.

Commercial Agreements

On May 8, 2007, and June 11, 2007, the Company entered into separate commercial agreements with two unrelated customers granting such customers the exclusive right to sell the Company's products in specified territories or for specified uses. Both customers are required to maintain certain minimum levels of purchases of the Company's products in order to maintain the exclusive right to sell the Company's products. Non-refundable up-front payments amounting to $625,000 were paid under these agreements and were recorded as deferred revenue. On April 16, 2010, the Company terminated the exclusive agreement with one of the customers. Accordingly, during the year ended March 31, 2012, the Company recorded as revenue the remaining balance of the unamortized upfront fees which amounted to $210,000. On September 16, 2012, the Company terminated the exclusive agreement with the other customer. Accordingly, during the year ended March 31, 2013, the Company recorded as revenue the remaining balance of the unamortized upfront fees which amounted to $160,000. These amounts were included in product licensing fees in the accompanying consolidated statements of comprehensive loss.

On February 14, 2011, the Company entered into a Product Option Agreement with an Amneal Enterprises alliance member, AmDerma Pharmaceuticals, LLC ("AmDerma"). The Company plans to use its proprietary Microcyn® technology to develop a prescription pharmaceutical product for the treatment of acne in connection with AmDerma (the "Future Acne Product"). Pursuant to the Agreement, the Company sold the option to exclusively sell and distribute the Future Acne Product to AmDerma for a one-time non-refundable payment of $500,000. On June 23, 2011, AmDerma exercised its option to license rights to the drug candidate. On June 21, 2012, the Company finalized a collaboration agreement with AmDerma (the "Collaboration Agreement"). Pursuant to the Collaboration Agreement, AmDerma is responsible for the development of a Microcyn-based acne drug candidate in the United States, including all activities required to gain regulatory approvals. AmDerma will also be responsible for all costs. Additionally, within one year of the first commercial sale by AmDerma, AmDerma shall identify at least one secondary indication that AmDerma will develop. If AmDerma declines to pursue such secondary indication, then the right to develop such secondary indication will revert back to the Company. The Company granted AmDerma an exclusive, royalty-bearing perpetual license in the United States and India, with the right to sublicense and subcontract in certain circumstances, and a right of first refusal to expand the territory of the license to include the European Union, Canada, Brazil, and Japan. The Company retained rights to the "rest of world." Pursuant to the Collaboration Agreement, $250,000 of the upfront payment will be applied against a future milestone in the transaction and is recorded as deferred revenue in the March 31, 2013 accompanying consolidated balance sheet. The remaining $250,000 of the upfront payment was earned and recognized as revenue during the year ended March 31, 2013.

On June 26, 2011, the Company entered into an agreement with Shanghai Sunvic Technology Co. Ltd., a distributor in China, to sell certain of its gel products, which are currently sold under the product name "Microcyn" in the United States, into the People's Republic of China. The initial term of the contract is for five years and is cancellable if certain conditions are not met. The non-refundable upfront fee was amortized on a straight line basis over the first contract year which began on the date approval was obtained for commercial sale of the product, or April 13, 2012. During the year ended March 31, 2013, the Company recorded revenue of $338,000 related to the upfront fee which is included in product licensing fees in the accompanying consolidated statement of comprehensive loss. In order to maintain exclusivity in subsequent years, the distributor will need to meet minimum purchase requirements each contract year. The initial term of the contract is for five years, and the contract is cancellable if certain conditions are not met.

On August 9, 2012, the Company, along with its Mexican subsidiary and manufacturer Oculus Technologies of Mexico S.A. de C.V. ("Manufacturer"), entered into a license, exclusive distribution and supply agreement with More Pharma Corporation, S. de R.L. de C.V. ("More Pharma") (the "License Agreement"). For a one-time payment of $500,000, the Company granted More Pharma an exclusive license, with the right to sublicense under certain conditions and with the Company's consent, to all of the Company's proprietary rights related to certain of its pharmaceutical products for human application that utilize the Company's Microcyn® Technology within Mexico. For an additional one-time payment of $3,000,000, the Company also agreed to appoint More Pharma as the exclusive distributor of certain of its products in Mexico for the term of the agreement. Additionally, Manufacturer granted More Pharma an exclusive license to certain of Manufacturer's then-held trademarks in exchange for a payment of $100,000 to Manufacturer. The Company has the ability to terminate the agreement if certain annual purchase minimums are not met. The term of the agreement is twenty-five years from the effective date of August 15, 2012. The term of the License Agreement will automatically renew after the twenty-five year term for successive two year terms as long as More Pharma has materially complied with any and all of the obligations under the License Agreement, including but not limited to, meeting the minimum purchase requirements set forth therein.

Additionally, on August 9, 2012, the Company, along with Manufacturer, entered into an exclusive distribution and supply agreement with More Pharma (the "Distribution Agreement"). For a one-time payment of $1,500,000, the Company granted More Pharma exclusive ability to market and sell certain of its pharmaceutical products for human application that utilize the Company's Microcyn® Technology. The Company also appointed More Pharma as its exclusive distributor, with the right to execute sub-distribution agreements under certain conditions and with the Company's consent, within the following countries: Antigua & Barbuda, Argentina, Aruba & Curacao, Bahamas, Barbados, Belize, Bolivia, Bonaire, Brazil, British Guyana, British Islands, Cayman Islands, Chile, Colombia, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, French Guyana, Grenada, Guadalupe, Guatemala, Haiti, Honduras, Jamaica, Martinique, Nicaragua, Paraguay, Peru, St. Bartolome, St. Vincent & Grenades, Surinam, Trinidad & Tobago, Turks & Caicos Islands, Uruguay, Venezuela and Virgin Islands.

The Company will recognize the $5,100,000 related to the License Agreement and the Distribution Agreement as revenue on a straight line basis consistent with the Company's historical experience with contracts with similar terms, which is typically over three to five years of the contract. Additionally, the Company capitalized $214,000 of its transaction costs related to the License Agreement and the Distribution Agreement, which will be amortized by the Company as expense on a straight line basis consistent with the related revenue recognition practices. At March 31, 2013, the Company had outstanding accounts receivable of $580,000 due from More Pharma. During year ended March 31, 2013, the Company recognized $932,000 related to the amortization of the upfront fees received in the transaction. Additionally, during the year ended March 31, 2013, the Company recognized $39,000 as expense related to the transaction costs of the transaction. The Company recognizes product sales on a sell-through basis as More Pharma sells products through to its customers.

Other Matters

NASDAQ Listing Matters

On May 21, 2012, the Company received a letter from the Listing Qualifications staff of The NASDAQ Stock Market LLC ("NASDAQ"), notifying the Company that, for the previous 30 consecutive business days, it failed to comply with NASDAQ Listing Rule 5550(b)(2), which requires the Company to maintain a minimum Market Value of Listed Securities of $35 million for continued listing on the NASDAQ Capital Market. The letter also noted that the Company did not meet the alternative requirements under Listing Rules 5550(b)(1) or 5550(b)(3). In accordance with Listing Rule 5810(c)(3)(C), NASDAQ granted the Company a period of 180 calendar days, or until November 19, 2012, to regain compliance with the Rule.

On November 1, 2012, the Company disclosed it achieved a stockholders' equity of approximately $4,500,000 on a pro forma basis as of September 30, 2012, as a result of its entry into two transactions on October 29, 2012, and October 30, 2012. In the first transaction, on October 29, 2012, the Company agreed to amend a warrant held by two of its investors to remove a provision in the warrant that contained certain cash-settlement features in exchange for extending the expiration date of the warrant by two years. This transaction increased the Company's stockholders' equity by approximately $1,500,000. In the second transaction on October 30, 2012, the Company agreed to issue $3,500,000 of common stock to its primary lender, who agreed to reduce the Company's debt liability in connection with the potential sale of these common shares. Initially, the issuance of these restricted common shares to the Company's lender increased the Company's stockholders' equity by approximately $3,500,000. On November 9, 2012, the Company was notified by NASDAQ that, based upon its Form 8-K disclosures filed November 1, 2012 and November 5, 2012 and its financial forecast as supplied to NASDAQ and dated November 6, 2012, the staff of NASDAQ has determined that the Company complies with NASDAQ Listing Rule 5550(b)(1), which requires the Company to maintain a minimum stockholders' equity requirement of $2,500,000 for continued listing on The NASDAQ Capital Market.

On June 18, 2012, the Company received a letter from NASDAQ, notifying the Company that, for the previous 30 consecutive business days, it failed to comply with NASDAQ Listing Rule 5550(a)(2), which requires the Company to maintain a minimum bid price of $1.00 per share for its common stock. In accordance with Listing Rule 5810(c)(3)(C), NASDAQ granted the Company a period of 180 calendar days, or until December 17, 2012, to regain compliance with the Rule. On December 18, 2012, the Company received a second letter from NASDAQ notifying that the Company had not regained compliance with Listing Rule 5550(a)(2) within the grace period allowed by NASDAQ.

Although the Company failed to regain compliance with Listing Rule 5550(a)(2) by December 18, 2012, it appealed NASDAQ's delisting determination to a NASDAQ Hearings Panel on February 21, 2013. On February 27, 2013, the NASDAQ Hearings Panel notified the Company that the Panel granted the Company's request for continued listing on The NASDAQ Capital Market, subject to the following conditions: 1) on or before April 15, 2013, the Company must evidence a closing bid price of $1.00 or more for its common stock for a minimum of ten prior consecutive trading days; and 2) the Company must demonstrate continued compliance with all requirements for continued listing on The NASDAQ Capital Market.

A Special Meeting of the Company's Stockholders was held on March 22, 2013. At the Special Meeting, the Company's stockholders approved a proposal that authorized its Board of Directors, in its discretion, to effect a reverse stock split by a ratio of not less than 1-for-3 and not more than 1-for-7 of the Company's outstanding common stock. On the same day, at a special board meeting, the Company's Board of Directors approved the implementation of a reverse stock split and determined the appropriate reverse stock ratio to be a ratio of 1-for-7. On March 22, 2013, pursuant to board and stockholder approval, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation, as amended with the State of Delaware to effectuate the reverse stock split at a ratio of 1:7 of its outstanding common stock, with a legal effective date of March 29, 2013. The total number of authorized common stock which the Company shall have the authority to issue as set forth in its Restated Certificate of Incorporation, as amended was also proportionally decreased in conjunction with the reverse stock split. The marketplace effective date of the reverse stock split was April 1, 2013. On April 16, 2013, the Panel notified the Company that it had regained compliance with the applicable minimum bid price rule, as required by the Panel's decision dated February 27, 2013, and the Company was is in compliance with all other applicable requirements set forth in the decision and required for listing on The NASDAQ Capital Market.

Ruthigen, Inc.

On January 18, 2013, the Company's wholly owned subsidiary, Ruthigen, Inc., was incorporated in the State of Nevada. Ruthigen has established independent offices in Santa Rosa, California.

On June 6, 2013, the Company announced that it entered into two key agreements, which establish the license and supply as well as shared services with its wholly owned subsidiary, Ruthigen, an entity focused on the discovery, development, and commercialization of pharmaceutical-grade hypochlorous acid-based therapeutics. The Company expects to negotiate and enter into a third agreement (the "Separation Agreement") governing other terms of its business relationship with Ruthigen. The effective date for all three agreements would be the closing date of Ruthigen's proposed initial public offering, if any should occur.

License and Supply Agreement

Pursuant to the license and supply agreement, the Company agreed to exclusively license certain of its proprietary technology to Ruthigen to enable Ruthigen's research and development and commercialization of the newly discovered RUT58-60, and any improvements to it, in the United States, Canada, European Union and Japan, referred to as the Territory, for certain invasive procedures in human treatment as defined in the license and supply agreement.

In addition, the license and supply agreement provides Ruthigen with the exclusive option, exercisable within the first five years following the effective date of the agreement, to expand the license to certain other therapeutic indications upon payment of a license expansion fee of $10 million within the first two years following the effective date of the agreement or, after the two–year period, the same fee plus certain out-of-pocket costs the Company may incur in developing products for any of the indications. Additionally, the Company will be prohibited from using the licensed proprietary technology to sell products that compete with Ruthigen's products within the Territory, and Ruthigen cannot sell any device or product that competes with the Company's products being sold or developed as of the effective date of the license and supply agreement.

Ruthigen will be required to make a total of $8,000,000 in payments to the Company based upon the completion of certain development and other future milestones, and at the time of drug approval, if any should occur, supplemented with royalty payments, which will vary between three percent and 20 percent, increasing upon achievement of various net annual sales thresholds and dependent upon the country of sale.

Shared Services Agreement

The Company also entered into a shared services agreement with Ruthigen that would take effect upon the completion of Ruthigen's proposed initial public offering, if any should occur, pursuant to which it will provide Ruthigen with general services, including general accounting, human resources, laboratory personnel and shared R&D resources while Ruthigen plans to establish an independent facility and systems. As a wholly owned subsidiary of the Company, Ruthigen will be financed by the Company until the completion of the proposed initial public offering, if any should occur, and after such event, Ruthigen would become responsible for its own expenses.

Separation Agreement

The Company anticipates entering into the Separation Agreement with Ruthigen in the near future, which will set forth the terms of the separation of its business and its novel biotechnology business into two separate, publicly-traded companies (the "Separation"). In order to effect the Separation, the Company anticipates an initial public offering of Ruthigen's common stock, after which it will hold certain shares of Ruthigen's common stock. The Company anticipates the final terms of the Separation Agreement will outline such customary representations as indemnification, handing of employee matters and tax sharing, among other items.

NOTE 12 — Stockholders' Equity (Deficiency)

Authorized Capital

The Company is authorized to issue up to 14,285,715 shares of common stock with a par value of $0.0001 per share and 5,000,000 shares of convertible preferred stock with a par value of $0.0001 per share.

Description of Common Stock

Each share of common stock has the right to one vote. The holders of common stock are entitled to dividends when funds are legally available and when declared by the board of directors.

April 2012 Registered Direct Offering

On April 22, 2012, the Company entered into agreements with certain investors to issue up to: a) 337,143 shares of common stock; b) 1,000 shares of Series A Preferred Stock; and c) warrants to purchase up to 495,873 shares of common stock. The Company also offered up to 158,730 shares of common stock issuable upon conversion of the Series A Preferred Stock. The Company received approximately $3,124,000 in gross proceeds from the sale of these securities. Net proceeds after deducting the placement agent commissions, legal expenses and other offering expenses, and assuming no exercise of the Warrants, was $2,797,000. The Company retained Rodman & Renshaw, LLC as the exclusive placement agent for this offering, and paid them $218,680 in placement agent commissions. Following the close of the transaction, one of the investors converted 1,000 shares of the Series A Preferred Stock purchased in the transaction into 158,730 shares of common stock.

In connection with the issuance of the Series A Preferred Stock, the Company determined the instrument contained a beneficial conversion feature at the date of issuance. This beneficial conversion feature amounted to $1,062,000 and was recorded as a deemed preferred dividend on the consolidated statement of statement of comprehensive loss for the year ended March 31, 2013.

The warrants issued with the offering have an initial exercise price of $8.26 per share, were not exercisable for nine months from the date of issuance, and had an initial exercise term of 2.5 years from the date of issuance. Additionally, the warrants initially contained a net-cash settlement feature which gave the warrant holder the right to net-cash settlement in the event certain transactions had occurred. Pursuant to the terms of the warrants, if such a transaction had occurred the warrant holder would have been entitled to a net-cash settlement value calculated using the Black-Scholes valuation model using specific volatility, expected term and risk-free interest rate assumptions, as further detailed in the warrants. On October 29, 2012, the Company entered into a side letter agreement with the holders of the warrants to amend the terms of the warrants. The holders of the warrants agreed to eliminate certain net-cash settlement features contained in the warrants in exchange for the Company's agreement to a two-year extension of the expiration date of the warrants. Accordingly, the expiration date of the warrants was extended from October 25, 2014 to October 25, 2016 (Note 10).

March 2013 Underwritten Public Offering

On March 12, 2013, the Company closed an underwritten public offering of 1,232,143 shares of common stock at an offering price to the public of $2.80 per share, including an additional 160,715 shares of common stock to cover the underwriters' over-allotment. The gross proceeds from this offering were $3,450,000, before deducting underwriting discounts and commissions and other estimated offering expenses of $399,000. The Company also issued warrants to the underwriters to purchase 53,571 shares of the Company's common stock with an initial exercise price per share equal to $3.50, which was 125% of the public offering price. The underwriters' warrants are exercisable from March 12, 2014 through March 12, 2016.

Common Stock Issued to Non-Employees For Services

On April 24, 2009, the Company entered into an agreement with Advocos LLC, a contract sales organization that serves as part of the Company's sales force, for the sale of the Company's wound care products in the United States. Pursuant to the agreement, the Company agreed to pay the contract sales organization a monthly fee and potential bonuses that will be based on achievement of certain levels of sales. The Company agreed to issue the contract sales organization cash or shares of common stock as compensation for its services. During the years ended March 31, 2013 and 2012, the Company issued 25,105 and 14,180 shares of common stock, respectively, in connection with this agreement. The Company has determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. During the years ended March 31, 2013 and 2012, the Company recorded $179,000 and $167,000 of expense related to this agreement, respectively. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statements of comprehensive loss.

On December 17, 2009, the Company entered into an agreement with Windsor Corporation. Windsor Corporation provides financial advisory services to the Company. Pursuant to the agreement, the Company agreed to pay Windsor Corporation, on a quarterly basis, cash or common stock as compensation for services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. During the years ended March 31, 2013 and 2012, the Company issued 12,232 and 11,878 shares of common stock, respectively. During the years ended March 31, 2013 and 2012, the Company recorded $120,000 and $135,000, respectively, of expense related to this agreement, of which $51,000 was paid with 12,232 shares of common stock. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statement of comprehensive loss.

On April 1, 2012, the Company entered into an agreement with Netgain Financial, Inc., for providing financial advisory services. Pursuant to the agreement, the Company agreed to pay Netgain Financial, Inc. common stock as compensation for services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. During the year ended March 31, 2013 and 2012, the Company issued 42,857 and 10,714 shares of common stock in connection with this agreement, respectively. During the year ended March 31, 2013 and 2012, the Company recorded $248,000 and $133,000 of expense related to this agreement, respectively. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statements of comprehensive loss.

On September 4, 2012, the Company entered into an agreement with Worldwide Financial Marketing, Inc. for providing financial advisory services. Pursuant to the agreement, the Company agreed to pay Worldwide Financial Marketing, Inc. common stock as compensation for services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as expense. During the year ended March 31, 2013, the Company issued 3,571 shares of common stock, in connection with this agreement. During the year ended March 31, 2013, the Company recorded $17,000 of expense related to this agreement. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statements of comprehensive loss.

NOTE 13 — Stock-Based Compensation

1999, 2000, 2003 and 2004 Stock Option Plans

The Company's 1999, 2000, 2003 and 2004 stock option plans (collectively, the "Plans") became effective May 1999, June 2000, July 2003 and July 2004, respectively. The Plans provide for grants of both incentive stock options (ISOs) and non-qualified stock options (NSOs) to employees, consultants and directors.

In accordance with the Plans, the stated exercise price may not be less than 100% and 85% of the estimated fair market value of the Company's common stock on the date of grant for ISOs and NSOs, respectively, as determined by the board of directors at the date of grant. With respect to any 10% shareholder, the exercise price of an ISO or NSO was not to exceed 110% of the estimated fair market value per share on the date of grant.

Options issued under the Plans generally have a ten-year term and generally became exercisable over a five-year period.

On June 29, 2006, the compensation committee of the Company's board of directors resolved that it would not approve any further grants under its 1999, 2000 and 2003 Plans. Additionally, in connection with the Company's reincorporation in Delaware on December 15, 2006, no future options will be granted under the 2004 Plan.

2006 Stock Plan

On November 7, 2006, the board authorized and reserved 178,715 shares (adjusted for the reverse stock split effective April 1, 2013) for issuance under the Company's 2006 Stock Incentive Plan, as amended (the "2006 Plan"), which was originally adopted by the board of directors on August 25, 2006. On December 14, 2006, the stockholders approved the Company's 2006 Plan which became effective at the close of the Company's initial public offering. The 2006 Plan was later amended and restated by a unanimous board resolution on April 26, 2007, and such amendments were subsequently approved by the stockholders. On September 10, 2009, the Company's shareholders approved a subsequent amendment of the 2006 Plan, as amended and restated, which authorized and reserved an additional 142,858 shares (adjusted for the reverse stock split effective April 1, 2013) for issuance under the 2006 Plan.

The 2006 Plan, as amended and restated, provides for the granting of incentive stock options to employees and the granting of nonstatutory stock options to employees, non-employee directors, advisors and consultants. The 2006 Plan also provides for grants of restricted stock, stock appreciation rights and stock unit awards to employees, non-employee directors, advisors and consultants.

In accordance with the 2006 Plan, as amended and restated, the stated exercise price may not be less than 100% and 85% of the estimated fair market value of common stock on the date of grant for ISOs and NSOs, respectively, as determined by the board of directors at the date of grant. With respect to any 10% stockholder, the exercise price of an ISO or NSO shall not be less than 110% of the estimated fair market value per share on the date of grant.

Options issued under the 2006 Plan, as amended and restated, generally have a ten-year term and generally become exercisable over a five-year period.

Shares subject to awards that expire unexercised or are forfeited or terminated will again become available for issuance under the 2006 Plan. No participant in the 2006 Plan, as amended and restated, can receive option grants, restricted shares, stock appreciation rights or stock units for more than 26,786 shares (adjusted for the reverse stock split effective April 1, 2013) in the aggregate in any calendar year.

The board initially authorized a total of 178,571 of the Company's common stock shares (adjusted for the reverse stock split effective April 1, 2013) for issuance under the 2006 Plan, as amended and restated, in addition to automatic increases provided for in the 2006 Plan, as amended and restated, through August 25, 2016. The number of shares of the Company's common stock reserved for issuance under the 2006 Plan, as amended and restated, will automatically increase, with no further action by the stockholders, at the beginning of each fiscal year by an amount equal to the lesser of (i) 1,750,000 shares; (ii) 5% of the outstanding shares of common stock of the Company on the last day of the immediately preceding year, or (iii) an amount determined by the Company's board of the directors.

As provided under the 2006 Plan, the aggregate number of shares authorized for issuance as awards under the 2006 Plan automatically increased on April 1, 2012 by 207,199 shares (which number constitutes 5% of the outstanding shares on the last day of the year ended March 31, 2012). The number of shares authorized for issuance will be subject to adjustment on April 1, 2013, in the board's discretion.

2011 Stock Plan

On September 12, 2011, upon recommendation of the board, the stock holders approved the Company's 2011 Stock Incentive Plan (the "2011 Plan"). The 2011 Plan is effective as of June 21, 2012.

The 2011 Plan provides for the grant of incentive stock options as defined in Section 422 of the Internal Revenue Code to employees, and the grant of non-statutory stock options and stock purchase rights to employees, non-employee directors, advisors and consultants. The 2011 Plan also permits the grant of stock appreciation rights, stock units and restricted stock.

The board has authorized 428,572 of the Company's common stock for issuance under the 2011 Plan, in addition to automatic increases provided for in the 2011 Plan through April 1, 2021. The number of shares of the Company's common stock reserved for issuance under the 2011 Plan will automatically increase, with no further action by the stockholders, at the beginning of each fiscal year by an amount equal to the lesser of (i) 15% of the outstanding shares of the Company's common stock on the last day of the immediately preceding year, or (ii) an amount approved by the Company's board of directors. On April 1, 2012, the board determined not to increase the number of shares authorized for issuance under the 2011 Plan on April 1, 2012 as no shares had yet been issued from the 2011 Plan. The number of shares authorized for issuance will be subject to adjustment on April 1, 2013, in the board's discretion.

Options issued under the 2011 Plan will generally have a ten-year term.

In accordance with the 2011 Plan, the stated exercise price of an employee incentive stock option shall not be less than 100% of the estimated fair market value of a share of common stock on the date of grant, and the stated exercise price of an nonstatutory option shall not be less 85% of the estimated fair market value of a share of common stock on the date of grant, as determined by the board of directors. An employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company shall not be eligible for the grant of an employee incentive stock option unless such grant satisfies the requirements of Section 422(c)(5) of the Internal Revenue Code.

Shares subject to awards that expire unexercised or are forfeited or terminated for any other reason will again become available for issuance under the 2011 Plan. No participant in the 2011 Plan can receive option grants, stock appreciation rights, restricted shares, or stock units for more than 107,143 shares in the aggregate in any calendar year. As provided under the 2011 Plan, the aggregate number of shares authorized for issuance as awards under the 2011 Plan automatically increases on April 1 of each year by in an amount equal to the lesser of (i) 15% of the outstanding shares on the last day of the immediately preceding year, or (ii) an amount determined by the board.

Options and restricted stock units outstanding at March 31, 2013 under the various plans is as follows (in thousands):

Plan	Total Number of Options and Restricted Stock Units Outstanding in Plan
1999 Plan	1
2000 Plan	–
2003 Plan	21
2004 Plan	66
2006 Plan	887
2011 Plan	–
	975

A summary of activity under all option plans for the years ended March 31, 2013 and 2012 is presented below (in thousands, except per share data):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2011	628	20.72		
Options granted	310	11.20		
Options exercised	(19)	2.87		
Options forfeited or expired	(24)	32.27		
Outstanding at March 31, 2012	895	16.52		
Options granted	124	6.41		
Options exercised	(10)	5.53		
Options forfeited or expired	(34)	24.38		
Outstanding at March 31, 2013	975	$ 15.08	6.49	$ 16
Exercisable at March 31, 2013	805	$ 16.32	6.00	$ 16
Options available for grant as of March 31, 2013	951			

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock ($3.08) for stock options.

Stock-Based Compensation

The Company accounts for share-based awards exchanged for employee services at the estimated grant date fair value of the award. The Company amortizes the fair value of employee stock options on a straight-line basis over the requisite service period of the awards. Compensation expense includes the impact of an estimate for forfeitures for all stock options.

Employee stock-based compensation expense is as follows (in thousands, except per share amounts):

	Employee Stock-based Compensation for the Year Ended March 31, 2013	Employee Stock-based Compensation for the Year Ended March 31, 2012
Cost of revenues	$ 132	$ 113
Research and development	231	278
Selling, general and administrative	791	1,780
Total stock-based compensation	$ 1,154	$ 2,171

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

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

	Year Ended March 31,	
	2013	2012
Fair value of common stock on date of grant	$ 6.41	$ 11.22
Expected Term	5.80 yrs	5.75 yrs
Risk-free interest rate	0.72%	1.27%
Dividend yield	0.00%	0.00%
Volatility	88.0%	83.5%

The weighted-average fair values of options granted during the years ended March 31, 2013 and 2012 were $4.61 and $9.45, respectively.

The expected term of stock options represents the average period the stock options are expected to remain outstanding and is based on the expected term calculated using the approach prescribed by the Securities and Exchange Commission's Staff Accounting Bulletin No. 110 for “plain vanilla” options. The expected stock price volatility for the Company’s stock options was determined by examining the historical volatilities for industry peers and using an average of the historical volatilities of the Company and its industry peers. The Company will continue to analyze the stock price volatility and expected term assumptions as more data for the Company’s common stock and exercise patterns become available. The risk-free interest rate assumption is based on the U.S. Treasury instruments whose term was consistent with the expected term of the Company’s stock options. The expected dividend assumption is based on the Company’s history and expectation of dividend payouts. The Company estimates forfeitures based on historical experience and reduces compensation expense accordingly. The estimated forfeiture rates used during the year ended March 31, 2013 ranged from 2.53% to 4.77%.

At March 31, 2013, there were unrecognized compensation costs of $1,171,000 related to stock options which are expected to be recognized over a weighted-average amortization period of 1.80 years.

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

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

NOTE 14 — Income Taxes

The Company has the following net deferred tax assets (in thousands):

	March 31,	
	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 34,880	$ 34,966
Research and development tax credit carryforwards	1,646	1,470
Stock-based compensation	3,727	3,319
Reserves and accruals	1,404	1,511
Other deferred tax assets	13	27
State Income Taxes	1	–
Basis difference in assets	37	24
Total deferred tax assets	$ 41,708	$ 41,317
Deferred tax liabilities:		
Basis difference in assets	–	–
Net deferred tax asset	41,708	41,317
Valuation allowance	(41,708)	(41,317)
Net deferred tax asset	$ –	$ –

The Company's recorded income tax expense, net of the change in the valuation allowance, for each of the periods presented is as follows:

	Years Ended March 31,	
	2013	2012
Income tax (benefit)	$ (391)	$ (1,099)
Change in valuation allowance	391	1,099
Net income tax expense	$ –	$ –

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Years Ended March 31,	
	2013	2012
Expected federal statutory rate	(34.0)%	(34.0)%
State income taxes, net of federal benefit	(3.8)%	(4.8)%
Research and development credit	(1.4)%	(0.1)%
Foreign earnings taxed at different rates	1.7 %	1.3 %
Recognition of change in estimate of state and foreign NOL carryforward benefits	0.0 %	0.0 %
Effect of permanent differences	31.3 %	5.9 %
Impact of change in foreign rate on deferred and true-ups	(1.3)%	17.5 %
Cancellation of stock options and true-ups	0.9 %	0.5 %
Withholding Tax	(0.9)%	0.0 %
Foreign Tax Credit	0.9 %	0.0 %
Other	(0.7)%	(0.5)%
	(7.3)%	(14.2)%
Change in valuation allowance	7.3%	14.2 %
Totals	0.0 %	0.0 %

The effect of permanent differences of approximately 31.3% is primarily due to foreign permanent differences that reduce foreign deferred tax assets. The Company's net loss is comprised of a net loss of approximately $3,645,000 from domestic operations and approximately $1,733,000 from foreign operations.

At March 31, 2013, the Company had net operating loss carryforwards for federal, state and foreign income tax purposes of approximately $82,735,000, $68,721,000 and $13,907,000, respectively. The federal, state, and foreign net operating loss carryforwards will expire, if not utilized, beginning March 31, 2020, March 31, 2014, and March 31, 2014, respectively. The Company also had, at March 31, 2013, federal and state research credit carryforwards of approximately $805,400 and $790,400, respectively, as well as federal foreign tax credit carryforward of approximately $50,000. The federal credits will expire, if not utilized, beginning in March 31, 2024 and the state credits do not expire.

The Company has completed a study to assess whether a change in control has occurred or whether there have been multiple changes of control since the Company's formation. The Company determined, based on the results of the study, that no change in control occurred for purposes of Internal Revenue Code section 382. The Company, after considering all available evidence, fully reserved for these and its other deferred tax assets since it is more likely than not such benefits will not be realized in future periods. The Company has incurred losses for both financial reporting and income tax purposes for the year ended March 31, 2013. Accordingly, the Company is continuing to fully reserve for its deferred tax assets. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's deferred income tax assets satisfy the realization standards, the valuation allowance will be reduced accordingly.

As a result of certain realization requirements of Accounting Standards Codification Topic 718, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets at March 31, 2013 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting purposes. Equity will be increased by approximately $533,000 if and when such deferred tax assets are ultimately realized.

The Company only recognizes tax benefits from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. To date, the Company has not recognized such tax benefits in its consolidated financial statements.

The Company has identified its federal tax return and its state tax return in California as major tax jurisdictions. The Company also filed tax returns in foreign jurisdictions, principally Mexico and The Netherlands. The Company's evaluation of uncertain tax matters was performed for tax years ended through March 31, 2013. Generally, the Company is subject to audit for the years ended March 31, 2012, 2011 and 2010 and may be subject to audit for amounts relating to net operating loss carryforwards generated in periods prior to March 31, 2010. The Company has elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect interest and penalties attributable to income taxes, to the extent they arise, as a component of its income tax provision or benefit as well as its outstanding income tax assets and liabilities. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments, other than those identified above that would result in a material change to its consolidated financial position.

The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized tax benefits will increase or decrease within 12 months of March 31, 2013. The unrecognized tax benefits may increase or change during the next year for items that arise in the ordinary course of business.

NOTE 15 — Employee Benefit Plan

The Company has a program to contribute and administer a qualified 401(k) plan. Under the 401(k) plan, the Company matches employee contributions to the plan up to 4% of the employee's salary. Company contributions to the plans amounted to an aggregate of $140,000 and $103,000 for the years ended March 31, 2013 and 2012, respectively.

NOTE 16 — Segment and Geographic Information

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

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

	March 31,	
	2013	2012
U.S.	$ 6,842	$ 4,716
Mexico	5,886	5,190
Europe and other	1,855	1,947
	$ 14,583	$ 11,853

For the year ended March 31, 2013 and 2012, the Company recognized product licensing revenues of $1,686,000 and $359,000, respectively. Such revenues are included in the Company's calculation of product revenues and are reflected in the table above under the respective geographic region where such licensing revenues were earned.

The Company's service revenues amounted to $869,000 and $891,000 for the years ended March 31, 2013 and 2012.

NOTE 17 — Subsequent Events

Employment Agreements with Jim Schutz and Robert Miller

On June 20, 2013, the Company entered into new employment agreements with Jim Schutz, its President and Chief Executive Officer, and Robert Miller, its Chief Financial Officer, to update their previous employment agreements executed in 2004, to reflect their current roles and responsibilities and to update such agreements to reflect current tax and employment law.

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

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

- a lump severance payment equal to 18 times the average monthly base salary paid to the executive over the preceding 12 months (or for the term of the executive's employment if less than 12 months);
- automatic vesting of all unvested options and other equity awards;
- the extension of exercisability of all options and other equity awards to at least 12 months following the date the executive terminates employment or, if earlier, until the option expires;
- up to one year (the lesser of one year following the date of termination or until such executive becomes eligible for medical insurance coverage provided by another employer) reimbursement for health care premiums under COBRA; and
- a full gross up of any excise taxes payable by the executive under Section 4999 of the Internal Revenue Code because of the foregoing payments and acceleration (including the reimbursement of any additional federal, state and local taxes payable as a result of the gross up).

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

ITEM 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosures***

None.

ITEM 9A. ***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 year. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2013.

Management's Annual Report on 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). 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 *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of March 31, 2013.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***Other Information***

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

Employment Agreements with Jim Schutz and Robert Miller

On June 20, 2013, we entered into new employment agreements with Jim Schutz, our President and Chief Executive Officer, and Robert Miller, our Chief Financial Officer, to update their previous employment agreements executed in 2004, to reflect their current roles and responsibilities and to update such agreements to reflect current tax and employment law.

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

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

- a lump severance payment equal to 18 times the average monthly base salary paid to the executive over the preceding 12 months (or for the term of the executive's employment if less than 12 months);
- automatic vesting of all unvested options and other equity awards;
- the extension of exercisability of all options and other equity awards to at least 12 months following the date the executive terminates employment or, if earlier, until the option expires;
- up to one year (the lesser of one year following the date of termination or until such executive becomes eligible for medical insurance coverage provided by another employer) reimbursement for health care premiums under COBRA; and
- a full gross up of any excise taxes payable by the executive under Section 4999 of the Internal Revenue Code because of the foregoing payments and acceleration (including the reimbursement of any additional federal, state and local taxes payable as a result of the gross up).

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

PART III

ITEM 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this Item is incorporated by reference to the definitive proxy statement for our 2013 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended March 31, 2013 (the "2013 Proxy Statement").

Item 405 of Regulation S-K requires the disclosure of, based upon our review of the forms submitted to us during and with respect to our most recent fiscal year, any known failure by any director, officer, or beneficial owner of more than ten percent of any class of our securities, or any other person subject to Section 16 of the Exchange Act ("reporting person") to file timely a report required by Section 16(a) of the Exchange Act. This disclosure is contained in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2013 Proxy Statement.

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

We have adopted a Code of Business Conduct that applies to all of our officers and employees, including our Chief Executive Officer, Chief Financial Officer, and other employees who perform financial or accounting functions. The Code of Business Conduct sets forth the basic principles that guide the business conduct of our employees. We have also adopted a Senior Financial Officers' Code of Ethics that specifically applies to our Chief Executive Officer, Chief Financial Officer, and other key management employees. We will provide any person, without charge, copies of our Code of Business Conduct and Ethics and our Senior Financial Officers' Code of Ethics upon request. Such requests should be in writing and addressed to: Oculus Innovative Sciences, Inc., Attention: Chief Financial Officer, 1129 N. McDowell Blvd., Petaluma, California 94954.

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

Procedures for Nominating Directors

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors. The Board of Directors will consider candidates for director positions that are recommended by any of our stockholders. Any such recommendation for a director nomination should be provided to our Secretary. The recommended candidate should be submitted to us in writing and addressed to Oculus Innovative Sciences, Inc., Attention: Secretary, 1129 N. McDowell Blvd., Petaluma, California 94954. The recommendation should include the following information: name of candidate; address, phone and fax number of candidate; a statement signed by the candidate certifying that the candidate wishes to be considered for nomination to our Board of Directors and stating why the candidate believes that he or she would be a valuable addition to our Board of Directors; a summary of the candidate's work experience for the prior five years and the number of shares of our stock beneficially owned by the candidate. The Board will evaluate the recommended candidate and shall determine whether or not to proceed with the candidate in accordance with our procedures. We reserve the right to change our procedures at any time to comply with the requirements of applicable laws.

ITEM 11. ***Executive Compensation***

The information required by this Item is incorporated by reference to the 2013 Proxy Statement.

ITEM 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this Item is incorporated by reference to the 2013 Proxy Statement.

The information required to be disclosed by Item 201(d) of Regulation S-K, "Securities Authorized for Issuance Under Equity Compensation Plans," appears under the caption "Equity Compensation Plan Information" in the 2013 Proxy Statement and such information is incorporated by reference into this report.

ITEM 13. ***Certain Relationships, Related Transactions, and Director Independence***

The information required by this Item is incorporated by reference to the 2013 Proxy Statement.

ITEM 14. ***Principal Accounting Fees and Services***

The information required by this Item is incorporated by reference to the 2013 Proxy Statement.

PART IV

ITEM 15. ***Exhibits, Financial Statement Schedules***

(a) Documents filed as part of this report

(1) ***Financial Statements***

Reference is made to the Index to Consolidated Financial Statements of Oculus Innovative Sciences, Inc. under Item 8 of Part II hereof.

(2) ***Financial Statement Schedules***

Financial statement schedules have been omitted that are not applicable or not required or because the information is included elsewhere in the Consolidated Financial Statements or the Notes thereto.

(b) Exhibits

Exhibit Index

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc. (included as Exhibit 3.1 of the Company's Annual Report on Form 10-K filed June 20, 2007, and incorporated herein by reference).
3.2	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc. (included as Exhibit A in the Company's Definitive Proxy Statement on Schedule 14A filed July 21, 2008, and incorporated herein by reference).
3.3	Amended and Restated Bylaws, as Amended of Oculus Innovative Sciences, Inc., effective November 3, 2010 (included as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed November 4, 2010, and incorporated herein by reference).
3.4	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed March 22, 2013, and incorporated herein by reference).
4.1	Specimen Common Stock Certificate (included as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.2	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.4 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.3	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.5 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.4	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.11 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.5	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.12 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.6	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed August 13, 2007, and incorporated herein by reference).
4.7	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 28, 2008, and incorporated herein by reference).
4.8	Form of Common Stock Purchase Warrant for April 2009 offering (included as Exhibit 4.15 to the Company's Registration Statement on Form S-1 (File No. 333-158539) declared effective on July 24, 2009, and incorporated herein by reference).
4.9	Warrant issued to Dayl Crow, dated March 4, 2009 (included as Exhibit 4.16 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference).
4.10	Form of Common Stock Purchase Warrant for July 2009 offering (included as Exhibit 4.15 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference)
4.11	Form of Common Stock Purchase Warrant for April 2012 offering (included as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed April 25, 2012, and incorporated herein by reference).
4.12	Certificate of Designation of Preferences, Rights and Limitations of Series A 0% Convertible Preferred Stock, filed with the Delaware Secretary of State on April 24, 2012 (included as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed April 25, 2012, and incorporated herein by reference).
4.13	Form of Underwriters Warrant to be issued to the Underwriters in connection with the March 2013 Offering (included as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 7, 2013, and incorporated herein by reference).
10.1	Form of Indemnification Agreement between Oculus Innovative Sciences, Inc. and its officers and directors (included as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.2	Amended and Restated Oculus Innovative Sciences, Inc. 2006 Stock Incentive Plan and related form stock option plan agreements (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 2, 2007, and incorporated herein by reference).

Exhibit No.	Description
10.3	Office Lease Agreement, dated October 26, 1999, between Oculus Innovative Sciences, Inc. and RNM Lakeville, L.P. (included as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.4	Amendment No. 1 to Office Lease Agreement, dated September 15, 2000, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.5	Amendment No. 2 to Office Lease Agreement, dated July 29, 2005, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.6	Amendment No. 3 to Office Lease Agreement, dated August 23, 2006, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.7	Amendment No. 4 to Office Lease Agreement, dated September 13, 2007, by and between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as Exhibit 10.43 to the Company's Annual Report on Form 10-K filed June 13, 2008, and incorporated herein by reference).
10.8	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).
10.9	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).
10.10	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).
10.11	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).
10.12	Framework Agreement, dated June 16, 2005, by and among Javier Orozco Gutierrez, Quimica Pasteur, S de R.L., Jorge Paulino Hermosillo Martin, Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V. (included as Exhibit 10.25 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.13	Mercantile Consignment Agreement, dated June 16, 2005, between Oculus Technologies de Mexico, S.A. de C.V., Quimica Pasteur, S de R.L. and Francisco Javier Orozco Gutierrez (included as Exhibit 10.26 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.14	Partnership Interest Purchase Option Agreement, dated June 16, 2005, by and between Oculus Innovative Sciences, Inc. and Javier Orozco Gutierrez (included as Exhibit 10.27 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.15	Termination of Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V.'s Agreements with Quimica Pasteur, S de R.L. by Jorge Paulino Hermosillo Martin (translated from Spanish) (included as Exhibit 10.28 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.16	Termination of Oculus Innovative Sciences, Inc. and Oculus Technologies de Mexico, S.A. de C.V.'s Agreements with Quimica Pasteur, S de R.L. by Francisco Javier Orozco Gutierrez (translated from Spanish) (included as Exhibit 10.29 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.17	Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Robert Burlingame, dated January 26, 2009 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 29, 2009, and incorporated herein by reference).
10.18	Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Non-Affiliated Investors, dated January 26, 2009 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 29, 2009, and incorporated herein by reference).

Exhibit No.	Description
10.19	Revenue Sharing Distribution Agreement by and between Oculus Innovative Sciences, Inc. and VetCure, Inc., dated January 26, 2009 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 29, 2009, and incorporated herein by reference).
10.20	Purchase Agreement by and between Oculus Innovative Sciences, Inc. and accredited investors, dated February 6, 2009 (refiled as Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q filed November 4, 2010, and incorporated herein by reference).
10.21	Purchase Agreement by and between Oculus Innovative Sciences, Inc., Robert Burlingame and Seamus Burlingame, dated February 24, 2009 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed February 27, 2009, and incorporated herein by reference).
10.22	Amendment No. 1 to Revenue Sharing Distribution Agreement by and between Oculus Innovative Sciences, Inc. and VetCure, Inc., dated February 24, 2009 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K filed February 27, 2009, and incorporated herein by reference).
10.23	Consultant Agreement by and between Oculus Innovative Sciences, Inc. and Robert C. Burlingame, dated April 1, 2009 (included as Exhibit 10.52 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference).
10.24	Microcyn U.S. Commercial Launch Agreement by and between Oculus Innovative Sciences, Inc. and Advocos, dated April 24, 2009 (included as Exhibit 10.53 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference).
10.25	Amendment No. 5 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and RNM Lakeville, LLC, dated May 18, 2009 (included as Exhibit 10.54 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference).
10.26	Engagement Agreement by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated April 10, 2009 (included as Exhibit 10.55 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.27	Amendment and Clarification of Engagement Letter by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 2, 2009 (included as Exhibit 10.56 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.28	Second Amendment and Clarification of Engagement Letter by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 10, 2009 (included as Exhibit 10.57 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.29	Warrant Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc., dated July 13, 2009 (included as Exhibit 10.58 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.30	Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated May 1, 2010 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 6, 2010, and incorporated herein by reference).
10.31	Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc., and Venture Lending & Leasing V, Inc., dated May 1, 2010 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 6, 2010, and incorporated herein by reference).
10.32†	Amendment No. 2 to Revenue Sharing, Partnership and Distribution Agreement between Oculus Innovative Sciences, Inc. and Vetericyn, Inc., dated July 24, 2009 (refiled as Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2010 filed April 29, 2011, and incorporated herein by reference).
10.33†	Amendment No. 3 to Revenue Sharing, Partnership and Distribution Agreement between Oculus Innovative Sciences, Inc. and Vetericyn, Inc., dated June 1, 2010 (refiled as Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2010 filed April 29, 2011, and incorporated herein by reference).
10.34†	Amendment No. 1 to Exhibit A to the Revenue Sharing Distribution Agreement and to the Revenue Sharing, Partnership and Distribution Agreement as Revised and Amended, June 1, 2010, dated September 1, 2010 (included as Exhibit 10.46 to the Company's Quarterly Report on Form 10-Q filed November 4, 2010, and incorporated herein by reference).
10.35	Continuous Offering Program Agreement between Oculus Innovative Sciences, Inc. and Rodman & Renshaw, LLC, dated September 3, 2010 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 17, 2010, and incorporated herein by reference).
10.36†	Distribution Agreement between Oculus Innovative Sciences, Inc. and Tianjin Ascent Import and Export Company, Ltd., dated January 28, 2011 (included as Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q filed February 4, 2011, and incorporated herein by reference).
10.37†	Exclusive Sales and Distribution Agreement between Oculus Innovative Sciences, Inc. and Quinnova Pharmaceuticals, Inc., dated February 14, 2011 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference).

Exhibit No.	Description
10.38†	Exclusive Co-Promotion Agreement between Oculus Innovative Sciences, Inc. and Quinnova Pharmaceuticals, Inc., dated February 14, 2011 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference).
10.39	Product Option Agreement between Oculus Innovative Sciences, Inc. and AmDerma Pharmaceuticals, LLC, dated February 14, 2011 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference).
10.40	Amendment No. 6 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and RNM Lakeville, L.P., dated April 26, 2011 (included as Exhibit 10.52 to the Company's Annual Report on Form 10-K filed June 3, 2011, and incorporated herein by reference).
10.41	Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.42	Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.43	Amendment No. 1 to the Loan and Security Agreement and Supplement to the Loan and Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated June 29, 2011 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.44	Intellectual Property Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated June 29, 2011 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.45	Intellectual Property Security Agreement between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated June 29, 2011 (included as Exhibit 10.6 to the Company's Current Report on Form 8-K filed July 6, 2011, and incorporated herein by reference).
10.46†	Distribution Agreement between Oculus Innovative Sciences, Inc. and Shanghai Sunvic Technology Co. Ltd., dated June 26, 2011 (included as Exhibit 10.58 to the Company's Quarterly Report on Form 10-Q filed August 4, 2011 and incorporated herein by reference).
10.47	Oculus Innovative Sciences, Inc. 2011 Stock Incentive Plan (included as Exhibit A in the Company's Definitive Proxy Statement on Schedule 14A filed July 29, 2011, and incorporated herein by reference).
10.48	Securities Purchase Agreement by and between the Company and the Purchasers, dated April 22, 2012 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 25, 2012, and incorporated herein by reference).
10.49†	Patent License Agreement-Exclusive between Oculus Innovative Sciences, Inc. and agencies of the United States Public Health Service within the Department of Health and Human Services, dated August 22, 2011 (included as Exhibit 10.60 to the Company's Quarterly Report on Form 10-Q filed November 3, 2011, and incorporated herein by reference).
10.50†	Collaboration Agreement between Oculus Innovative Sciences, Inc. and AmDerma Pharmaceuticals, LLC, dated June 21, 2012 (included as Exhibit 10.53 to the Company's Annual Report on Form 10-K filed June 21, 2012 and incorporated herein by reference).
10.51†	License, Exclusive Distribution and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Oculus Technologies of Mexico, S.A. de C.V., and, More Pharma Corporation, S. de R.L. de C.V., dated August 9, 2012 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed August 15, 2012, and incorporated herein by reference).
10.52†	Exclusive Distribution and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Oculus Technologies of Mexico, S.A. de C.V., and, More Pharma Corporation, S. de R.L. de C.V., dated August 9, 2012 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed August 15, 2012, and incorporated herein by reference).
10.53	Lease by and between Oculus Innovative Sciences, Inc. and KCKMC Properties, LLP for the property located at 3045 65th Street, Suite 13, Sacramento, CA 95820, dated October 31, 2011 (included as Exhibit 10.56 to the Company's Quarterly Report on Form 10-Q filed November 8, 2012, and incorporated herein by reference).
10.54	Amendment to Lease dated August 30, 2012 by and between Oculus Innovative Sciences, Inc. and KCKMC Properties, LLC for the property located at 3045 65th Street, Suite 13, Sacramento, CA 95820, dated September 6, 2012 (included as Exhibit 10.57 to the Company's Quarterly Report on Form 10-Q filed November 8, 2012, and incorporated herein by reference).
10.55	Amendment No. 7 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and 1125-1137 North McDowell, LLC, dated October 10, 2012 (included as Exhibit 10.58 to the Company's Quarterly Report on Form 10-Q filed November 8, 2012, and incorporated herein by reference).
10.56	Stock Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, LLC and Venture Lending & Leasing VI, LLC, dated October 30, 2012 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 1, 2012, and incorporated herein by reference).

Exhibit No.	Description
10.57	Letter Agreement by and between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing V, Inc., dated October 30, 2012 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 1, 2012, and incorporated herein by reference).
10.58	Letter Agreement by and between Oculus Innovative Sciences, Inc. and Venture Lending & Leasing VI, Inc., dated October 30, 2012 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 1, 2012, and incorporated herein by reference).
10.59	Side Letter Agreement to the Stock Purchase Agreement dated April 22, 2012 by and between Oculus Innovative Sciences, Inc., on one hand, and Sabby Healthcare Volatility Master Fund, Ltd. and Sabby Volatility Warrant Master Fund, Ltd. on the other hand, dated October 29, 2012 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed November 1, 2012, and incorporated herein by reference).
10.60	Offer of Employment Letter between Oculus Innovative Sciences, Inc. and Sameer Harish, effective as of February 1, 2013 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed February 4, 2013, and incorporated herein by reference).
10.61	Employment Agreement by and between Ruthigen, Inc. and Hojabr Alimi, dated March 21, 2013 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 22, 2013, and incorporated herein by reference).
10.62††	License and Supply Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated May 23, 2013 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 7, 2013, and incorporated herein by reference).
10.63	Shared Services Agreement by and between Oculus Innovative Sciences, Inc. and Ruthigen, Inc., dated May 23, 2013 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed June 7, 2013, and incorporated herein by reference).
10.64	Amendment to Offer of Employment Letter between Oculus Innovative Sciences, Inc. and Sameer Harish, dated May 23, 2013 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed June 7, 2013, and incorporated herein by reference).
10.65	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Hojabr Alimi, dated January 1, 2004 (included as Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.66	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Jim Schutz, dated January 1, 2004 (included as Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.67	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Robert Miller, dated June 1, 2004 (included as Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.68*	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Jim Schutz, dated June 20, 2013
10.69*	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Robert Miller, dated June 20, 2013
21.1*	List of Subsidiaries
23.1*	Consent of Marcum LLP, independent registered public accounting firm.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*#	XBRL Instance Document.
101.SCH*#	XBRL Taxonomy Extension Schema.
101.CAL*#	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*#	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*#	XBRL Taxonomy Extension Label Linkbase.
101.PRE*#	XBRL Taxonomy Extension Presentation Linkbase.

* Filed herewith.

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

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

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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, Oculus Innovative Sciences, Inc., 1129 N. McDowell Blvd., Petaluma, California 94954.

(c) Financial Statements and Schedules

Reference is made to Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OCULUS INNOVATIVE SCIENCES, INC.

Date: June 25, 2013

By: /s/ Jim Schutz
Jim Schutz
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jim Schutz Jim Schutz	President, Chief Executive Officer and Director (Principal Executive Officer)	June 25, 2013
/s/ Robert E. Miller Robert E. Miller	Chief Financial Officer (Principal Financial Officer, and Principal Accounting Officer)	June 25, 2013
/s/ Hojabr Alimi Hojabr Alimi	Chairman of the Board	June 25, 2013
/s/ Jay Edward Birnbaum Jay Edward Birnbaum	Director	June 25, 2013
/s/ Richard Conley Richard Conley	Director	June 25, 2013
/s/ Gregory M. French Gregory M. French	Director	June 25, 2013
/s/ Jerry McLaughlin Jerry McLaughlin	Director	June 25, 2013

Exhibit 10.68

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Jim Schutz (the "Executive"), and Oculus Innovative Sciences, Inc., a Delaware corporation (the "Corporation"), as of June 20, 2013 (the "Effective Date"). This Agreement replaces that certain employment agreement dated as of January 1, 2004 and entered into by and between the Executive and the Corporation.

RECITALS

WHEREAS, prior to the date hereof, the Executive has served in various capacities with the Corporation, including Chief Operating Officer and General Counsel and as of the effective date of February 4, 2013 as the Corporation's President and Chief Executive Officer, in accordance with the terms and conditions set forth in the related employment agreement dated as of January 1, 2004 between the Corporation and the Executive;

WHEREAS, the Corporation desires that the Executive continue to be employed by the Corporation as its President and Chief Executive Officer, and to carry out the duties and responsibilities described below, all on the terms and conditions set forth herein;

WHEREAS, the Executive serves as a Director on the Corporation's Board of Directors; and

WHEREAS, the Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and promises of the parties herein, the receipt and sufficiency of which are hereby acknowledged by each of the parties, the Corporation and the Executive hereto agree as follows:

1. Employment and Duties.

1.1 Position. On the terms and subject to the conditions set forth herein, the Corporation agrees to continue to employ the Executive as its President and Chief Executive Officer for the Period of Employment (as defined in Section 2). The Executive does hereby accept and agree to such employment, on the terms and conditions expressly set forth in this Agreement.

1.2 Duties. During the Period of Employment (as defined in Section 2), the Executive shall serve the Corporation as its President and Chief Executive Officer. The Executive shall, without limitation and without limiting the Executive's other duties to the Corporation, and without limiting the authority of the Corporation's Board of Directors (the "Board"), be responsible for the general supervision, direction and control of the business and affairs of the Corporation and have such other duties and responsibilities as the Board shall designate that are consistent with the Executive's position as President and Chief Executive Officer of the Corporation. The Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the Board and in accordance with the practices and policies of the Corporation as in effect from time to time throughout the Period of Employment (as defined in Section 2) (including, without limitation, the Corporation's insider trading and ethics policies, as they may change from time to time). While employed as President and Chief Executive Officer of the Corporation, the Executive shall report exclusively to the Board. Throughout the Period of Employment (as defined in Section 2), the Executive shall not serve on the boards of directors or advisory boards of any other entity, except for any wholly or majority owned subsidiaries of the Corporation, unless such service is expressly approved by the Board.

1.3 No Other Employment; Minimum Time Commitment. Throughout the Period of Employment (as defined in Section 2), the Executive shall both (i) devote substantially all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Corporation, and (ii) hold no other job. The Executive agrees that any investment or direct involvement in, or any appointment to or continuing service on the board of directors or similar body of, any corporation or other entity, other than wholly or majority owned subsidiaries of the Corporation, must be first approved in writing by the Corporation. The foregoing provisions of this Section 1.3 shall not prevent the Executive from investing in non-competitive, publicly-traded securities to the extent permitted by Section 7(b). The Executive agrees that, as of the Effective Date, Exhibit A to this Agreement sets forth a complete and accurate description of (i) any investment or direct involvement of the Executive in any other corporation or business that reasonably could be construed as falling outside of the scope of the foregoing permitted investments and involvement, and (ii) any board of directors or similar body of any corporation or other entity on which the Executive is a member, other than wholly or majority owned subsidiaries of the Corporation.

1.4 No Breach of Contract. The Executive hereby represents to the Corporation that: (i) the execution and delivery of this Agreement by the Executive and the Corporation and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound; (ii) the Executive has no information (including, without limitation, confidential information and trade secrets) of any other person or entity which the Executive is not legally and contractually free to disclose to the Corporation; and (iii) the Executive is not bound by any confidentiality, trade secret or similar agreement (other than this Agreement) with any other person or entity.

1.5 Location. The Executive acknowledges that the Corporation's principal executive offices are currently located in Petaluma, California. The Executive's principal place of employment shall be the Corporation's principal executive offices, though such principal place of employment of the Executive may be moved from time to time upon mutual agreement by the Executive and the Corporation. The Executive agrees that the Executive will be regularly present at the Corporation's principal executive offices, or such other location as the parties may designate, and that the Executive may be required to travel from time to time in the course of performing the Executive's duties for the Corporation.

2. Period of Employment. The "Period of Employment" shall commence on the Effective Date, and shall continue in full force and effect until the date of the Executive's termination pursuant to Section 5. This Agreement shall govern the terms of Executive's employment hereunder on and after the Effective Date.

3. Compensation.

3.1 Base Salary. As of the Effective Date and during the Period of Employment, the Corporation shall pay to the Executive a base salary at the rate of $250,000 per year, subject to increase (but not decrease) by the Board (the "Base Salary") with the sole exception set forth in Section 3.2 below. The Executive's Base Salary shall be paid in accordance with the Corporation's regular payroll practices in effect from time to time, but not less frequently than in monthly installments.

3.2 Stock Awards. As soon as practical following the execution of this agreement, the Corporation shall issue to the Executive 300,000 common stock options. The exercise price of the stock option grant will be $6.00 per share of stock. Such options will be registered on a Form S-8. The Executive shall continue to vest in those options to purchase the Corporation's common stock previously granted to the Executive in accordance with the terms of such option grants. The Corporation may, in its sole discretion, grant additional stock options and/or make other stock-based awards to the Executive.

4. Benefits.

4.1 Health and Welfare. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available by the Corporation to the Corporation's senior-level employees generally, as such plans or programs may be in effect from time to time.

4.2 Reimbursement of Business Expenses. The Executive is authorized to incur reasonable expenses in carrying out the Executive's duties for the Corporation under this Agreement and entitled to reimbursement for all such expenses the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Corporation, subject to the Corporation's reasonable expense reimbursement policies in effect from time to time. The Corporation shall reimburse the Executive to the extent required by the preceding sentence.

4.3 Vacation and Other Leave. During the Period of Employment, the Executive shall accrue and be entitled to take paid vacation in accordance with the Corporation's standard vacation policies in effect from time to time, including the Corporation's policies regarding vacation accruals. The Executive shall also be entitled to all other holiday and leave pay generally available to all other employees of the Corporation.

5. Termination.

5.1 Termination by the Corporation. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Corporation: (i) with Cause (as defined in Section 5.5), or (ii) without Cause (as defined in Section 5.5), or (iii) in the event of the Executive's death, or (iv) in the event that the Board determines in good faith that the Executive has a Disability (as defined in Section 5.5).

5.2 Termination by the Executive. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Executive, on no less than thirty (30) days' prior written notice to the Corporation. Any termination by the Executive for Good Reason (as defined in Section 5.5) shall be communicated by a Notice of Termination to the Corporation. For purposes of this Agreement, in the case of a notice given by the Executive to the Corporation, a "Notice of Termination" means a written notice which (i) is communicated to the Corporation within thirty (30) days of the initial existence of the condition giving rise to the Executive's right to terminate for Good Reason, (ii) indicates the specific termination provision in this Agreement relied upon, (iii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, (iv) waives the Executive's right to terminate for Good Reason if the Corporation within thirty (30) days of such notice cures the condition otherwise giving rise to the Executive's right to terminate for Good Reason, and (v) if the termination date is other than the date that is thirty-one (31) days after the communication of such notice, specifies the termination date.

5.3 Benefits Upon Termination. If the Executive's employment by the Corporation is terminated during the Period of Employment for any reason by the Corporation or by the Executive, the Corporation shall have no further obligation to make or provide to the Executive, and the Executive shall have no further right to receive or obtain from the Corporation, any payments or benefits, except:

(a) the Corporation shall pay the Executive (or, in the event of his death, the Executive's estate) any Accrued Obligations (as defined in Section 5.5); and

(b) if, during the Period of Employment, the Executive's employment is terminated by the Corporation without Cause (as defined in Section 5.5) or by the Executive for Good Reason (as defined in Section 5.5) (and, in each case, other than due to either the Executive's death, or a good faith determination by the Board that the Executive has a Disability (as defined in Section 5.5)):

(i) the Corporation shall, subject to the conditions set forth in Section 5.3(c) and the constraints set forth in Section 5.8, also pay the Executive a lump sum severance benefit equal to eighteen (18) times the average monthly Base Salary paid to the Executive over the twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs (or, if the Period of Employment has not been in effect for twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs, the average monthly Base Salary for this purpose shall be determined based on the average monthly Base Salary paid to the Executive over the whole months in the Period of Employment occurring prior to the month in which the termination of the Executive's employment occurs). Subject to the conditions set forth in Section 5.3(c), such lump sum amount shall be paid to the Executive (without interest) no later than seven (7) days following the date on which the Executive's employment by the Corporation terminates;

(ii) the Corporation shall, subject to the conditions set forth in Section 5.3(c), pay as a severance benefit one hundred percent (100%) of the Executive's premiums under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for the same or reasonably equivalent medical coverage as in effect on the date the Executive's employment terminated for a period not to exceed the lesser of one year following the date of such termination or until the Executive becomes eligible for medical insurance coverage provided by another employer; and

(iii) as of the date the Executive's employment terminates, any and all stock options, stock appreciation rights, restricted stock awards, and similar equity and equity-based awards granted by the Corporation to the Executive outstanding immediately prior to such termination of employment shall thereupon be deemed fully vested and shall be exercisable for a period of no less than twelve (12) months thereafter or until the stated expiration date for such option or award at the end of its maximum term, whichever is earlier; provided, however, that this Section 5.3(b)(iii) shall not affect any right of the Corporation to terminate such option or award in connection with a change in control of the Corporation or similar event to the extent such right exists under the provisions of any agreement evidencing such option or award.

(c) Any obligation of the Corporation pursuant to Section 5.3(b) to pay a severance benefit in the circumstances described therein is further subject to the following two conditions precedent: (i) such severance obligation shall be paid only if the Executive has remained in compliance with all of the provisions of Section 5.6 and Sections 7 through 12, and such obligation shall terminate immediately if the Executive is for any reason not in compliance with one or more of the provisions of Section 5.6, and Sections 7 through 12; and (ii) the Executive's satisfaction of the release obligations set forth in Section 5.4. For purposes of the preceding sentence, if the Executive is not in compliance with one or more provisions of Section 5.6, and Sections 7 through 12, and a cure is reasonably possible in the circumstances, the Executive will not be deemed to have breached such provision(s) unless the Executive is given notice and a reasonable opportunity (in no case shall more than a 10 business day cure period be required) to cure such breach and such breach is not cured within such time period. The parties agree that a cure will not be reasonably possible in all circumstances including, without limitation, a material breach of confidentiality or similar occurrence.

(d) Except as expressly provided herein, the foregoing provisions of this Section 5.3 shall not affect: (i) the Executive's receipt of benefits otherwise due to terminated employees under group insurance coverage consistent with the terms of the applicable welfare benefit plan of the Corporation; (ii) the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; (iii) the Executive's receipt of benefits otherwise due in accordance with the terms of the Corporation's 401(k) plan (if any); or (iv) any rights that the Executive may have under and with respect to a stock option, stock appreciation right, restricted stock award, or similar equity or equity-based award, to the extent that such award was granted before the date that the Executive's employment by the Corporation terminated and to the extent expressly provided in the written agreement evidencing such award.

5.4 Release; Exclusive Remedy.

(a) This Section 5.4 shall apply notwithstanding anything else contained in this Agreement to the contrary. As a condition precedent to any obligation of the Corporation to the Executive pursuant to Section 5.3(b), the Executive shall, upon or promptly following his last day of employment with the Corporation, provide the Corporation with a valid, executed, written Release (as defined in Section 5.5) (in a form provided by the Corporation) and such Release (as defined in Section 5.5) shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Corporation shall have no obligation to make any payment to the Executive pursuant to Section 5.3(b) unless and until the Release (as defined in Section 5.5) contemplated by this Section 5.4 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(b) The Executive agrees that the payments contemplated by Section 5.3 shall constitute the exclusive and sole remedy for any termination of his employment and the Executive covenants not to assert or to pursue any other remedies, at law or in equity, with respect to any termination of employment. The Corporation and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.3 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

5.5 Certain Defined Terms.

(a) As used herein, "Accrued Obligations" means:

(i) any Base Salary that has accrued but has not yet been paid to the Executive (including accrued and unpaid vacation time) prior to the date of termination; and

(ii) any reimbursement due to the Executive pursuant to Section 4.2 for expenses incurred by the Executive prior to the date of termination.

(b) As used herein, "Cause" shall mean the reasonable and good faith determination by a majority of the Board based on its reasonable belief at the time, that, during the Period of Employment, any of the following events or contingencies exists or has occurred:

(i) the Executive is convicted of, or has pled guilty to, a felony (as such term is defined under the laws of the United States or any state thereof); or

(ii) the Executive has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties hereunder, unless the Executive believed in good faith that such acts were in the interests of the Corporation; or

(iii) the Executive willfully and repeatedly fails to perform or uphold his duties under this Agreement; or

(iv) the Executive willfully fails to comply with reasonable directives of the Board which are communicated to him in writing.

(c) As used herein, "Disability" shall mean a physical or mental impairment which substantially limits a major life activity of the Executive and which renders the Executive unable to perform the essential functions of the Executive's position, even with reasonable accommodation which does not impose an undue hardship on the Corporation, for ninety (90) days in any consecutive twelve (12) month period, but only if the Executive is considered to be disabled within the meaning of Treasury Regulation section 1.409A-3(i)(4). Without limiting the circumstances in which the Executive may be determined to be disabled as defined in Treasury Regulation section 1.409A-3(i)(4), the Executive will be presumed to be disabled if determined to be totally disabled by the Social Security Administration or if determined to be disabled in accordance with a disability insurance program, provided the definition of disability applied under such disability insurance program complies with the requirements of Treasury Regulation section 1.409A-3(i)(4).

(d) As used herein, "Good Reason" shall mean the occurrence of one or more of the following without the Executive's written consent:

(i) the assignment of the Executive to duties materially inconsistent with the Executive's authorities, duties, responsibilities and status (including titles and reporting requirements) as President and Chief Executive Officer of the Corporation, or a material reduction or alteration in the nature or status of the Executive's authorities, duties or responsibilities, other than an insubstantial and inadvertent act that is remedied by the Corporation promptly after receipt of notice thereof given by the Executive; or

(ii) a reduction by the Corporation in the Executive's Base Salary as in effect on the Effective Date or as the same shall be increased from time to time, other than as specified in Section 3.2, or the Corporation otherwise fails to satisfy its compensation obligations to the Executive under this Agreement, after written notice by the Executive and a reasonable opportunity to cure; or

(iii) only after a sale of the Corporation, the Corporation's requirement that the Executive to be based at any office or location more than fifty (50) miles from the Corporation's headquarters in Petaluma, California; or

(iv) the failure of the Corporation to obtain a satisfactory agreement from any successor to the Corporation to assume and agree to perform this Agreement.

provided, however, that none of the events specified in clause (i), (ii), or (iii) above shall constitute Good Reason unless the Executive shall have notified the Corporation in writing describing the events which constitute Good Reason and the Corporation shall have failed to cure such event within a reasonable period, not to exceed ten (10) business days, after the Corporation's actual receipt of such written notice.

(e) As used herein, "Release" shall mean a written release, discharge and covenant not to sue entered into by the Executive on behalf of himself, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, of and in favor of the Corporation, its parent (if any), the Corporation's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, shareholders, members, representatives, assigns, and successors, past and present, and each of them (the "releasees"), with respect to and from any and all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which the Executive may then own or hold, or the Executive at any time theretofore owned or held, or may in the future hold as against any or all of said releasees, arising out of or in any way connected with the Executive's employment relationship with each and every member of the Company Group (as defined in Section 7) with which the Executive has had such a relationship, or the termination of his employment or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such Release including, without limiting the generality of the foregoing, any claim under Section 1981 of the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act, any other claim under any other federal, state or local law or regulation, and any other claim for severance pay, bonus or incentive pay, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, medical expenses, or disability (except that such Release shall not constitute a release of any Corporation obligation to the Executive that may be due to the Executive pursuant to Section 5.3(b) upon the Corporation's receipt of such Release). The Release shall also contain the Executive's representation and warranty that he has not theretofore assigned or transferred to any other person or entity, other than the Corporation, any released matter or any part or portion thereof and that he will defend, indemnify and hold harmless the Corporation and the aforementioned releasees from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) that is directly or indirectly based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

(f) As used herein, a "Change of Control" shall mean the occurrence of any of the following:

i. a sale, lease or other disposition of all or substantially all of the assets of the Corporation and its subsidiaries, taken as a whole;

ii. any consolidation or merger of the Corporation with or into any other corporation or other person, or any other corporate reorganization or transaction (including the acquisition of capital stock of the Corporation), whether or not the Corporation is a party thereto, in which the stockholders of the Corporation immediately prior to such consolidation, merger, reorganization or transaction, own capital stock and either:

a. represent directly, or indirectly through one or more entities, less than fifty percent (50%) of the economic interests in or voting power of the Corporation or other surviving entity immediately after such consolidation, merger, reorganization or transaction; or

b. do not directly, or indirectly through one or more entities, have the power to elect a majority of the entire board of directors of the Corporation or other surviving entity immediately after such consolidation, merger, reorganization or transaction; or

iii. any stock sale or other transaction or series of related transactions, whether or not the Corporation is a party thereto, after giving effect to which in excess of fifty percent (50%) of the Corporation's voting power is owned directly, or indirectly though one or more entities, by any person and its "affiliates" or "associates" (as such terms are defined in the rules adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended).

(g) For purposes of the definition of "Change of Control", the following definitions shall be applicable:

i. The term "person" shall mean any individual, corporation or other entity and any group as such term is used in Section 13(d) (3) or 14(d) (2) of the Exchange Act.

ii. Any person shall be deemed to be the beneficial owner of any shares of capital stock of the Corporation:

a. which that person owns directly whether or not of record, or

b. which that person has the right to acquire pursuant to any agreement or understanding or upon exercise of conversion rights, warrants, or options, or otherwise, or

c. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause (b) above, by an "affiliate" or "associate" (as defined in the rules of the Securities and Exchange Commission under the Securities Act of 1933, as amended) of that person, or

d. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause (b) above), by any other person with which that person or his "affiliate" or "associate" (defined as aforesaid) has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting or disposing of capital stock of the Corporation.

iii. The outstanding shares of capital stock of the Corporation shall include shares deemed owned through application of clause (ii) (b), (c), and (d) above, but shall not include any other shares which may be issuable pursuant to any agreement or upon exercise of conversion rights, warrants or options, or otherwise, but which are not actually outstanding.

5.6 Resignation From Boards and Committees. Upon or promptly following any termination of Executive's employment with the Corporation, the Executive agrees to resign, as of the date of such termination, from (i) each and every board of directors (or similar body, as the case may be) of the Corporation and each of its affiliates on which the Executive may then serve, including, but not limited to, the Board (and any committees thereof), and (ii) each and every office of the Corporation and each of its affiliates that the Executive may then hold, and all positions that he may have previously held with the Corporation and any of its affiliates.

5.7 Excise Tax Gross-Up. During and after the Period of Employment with the Corporation, the Executive shall be entitled to the excise tax protections set forth in Exhibit B hereto.

5.8 Section 409A of the Internal Revenue Code.

(a) This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986 ("Section 409A") and shall be construed and interpreted consistent with that intent. In the event that any payment or benefit payable under Section 5.3 of this Agreement is not compliant with Section 409A and any taxes, penalties or interest are imposed on the Executive under Section 409A as a result of such noncompliance (the "Section 409A Penalties"), the Corporation shall put the Executive in an after tax economic position equivalent to the position the Executive would have been in without the imposition of such Section 409A Penalties. The Executive shall notify the Corporation in writing of any claim by the Internal Revenue Service or state tax authorities that, if successful, would require the payment of any such Section 409A Penalties or related state tax statutes. The Executive's right to be put in an equivalent after tax economic position is subject to the Executive providing such notification no later than ten (10) business days after Executive is informed in writing of such claim. If the Corporation desires to contest such claim, Executive shall (i) cooperate with the Corporation in good faith in order to effectively contest such claim and (ii) permit the Corporation to participate in any proceedings relating to such claim. The Corporation shall control all proceedings taken in connection with such contest; provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest. This section shall also apply to any taxes, penalties, or interest imposed by any state that are calculated in a manner similar to taxes, penalties, or interest imposed by Section 409A(a)(1)(B), including those amounts imposed by the California Revenue and Taxation Code (R&TC) Sections 17501 and 24601.

(b) If and to the extent that any payment or benefit under this Agreement, or any plan or arrangement of the Corporation, is determined by the Corporation to constitute "non-qualified deferred compensation" subject to Section 409A and is payable to the Executive by reason of the Executive's termination of employment, then (a) such payment or benefit shall be made or provided to the Executive only upon a "separation from service" as defined for purposes of Section 409A under applicable regulations (a "Separation from Service") and (b) if the Executive is a "specified employee" (within the meaning of Section 409A and as determined by the Corporation), such payment or benefit shall not be made or provided before the date that is six (6) months after the date of the Executive's Separation from Service (or the Executive's earlier death). For the purposes of clarity, the first payment thereof will include a catch-up payment covering the amount that would have otherwise been paid to the Executive during the period between the termination of Executive's employment and the first payment date but for the application of this provision, and the balance of the installments (if any) will be payable in accordance with their original schedule.

(c) To the extent any expense reimbursement or in-kind benefit is determined to be subject to Section 409A, the amount of any such expenses eligible for reimbursement or in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits provided in any other taxable year (except under any lifetime limit applicable to expenses for medical care), in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which the Executive incurred such expenses, and in no event shall any right to reimbursement or in-kind benefits be subject to liquidation or exchange for another benefit.

(d) To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder comply with Section 409A. To the extent any payment under this Agreement may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this section are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

6. Means and Effect of Termination. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination.

7. Non-Competition. The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Corporation, the amount of sensitive and confidential information involved in the discharge of the Executive's position with the Corporation, and the harm to the Corporation that would result if such knowledge or expertise was disclosed or made available to a competitor. Based on that understanding, the Executive hereby expressly agrees as follows:

(a) As a result of the particular nature of the Executive's relationship with the Corporation, in the capacities identified earlier in this Agreement, for the Period of Employment, the Executive hereby agrees that he will not, directly or indirectly, (i) engage in any business for the Executive's own account or otherwise derive any personal benefit from any business that competes with the business of the Corporation or any of its affiliates (the Corporation and its affiliates are referred to, collectively, as the "Company Group"), (ii) enter the employ of, or render any services to, any person engaged in any business that competes with the business of any entity within the Company Group, (iii) acquire a financial interest in any person engaged in any business that competes with the business of any entity within the Company Group, directly or indirectly, as an individual, partner, member, shareholder, officer, director, principal, agent, trustee or consultant, or (iv) interfere with business relationships (whether formed before or after the Effective Date) between the Corporation, any of its respective affiliates or subsidiaries, and any customers, suppliers, officers, employees, partners, members or investors of any entity within the Company Group. For purposes of this Agreement, businesses in competition with the Company Group shall include, without limitation, businesses which any entity within the Company Group may conduct operations, and any businesses which any entity within the Company Group has specific plans to conduct operations in the future and as to which the Executive is aware of such planning, whether or not such businesses have or have not as of that date commenced operations.

(b) Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of any Person which are publicly traded on a national or regional stock exchange or on the over-the-counter market if the Executive (i) is not a controlling Person of, or a member of a group that controls, such Person, and (ii) does not, directly or indirectly, beneficially own one percent (1%) or more of any class of securities of such Person. For purposes of this Section 7(b), "Person" shall have the meaning ascribed to such terms in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as described in Section 13(d) thereof.

8. Confidentiality. As a material part of the consideration for the Corporation's commitment to the terms of this Agreement, the Executive hereby agrees that the Executive will not at any time (whether during or after the Executive's employment with the Corporation), other than in the course of the Executive's duties hereunder, or unless compelled by lawful process after written notice to the Corporation of such notice along with sufficient time for the Corporation to try and overturn such lawful process, disclose or use for the Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise, any trade secrets, or other confidential data or information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, financing methods, or plans of any entity within the Company Group; provided, however, that the foregoing shall not apply to information which is generally known to the industry or the public, other than as a result of the Executive's breach of this covenant. The Executive further agrees that the Executive will not retain or use for his own account, at any time, any trade names, trademark or other proprietary business designation used or owned in connection with the business of any entity within the Company Group.

9. Inventions and Developments.

(a) All inventions, policies, systems, developments or improvements conceived, designed, implemented and/or made by the Executive, either alone or in conjunction with others, at any time or at any place during the Period of Employment, whether or not reduced to writing or practice during such Period of Employment, which directly or indirectly relate to the business of any entity within the Company Group, or which were developed or made in whole or in part using the facilities and/or capital of any entity within the Company Group, shall be the sole and exclusive property of the Company Group. The Executive shall promptly give notice to the Corporation of any such invention, development, patent or improvement, and shall at the same time, without the need for any request by any person or entity within the Company Group, assign all of the Executive's rights to such invention, development, patent and/or improvement to the Company Group. The Executive shall sign all instruments necessary for the filing and prosecution of any applications for, or extensions or renewals of, letters patent of the United States or any foreign country that any entity in the Company Group desires to file.

(b) All copyrightable work by the Executive during the Period of Employment that relates to the business of any entity in the Company Group is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Company Group. If the copyright to any such copyrightable work is not the property of the Company Group by operation of the law, the Executive will, without further consideration, assign to the Company Group all right, title and interest in such copyrightable work and will assist the entities in the Company Group and their nominees in every way, at the Company Group's expense, to secure, maintain and defend for the Company Group's benefit, copyrights and any extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and to remain the property of the Company Group whether copyrighted or not.

10. Anti-Solicitation. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner or participant in any business, influence or attempt to influence the customers, vendors, suppliers, joint venturers, associates, consultants, agents, or partners of any entity within the Company Group, either directly or indirectly, to divert their business away from the Company Group, to any individual, partnership, firm, corporation or other entity then in competition with the business of any entity within the Company Group, and he will not otherwise materially interfere with any business relationship of any entity within the Company Group.

11. Soliciting Employees. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director, or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at any time within six (6) months prior thereto was, an employee of an entity within the Company Group, who earned annually $25,000 or more as an employee of such entity during the last six (6) months of his or her own employment to work for (as an employee, consultant or otherwise) any business, individual, partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Company Group.

12. Return of Property. The Executive agrees to truthfully and faithfully account for and deliver to the Corporation all property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates, which the Executive may receive from or on account of the Corporation, any other entity in the Company Group, or any of their respective affiliates, and upon the termination of the Period of Employment, or the Corporation's demand, the Executive shall immediately deliver to the Corporation all such property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates.

13. Withholding Taxes. Notwithstanding anything else herein to the contrary, the Corporation may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

14. Cooperation in Litigation. The Executive agrees that, during the Period of Employment or after the termination of the Executive's employment, he will reasonably cooperate with the Corporation, subject to his reasonable personal and business schedules, in any litigation which arises out of events occurring prior to the termination of his employment, including but not limited to, serving as a witness or consultant and producing documents and information relevant to the case or helpful to the Corporation. The Corporation agrees to reimburse the Executive for all reasonable costs and expenses he incurs in connection with his obligations under this Section 14 and, in addition, to reasonably compensate the Executive for time actually spent in connection therewith following the termination of his employment with the Corporation.

15. Assignment. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Corporation with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Corporation hereunder.

16. Number and Gender. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

17. Section Headings. The section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purposes of convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation thereof.

18. Governing Law. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986 and the regulations promulgated thereunder.

19. Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

20. Entire Agreement. This Agreement replaces and supersedes prior employment agreements, including the employment agreement executed by and between the Executive and the Corporation dated January 1, 2004. This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be deemed to have been merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

21. Modifications. This Agreement may not be amended, modified or changed (in whole or in part), except by a formal definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

22. Waiver. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

23. Resolution of Disputes.

(a) Any controversy arising out of or relating to the Executive's employment (whether or not before or after the expiration of the Period of Employment), any termination of the Executive's employment, this Agreement or the enforcement or interpretation of this Agreement, or because of an alleged breach, default, or misrepresentation in connection with any of the provisions of this Agreement, including (without limitation) any state or federal statutory claims, shall be submitted to arbitration in Santa Rosa, California, before a sole arbitrator (the "Arbitrator") selected from judicial arbitration mediation services ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association (" AAA"), and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive remedy of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the Arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction.

(b) The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence of Section 23(a).

(c) The parties agree that the Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non-prevailing party (other than forum costs associated with the arbitration which in any event shall be paid by the Corporation).

(d) Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 23, the Executive and the Corporation acknowledge that any breach of any of the covenants or provisions contained in Sections 5.6, and 7 through 12 could result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that, in the event of such a breach or threat thereof, the non-breaching party shall be entitled to obtain a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Sections 5.6, and 7 through 12 or such other equitable relief as may be required to enforce specifically any of the covenants or provisions of Sections 5.6, and 7 through 12.

24. Notices.

(a) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly received if (i) delivered by hand or by courier, effective upon delivery, (ii) given by facsimile or electronic version, when transmitted if transmitted on a business day and during normal business hours of the recipient, and otherwise delivered on the next business day following transmission, or (iii) sent by registered or certified mail, postage prepaid, return receipt requested, five (5) business days after being deposited in the U.S. postal mail. Any notice shall be duly addressed to the parties as follows:

(i) If to the Corporation:

Oculus Innovative Sciences, Inc.
1129 North McDowell Boulevard
Petaluma, California 94954
Attn: General Counsel
Fax: +1 (707) 283-0551

(ii) If to the Executive:

Jim Schutz
At the address on file with the Corporation

(b) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 24 for the giving of notice.

25. Legal Counsel; Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language.

26. Provisions that Survive Termination. The provisions of 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 7 through 25, 27, and this Section 26 shall survive any termination of the Period of Employment.

27. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

[Signature Page Follows]

IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the Effective Date.

CORPORATION

Oculus Innovative Sciences, Inc.,
a Delaware corporation

By: /s/ Greg French
Name: Greg French
Title: Chairman of the Compensation Committee of
Oculus Innovative Sciences, Inc.

EXECUTIVE

By: /s/ Jim Schutz
Name: Jim Schutz

EXHIBIT A — SECTION 1.3 DISCLOSURE SCHEDULE

None.

EXHIBIT B — SECTION 5.7 EXCISE TAX GROSS-UP

B.1 Equalization Payment. If any payment, distribution, transfer, or benefit (including, without limitation, any amounts received or deemed received by the Executive within the meaning of any provision of the Internal Revenue Code of 1986, as amended (the "Code"), or by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Corporation's incentive plans) by the Corporation or a successor, or by a direct or indirect subsidiary or affiliate of the Corporation (or any successor or affiliate of any of them, and including any benefit plan of any of them), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the " Total Payments"), is subject to the excise tax imposed under Section 4999 of the Code or any similar or successor tax (the "Excise Tax"), the Corporation shall pay in cash to Executive an additional amount (the "Gross-Up Payment") such that the net amount retained by the Executive after the deduction of any Excise Tax upon the Gross-Up Payment(s) provided for by this Section B.l shall be equal to such Total Payments had they not been subject to the Excise Tax. Such Gross-Up Payment shall be paid by the Corporation, according to the terms of this Agreement, to the Executive by the end of the taxable year following the taxable year in which the Executive pays the Excise Tax.

B.2 Calculation of Gross-Up Payment. The determination of whether a Gross-Up Payment is required pursuant to this Exhibit B and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Corporation (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Corporation and the Executive. In the event of a termination of the Executive's employment which reasonably may require the payment of a Gross-Up Payment or in the event of a Change in Control, such documentation shall be provided no later than twenty (20) days following such event. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Corporation's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Section 280G(d)(1) of the Code); (ii) the present value of the Total Payments made to the Executive; (iii) the amount and present value of any "excess parachute payment" as such term is defined in the Code; and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Corporation, a firm of nationally-recognized executive compensation consultants. The Executive shall also have the right to obtain such an opinion of outside counsel in the event that the Corporation has not timely submitted the initial determination to the Accounting Firm as provided above (including, without limitation, in the event that the Corporation does not submit such a determination to the Accounting Firm following an event in connection with which the Executive reasonably believes that he may be entitled to a Gross-Up Payment). The outside counsel's opinion shall be binding upon the Corporation and the Executive and shall constitute the "Determination" for purposes of this Exhibit B instead of the initial determination by the Accounting Firm. The Corporation shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section B.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Corporation must approve the Executive's selection, which approval shall not be unreasonably withheld.

B.3 Computation Assumptions. For purposes of determining whether any Total Payments will be subject to Excise Tax, and the amount of any such Excise Tax:

(a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon any change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, or with any Person (as defined below) whose actions result in such a change or any Person (as defined below) affiliated with the Corporation or such Persons (as defined below)) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax. For purposes of this Section B.3(a), "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof);

(b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;

(c) The compensation and benefits provided for in Section 5 of this Agreement, and any other compensation earned prior to the termination of the Executive's employment pursuant to the Corporation's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by a change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or a termination of the Executive's employment), shall for purposes of the calculation pursuant to this Section B.3 be deemed to be reasonable; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment, and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the date the Executive's employment terminates, and shall take into account the maximum reduction in federal income taxes that could be obtained from the deduction of such state and local taxes.

(e) It is the intent of the parties that the amounts payable under this Agreement, and the Corporation's and the Executive's exercise of authority or discretion hereunder shall comply with and avoid the imputation of any tax, penalty, or interest under Section 409A of the Code. This Agreement and this Exhibit B shall be construed in interpretation with that intent.

B.4 Executive's Obligation to Notify Corporation. The Executive shall promptly notify the Corporation in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Corporation of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Corporation notifies the Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Corporation any information reasonably requested by the Corporation relating to such claim; (b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation that is reasonably acceptable to the Executive; (c) cooperate with the Corporation in good faith in order to effectively contest such claim; and (d) permit the Corporation to participate in any proceedings relating to such claim; provided that the Corporation shall bear and pay directly all attorneys' fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section B.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Corporation shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Executive to pay such claim and sue for a refund, the Corporation shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

B.5 Subsequent Recalculation. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section B.1, the Corporation shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section B.1, then the Executive shall promptly pay to the Corporation (without interest) the amount of such excess.

Exhibit 10.69

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Robert Miller (the "Executive"), and Oculus Innovative Sciences, Inc., a Delaware corporation (the "Corporation"), as of June 20, 2013 (the "Effective Date"). This Agreement replaces that certain employment agreement dated as of June 1, 2004 and entered into by and between the Executive and the Corporation.

RECITALS

WHEREAS, prior to the date hereof, the Executive has served as Chief Financial Officer of the Corporation in accordance with the terms and conditions set forth in the related employment agreement dated as of June 1, 2004 between the Corporation and the Executive;

WHEREAS, the Corporation desires that the Executive continue to be employed by the Corporation as its Chief Financial Officer, and to carry out the duties and responsibilities described below, all on the terms and conditions set forth herein; and

WHEREAS, the Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and promises of the parties herein, the receipt and sufficiency of which are hereby acknowledged by each of the parties, the Corporation and the Executive hereto agree as follows:

1. Employment and Duties.

1.1 Position. On the terms and subject to the conditions set forth herein, the Corporation agrees to continue to employ the Executive as its Chief Financial Officer for the Period of Employment (as defined in Section 2). The Executive does hereby accept and agree to such employment, on the terms and conditions expressly set forth in this Agreement.

1.2 Duties. During the Period of Employment (as defined in Section 2), the Executive shall serve the Corporation as its Chief Financial Officer ("CFO"). The Executive shall, without limitation and without limiting the Executive's other duties to the Corporation, and without limiting the authority of the Corporation's Board of Directors (the "Board"), be responsible for the financial affairs of the Corporation and have such other duties and responsibilities as the Chief Executive Officer ("CEO") shall designate that are consistent with the Executive's position as CFO. The Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the Board and in accordance with the practices and policies of the Corporation as in effect from time to time throughout the Period of Employment (as defined in Section 2) (including, without limitation, the Corporation's insider trading and ethics policies, as they may change from time to time). While employed as CFO, the Executive shall report exclusively to the CEO. Throughout the Period of Employment (as defined in Section 2), the Executive shall not serve on the boards of directors or advisory boards of any other entity, except for any wholly or majority owned subsidiaries of the Corporation, unless such service is expressly approved by the Board.

1.3 No Other Employment; Minimum Time Commitment. Throughout the Period of Employment (as defined in Section 2), the Executive shall both (i) devote substantially all of the Executive's business time, energy and skill to the performance of the Executive's duties for the Corporation, and (ii) hold no other job. The Executive agrees that any investment or direct involvement in, or any appointment to or continuing service on the board of directors or similar body of, any corporation or other entity, other than wholly or majority owned subsidiaries of the Corporation, must be first approved in writing by the Corporation. The foregoing provisions of this Section 1.3 shall not prevent the Executive from investing in non-competitive, publicly-traded securities to the extent permitted by Section 7(b). The Executive agrees that, as of the Effective Date, Exhibit A to this Agreement sets forth a complete and accurate description of (i) any investment or direct involvement of the Executive in any other corporation or business that reasonably could be construed as falling outside of the scope of the foregoing permitted investments and involvement, and (ii) any board of directors or similar body of any corporation or other entity on which the Executive is a member, other than wholly or majority owned subsidiaries of the Corporation.

1.4 No Breach of Contract. The Executive hereby represents to the Corporation that: (i) the execution and delivery of this Agreement by the Executive and the Corporation and the performance by the Executive of the Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any other agreement or policy to which the Executive is a party or otherwise bound; (ii) the Executive has no information (including, without limitation, confidential information and trade secrets) of any other person or entity which the Executive is not legally and contractually free to disclose to the Corporation; and (iii) the Executive is not bound by any confidentiality, trade secret or similar agreement (other than this Agreement) with any other person or entity.

1.5 Location. The Executive acknowledges that the Corporation's principal executive offices are currently located in Petaluma, California. The Executive's principal place of employment shall be the Corporation's principal executive offices, though such principal place of employment of the Executive may be moved from time to time upon mutual agreement by the Executive and the Corporation. The Executive agrees that the Executive will be regularly present at the Corporation's principal executive offices, or such other location as the parties may designate, and that the Executive may be required to travel from time to time in the course of performing the Executive's duties for the Corporation.

2. Period of Employment. The "Period of Employment" shall commence on the Effective Date, and shall continue in full force and effect until the date of the Executive's termination pursuant to Section 5. This Agreement shall govern the terms of Executive's employment hereunder on and after the Effective Date.

3. Compensation.

3.1 Base Salary. As of the Effective Date and during the Period of Employment, the Corporation shall pay to the Executive a base salary at the rate of $250,000 per year, subject to increase (but not decrease) by the Board (the "Base Salary") with the sole exception set forth in Section 3.2 below. The Executive's Base Salary shall be paid in accordance with the Corporation's regular payroll practices in effect from time to time, but not less frequently than in monthly installments.

3.2 Stock Awards. The Executive shall continue to vest in those options to purchase the Corporation's common stock previously granted to the Executive in accordance with the terms of such option grants. The Corporation may, in its sole discretion, grant additional stock options and/or make other stock-based awards to the Executive.

4. Benefits.

4.1 Health and Welfare. During the Period of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available by the Corporation to the Corporation's senior-level employees generally, as such plans or programs may be in effect from time to time.

4.2 Reimbursement of Business Expenses. The Executive is authorized to incur reasonable expenses in carrying out the Executive's duties for the Corporation under this Agreement and entitled to reimbursement for all such expenses the Executive incurs during the Period of Employment in connection with carrying out the Executive's duties for the Corporation, subject to the Corporation's reasonable expense reimbursement policies in effect from time to time. The Corporation shall reimburse the Executive to the extent required by the preceding sentence.

4.3 Vacation and Other Leave. During the Period of Employment, the Executive shall accrue and be entitled to take paid vacation in accordance with the Corporation's standard vacation policies in effect from time to time, including the Corporation's policies regarding vacation accruals. The Executive shall also be entitled to all other holiday and leave pay generally available to all other employees of the Corporation.

5. Termination.

5.1 Termination by the Corporation. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Corporation: (i) with Cause (as defined in Section 5.5), or (ii) without Cause (as defined in Section 5.5), or (iii) in the event of the Executive's death, or (iv) in the event that the Board determines in good faith that the Executive has a Disability (as defined in Section 5.5).

5.2 Termination by the Executive. The Executive's employment by the Corporation, and the Period of Employment, may be terminated at any time by the Executive, on no less than thirty (30) days' prior written notice to the Corporation. Any termination by the Executive for Good Reason (as defined in Section 5.5) shall be communicated by a Notice of Termination to the Corporation. For purposes of this Agreement, in the case of a notice given by the Executive to the Corporation, a "Notice of Termination" means a written notice which (i) is communicated to the Corporation within thirty (30) days of the initial existence of the condition giving rise to the Executive's right to terminate for Good Reason, (ii) indicates the specific termination provision in this Agreement relied upon, (iii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, (iv) waives the Executive's right to terminate for Good Reason if the Corporation within thirty (30) days of such notice cures the condition otherwise giving rise to the Executive's right to terminate for Good Reason, and (v) if the termination date is other than the date that is thirty-one (31) days after the communication of such notice, specifies the termination date.

5.3 Benefits Upon Termination. If the Executive's employment by the Corporation is terminated during the Period of Employment for any reason by the Corporation or by the Executive, the Corporation shall have no further obligation to make or provide to the Executive, and the Executive shall have no further right to receive or obtain from the Corporation, any payments or benefits, except:

(a) the Corporation shall pay the Executive (or, in the event of his death, the Executive's estate) any Accrued Obligations (as defined in Section 5.5); and

(b) if, during the Period of Employment, the Executive's employment is terminated by the Corporation without Cause (as defined in Section 5.5) or by the Executive for Good Reason (as defined in Section 5.5) (and, in each case, other than due to either the Executive's death, or a good faith determination by the Board that the Executive has a Disability (as defined in Section 5.5)):

(i) the Corporation shall, subject to the conditions set forth in Section 5.3(c) and the constraints set forth in Section 5.8, also pay the Executive a lump sum severance benefit equal to eighteen (18) times the average monthly Base Salary paid to the Executive over the twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs (or, if the Period of Employment has not been in effect for twelve (12) whole months preceding the month in which the termination of the Executive's employment occurs, the average monthly Base Salary for this purpose shall be determined based on the average monthly Base Salary paid to the Executive over the whole months in the Period of Employment occurring prior to the month in which the termination of the Executive's employment occurs). Subject to the conditions set forth in Section 5.3(c), such lump sum amount shall be paid to the Executive (without interest) no later than seven (7) days following the date on which the Executive's employment by the Corporation terminates;

(ii) the Corporation shall, subject to the conditions set forth in Section 5.3(c), pay as a severance benefit one hundred percent (100%) of the Executive's premiums under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for the same or reasonably equivalent medical coverage as in effect on the date the Executive's employment terminated for a period not to exceed the lesser of one year following the date of such termination or until the Executive becomes eligible for medical insurance coverage provided by another employer; and

(iii) as of the date the Executive's employment terminates, any and all stock options, stock appreciation rights, restricted stock awards, and similar equity and equity-based awards granted by the Corporation to the Executive outstanding immediately prior to such termination of employment shall thereupon be deemed fully vested and shall be exercisable for a period of no less than twelve (12) months thereafter or until the stated expiration date for such option or award at the end of its maximum term, whichever is earlier; provided, however, that this Section 5.3(b)(iii) shall not affect any right of the Corporation to terminate such option or award in connection with a change in control of the Corporation or similar event to the extent such right exists under the provisions of any agreement evidencing such option or award.

(c) Any obligation of the Corporation pursuant to Section 5.3(b) to pay a severance benefit in the circumstances described therein is further subject to the following two conditions precedent: (i) such severance obligation shall be paid only if the Executive has remained in compliance with all of the provisions of Section 5.6 and Sections 7 through 12, and such obligation shall terminate immediately if the Executive is for any reason not in compliance with one or more of the provisions of Section 5.6, and Sections 7 through 12; and (ii) the Executive's satisfaction of the release obligations set forth in Section 5.4. For purposes of the preceding sentence, if the Executive is not in compliance with one or more provisions of Section 5.6, and Sections 7 through 12, and a cure is reasonably possible in the circumstances, the Executive will not be deemed to have breached such provision(s) unless the Executive is given notice and a reasonable opportunity (in no case shall more than a 10 business day cure period be required) to cure such breach and such breach is not cured within such time period. The parties agree that a cure will not be reasonably possible in all circumstances including, without limitation, a material breach of confidentiality or similar occurrence.

(d) Except as expressly provided herein, the foregoing provisions of this Section 5.3 shall not affect: (i) the Executive's receipt of benefits otherwise due to terminated employees under group insurance coverage consistent with the terms of the applicable welfare benefit plan of the Corporation; (ii) the Executive's rights under COBRA to continue participation in medical, dental, hospitalization and life insurance coverage; (iii) the Executive's receipt of benefits otherwise due in accordance with the terms of the Corporation's 401(k) plan (if any); or (iv) any rights that the Executive may have under and with respect to a stock option, stock appreciation right, restricted stock award, or similar equity or equity-based award, to the extent that such award was granted before the date that the Executive's employment by the Corporation terminated and to the extent expressly provided in the written agreement evidencing such award.

5.4 Release; Exclusive Remedy.

(a) This Section 5.4 shall apply notwithstanding anything else contained in this Agreement to the contrary. As a condition precedent to any obligation of the Corporation to the Executive pursuant to Section 5.3(b), the Executive shall, upon or promptly following his last day of employment with the Corporation, provide the Corporation with a valid, executed, written Release (as defined in Section 5.5) (in a form provided by the Corporation) and such Release (as defined in Section 5.5) shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Corporation shall have no obligation to make any payment to the Executive pursuant to Section 5.3(b) unless and until the Release (as defined in Section 5.5) contemplated by this Section 5.4 becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations.

(b) The Executive agrees that the payments contemplated by Section 5.3 shall constitute the exclusive and sole remedy for any termination of his employment and the Executive covenants not to assert or to pursue any other remedies, at law or in equity, with respect to any termination of employment. The Corporation and Executive acknowledge and agree that there is no duty of the Executive to mitigate damages under this Agreement. All amounts paid to the Executive pursuant to Section 5.3 shall be paid without regard to whether the Executive has taken or takes actions to mitigate damages.

5.5 Certain Defined Terms.

(a) As used herein, "Accrued Obligations" means:

(i) any Base Salary that has accrued but has not yet been paid to the Executive (including accrued and unpaid vacation time) prior to the date of termination; and

(ii) any reimbursement due to the Executive pursuant to Section 4.2 for expenses incurred by the Executive prior to the date of termination.

(b) As used herein, "Cause" shall mean the reasonable and good faith determination by a majority of the Board based on its reasonable belief at the time, that, during the Period of Employment, any of the following events or contingencies exists or has occurred:

(i) the Executive is convicted of, or has pled guilty to, a felony (as such term is defined under the laws of the United States or any state thereof); or

(ii) the Executive has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties hereunder, unless the Executive believed in good faith that such acts were in the interests of the Corporation; or

(iii) the Executive willfully and repeatedly fails to perform or uphold his duties under this Agreement; or

(iv) the Executive willfully fails to comply with reasonable directives of the CEO which are communicated to him in writing.

(c) As used herein, "Disability" shall mean a physical or mental impairment which substantially limits a major life activity of the Executive and which renders the Executive unable to perform the essential functions of the Executive's position, even with reasonable accommodation which does not impose an undue hardship on the Corporation, for ninety (90) days in any consecutive twelve (12) month period, but only if the Executive is considered to be disabled within the meaning of Treasury Regulation section 1.409A-3(i)(4). Without limiting the circumstances in which the Executive may be determined to be disabled as defined in Treasury Regulation section 1.409A-3(i)(4), the Executive will be presumed to be disabled if determined to be totally disabled by the Social Security Administration or if determined to be disabled in accordance with a disability insurance program, provided the definition of disability applied under such disability insurance program complies with the requirements of Treasury Regulation section 1.409A-3(i)(4).

(d) As used herein, "Good Reason" shall mean the occurrence of one or more of the following without the Executive's written consent:

(i) the assignment of the Executive to duties materially inconsistent with the Executive's authorities, duties, responsibilities and status (including titles and reporting requirements) as CFO of the Corporation, or a material reduction or alteration in the nature or status of the Executive's authorities, duties or responsibilities, other than an insubstantial and inadvertent act that is remedied by the Corporation promptly after receipt of notice thereof given by the Executive; or

(ii) a reduction by the Corporation in the Executive's Base Salary as in effect on the Effective Date or as the same shall be increased from time to time, other than as specified in Section 3.2, or the Corporation otherwise fails to satisfy its compensation obligations to the Executive under this Agreement, after written notice by the Executive and a reasonable opportunity to cure; or

(iii) only after a sale of the Corporation, the Corporation's requirement that the Executive to be based at any office or location more than fifty (50) miles from the Corporation's headquarters in Petaluma, California; or

(iv) the failure of the Corporation to obtain a satisfactory agreement from any successor to the Corporation to assume and agree to perform this Agreement.

provided, however, that none of the events specified in clause (i), (ii), or (iii) above shall constitute Good Reason unless the Executive shall have notified the Corporation in writing describing the events which constitute Good Reason and the Corporation shall have failed to cure such event within a reasonable period, not to exceed ten (10) business days, after the Corporation's actual receipt of such written notice.

(e) As used herein, "Release" shall mean a written release, discharge and covenant not to sue entered into by the Executive on behalf of himself, his descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, of and in favor of the Corporation, its parent (if any), the Corporation's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, shareholders, members, representatives, assigns, and successors, past and present, and each of them (the "releasees"), with respect to and from any and all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which the Executive may then own or hold, or the Executive at any time theretofore owned or held, or may in the future hold as against any or all of said releasees, arising out of or in any way connected with the Executive's employment relationship with each and every member of the Company Group (as defined in Section 7) with which the Executive has had such a relationship, or the termination of his employment or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said releasees, or any of them, committed or omitted prior to the date of such Release including, without limiting the generality of the foregoing, any claim under Section 1981 of the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act, any other claim under any other federal, state or local law or regulation, and any other claim for severance pay, bonus or incentive pay, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, medical expenses, or disability (except that such Release shall not constitute a release of any Corporation obligation to the Executive that may be due to the Executive pursuant to Section 5.3(b) upon the Corporation's receipt of such Release). The Release shall also contain the Executive's representation and warranty that he has not theretofore assigned or transferred to any other person or entity, other than the Corporation, any released matter or any part or portion thereof and that he will defend, indemnify and hold harmless the Corporation and the aforementioned releasees from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) that is directly or indirectly based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

(f) As used herein, a "Change of Control" shall mean the occurrence of any of the following:

i. a sale, lease or other disposition of all or substantially all of the assets of the Corporation and its subsidiaries, taken as a whole;

ii. any consolidation or merger of the Corporation with or into any other corporation or other person, or any other corporate reorganization or transaction (including the acquisition of capital stock of the Corporation), whether or not the Corporation is a party thereto, in which the stockholders of the Corporation immediately prior to such consolidation, merger, reorganization or transaction, own capital stock and either:

a. represent directly, or indirectly through one or more entities, less than fifty percent (50%) of the economic interests in or voting power of the Corporation or other surviving entity immediately after such consolidation, merger, reorganization or transaction; or

b. do not directly, or indirectly through one or more entities, have the power to elect a majority of the entire board of directors of the Corporation or other surviving entity immediately after such consolidation, merger, reorganization or transaction; or

iii. any stock sale or other transaction or series of related transactions, whether or not the Corporation is a party thereto, after giving effect to which in excess of fifty percent (50%) of the Corporation's voting power is owned directly, or indirectly though one or more entities, by any person and its "affiliates" or "associates" (as such terms are defined in the rules adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended).

(g) For purposes of the definition of "Change of Control", the following definitions shall be applicable:

i. The term "person" shall mean any individual, corporation or other entity and any group as such term is used in Section 13(d) (3) or 14(d) (2) of the Exchange Act.

ii. Any person shall be deemed to be the beneficial owner of any shares of capital stock of the Corporation:

a. which that person owns directly whether or not of record, or

b. which that person has the right to acquire pursuant to any agreement or understanding or upon exercise of conversion rights, warrants, or options, or otherwise, or

c. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause (b) above, by an "affiliate" or "associate" (as defined in the rules of the Securities and Exchange Commission under the Securities Act of 1933, as amended) of that person, or

d. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause (b) above), by any other person with which that person or his "affiliate" or "associate" (defined as aforesaid) has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting or disposing of capital stock of the Corporation.

iii. The outstanding shares of capital stock of the Corporation shall include shares deemed owned through application of clause (ii) (b), (c), and (d) above, but shall not include any other shares which may be issuable pursuant to any agreement or upon exercise of conversion rights, warrants or options, or otherwise, but which are not actually outstanding.

5.6 Resignation From Boards and Committees. Upon or promptly following any termination of Executive's employment with the Corporation, the Executive agrees to resign, if applicable, as of the date of such termination, from (i) each and every board of directors (or similar body, as the case may be) of the Corporation and each of its affiliates on which the Executive may then serve (if any), and (ii) each and every office of the Corporation and each of its affiliates that the Executive may then hold, and all positions that he may have previously held with the Corporation and any of its affiliates.

5.7 Excise Tax Gross-Up. During and after the Period of Employment with the Corporation, the Executive shall be entitled to the excise tax protections set forth in Exhibit B hereto.

5.8 Section 409A of the Internal Revenue Code.

(a) This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986 ("Section 409A") and shall be construed and interpreted consistent with that intent. In the event that any payment or benefit payable under Section 5.3 of this Agreement is not compliant with Section 409A and any taxes, penalties or interest are imposed on the Executive under Section 409A as a result of such noncompliance (the "Section 409A Penalties"), the Corporation shall put the Executive in an after tax economic position equivalent to the position the Executive would have been in without the imposition of such Section 409A Penalties. The Executive shall notify the Corporation in writing of any claim by the Internal Revenue Service or state tax authorities that, if successful, would require the payment of any such Section 409A Penalties or related state tax statutes. The Executive's right to be put in an equivalent after tax economic position is subject to the Executive providing such notification no later than ten (10) business days after Executive is informed in writing of such claim. If the Corporation desires to contest such claim, Executive shall (i) cooperate with the Corporation in good faith in order to effectively contest such claim and (ii) permit the Corporation to participate in any proceedings relating to such claim. The Corporation shall control all proceedings taken in connection with such contest; provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest. This section shall also apply to any taxes, penalties, or interest imposed by any state that are calculated in a manner similar to taxes, penalties, or interest imposed by Section 409A(a)(1)(B), including those amounts imposed by the California Revenue and Taxation Code (R&TC) Sections 17501 and 24601.

(b) If and to the extent that any payment or benefit under this Agreement, or any plan or arrangement of the Corporation, is determined by the Corporation to constitute "non-qualified deferred compensation" subject to Section 409A and is payable to the Executive by reason of the Executive's termination of employment, then (a) such payment or benefit shall be made or provided to the Executive only upon a "separation from service" as defined for purposes of Section 409A under applicable regulations (a "Separation from Service") and (b) if the Executive is a "specified employee" (within the meaning of Section 409A and as determined by the Corporation), such payment or benefit shall not be made or provided before the date that is six (6) months after the date of the Executive's Separation from Service (or the Executive's earlier death). For the purposes of clarity, the first payment thereof will include a catch-up payment covering the amount that would have otherwise been paid to the Executive during the period between the termination of Executive's employment and the first payment date but for the application of this provision, and the balance of the installments (if any) will be payable in accordance with their original schedule.

(c) To the extent any expense reimbursement or in-kind benefit is determined to be subject to Section 409A, the amount of any such expenses eligible for reimbursement or in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits provided in any other taxable year (except under any lifetime limit applicable to expenses for medical care), in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which the Executive incurred such expenses, and in no event shall any right to reimbursement or in-kind benefits be subject to liquidation or exchange for another benefit.

(d) To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder comply with Section 409A. To the extent any payment under this Agreement may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this section are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

6. Means and Effect of Termination. Any termination of the Executive's employment under this Agreement shall be communicated by written notice of termination from the terminating party to the other party. The notice of termination shall indicate the specific provision(s) of this Agreement relied upon in effecting the termination.

7. Non-Competition. The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Corporation, the amount of sensitive and confidential information involved in the discharge of the Executive's position with the Corporation, and the harm to the Corporation that would result if such knowledge or expertise was disclosed or made available to a competitor. Based on that understanding, the Executive hereby expressly agrees as follows:

(a) As a result of the particular nature of the Executive's relationship with the Corporation, in the capacities identified earlier in this Agreement, for the Period of Employment, the Executive hereby agrees that he will not, directly or indirectly, (i) engage in any business for the Executive's own account or otherwise derive any personal benefit from any business that competes with the business of the Corporation or any of its affiliates (the Corporation and its affiliates are referred to, collectively, as the "Company Group"), (ii) enter the employ of, or render any services to, any person engaged in any business that competes with the business of any entity within the Company Group, (iii) acquire a financial interest in any person engaged in any business that competes with the business of any entity within the Company Group, directly or indirectly, as an individual, partner, member, shareholder, officer, director, principal, agent, trustee or consultant, or (iv) interfere with business relationships (whether formed before or after the Effective Date) between the Corporation, any of its respective affiliates or subsidiaries, and any customers, suppliers, officers, employees, partners, members or investors of any entity within the Company Group. For purposes of this Agreement, businesses in competition with the Company Group shall include, without limitation, businesses which any entity within the Company Group may conduct operations, and any businesses which any entity within the Company Group has specific plans to conduct operations in the future and as to which the Executive is aware of such planning, whether or not such businesses have or have not as of that date commenced operations.

(b) Notwithstanding anything to the contrary in this Agreement, the Executive may, directly or indirectly, own, solely as an investment, securities of any Person which are publicly traded on a national or regional stock exchange or on the over-the-counter market if the Executive (i) is not a controlling Person of, or a member of a group that controls, such Person, and (ii) does not, directly or indirectly, beneficially own one percent (1%) or more of any class of securities of such Person. For purposes of this Section 7(b), "Person" shall have the meaning ascribed to such terms in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as described in Section 13(d) thereof.

8. Confidentiality. As a material part of the consideration for the Corporation's commitment to the terms of this Agreement, the Executive hereby agrees that the Executive will not at any time (whether during or after the Executive's employment with the Corporation), other than in the course of the Executive's duties hereunder, or unless compelled by lawful process after written notice to the Corporation of such notice along with sufficient time for the Corporation to try and overturn such lawful process, disclose or use for the Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise, any trade secrets, or other confidential data or information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, financing methods, or plans of any entity within the Company Group; provided, however, that the foregoing shall not apply to information which is generally known to the industry or the public, other than as a result of the Executive's breach of this covenant. The Executive further agrees that the Executive will not retain or use for his own account, at any time, any trade names, trademark or other proprietary business designation used or owned in connection with the business of any entity within the Company Group.

9. Inventions and Developments.

(a) All inventions, policies, systems, developments or improvements conceived, designed, implemented and/or made by the Executive, either alone or in conjunction with others, at any time or at any place during the Period of Employment, whether or not reduced to writing or practice during such Period of Employment, which directly or indirectly relate to the business of any entity within the Company Group, or which were developed or made in whole or in part using the facilities and/or capital of any entity within the Company Group, shall be the sole and exclusive property of the Company Group. The Executive shall promptly give notice to the Corporation of any such invention, development, patent or improvement, and shall at the same time, without the need for any request by any person or entity within the Company Group, assign all of the Executive's rights to such invention, development, patent and/or improvement to the Company Group. The Executive shall sign all instruments necessary for the filing and prosecution of any applications for, or extensions or renewals of, letters patent of the United States or any foreign country that any entity in the Company Group desires to file.

(b) All copyrightable work by the Executive during the Period of Employment that relates to the business of any entity in the Company Group is intended to be "work made for hire" as defined in Section 101 of the Copyright Act of 1976, and shall be the property of the Company Group. If the copyright to any such copyrightable work is not the property of the Company Group by operation of the law, the Executive will, without further consideration, assign to the Company Group all right, title and interest in such copyrightable work and will assist the entities in the Company Group and their nominees in every way, at the Company Group's expense, to secure, maintain and defend for the Company Group's benefit, copyrights and any extensions and renewals thereof on any and all such work including translations thereof in any and all countries, such work to be and to remain the property of the Company Group whether copyrighted or not.

10. Anti-Solicitation. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director or other owner or participant in any business, influence or attempt to influence the customers, vendors, suppliers, joint venturers, associates, consultants, agents, or partners of any entity within the Company Group, either directly or indirectly, to divert their business away from the Company Group, to any individual, partnership, firm, corporation or other entity then in competition with the business of any entity within the Company Group, and he will not otherwise materially interfere with any business relationship of any entity within the Company Group.

11. Soliciting Employees. In light of the amount of sensitive and confidential information involved in the discharge of the Executive's duties, and the harm to the Corporation that would result if such knowledge or expertise were disclosed or made available to a competitor, and as a reasonable step to help protect the confidentiality of such information, the Executive promises and agrees that during the Period of Employment and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, individually or as a consultant to, or as an employee, officer, shareholder, director, or other owner of or participant in any business, solicit (or assist in soliciting) any person who is then, or at any time within six (6) months prior thereto was, an employee of an entity within the Company Group, who earned annually $25,000 or more as an employee of such entity during the last six (6) months of his or her own employment to work for (as an employee, consultant or otherwise) any business, individual, partnership, firm, corporation, or other entity whether or not engaged in competitive business with any entity in the Company Group.

12. Return of Property. The Executive agrees to truthfully and faithfully account for and deliver to the Corporation all property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates, which the Executive may receive from or on account of the Corporation, any other entity in the Company Group, or any of their respective affiliates, and upon the termination of the Period of Employment, or the Corporation's demand, the Executive shall immediately deliver to the Corporation all such property belonging to the Corporation, any other entity in the Company Group, or any of their respective affiliates.

13. Withholding Taxes. Notwithstanding anything else herein to the contrary, the Corporation may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Agreement such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

14. Cooperation in Litigation. The Executive agrees that, during the Period of Employment or after the termination of the Executive's employment, he will reasonably cooperate with the Corporation, subject to his reasonable personal and business schedules, in any litigation which arises out of events occurring prior to the termination of his employment, including but not limited to, serving as a witness or consultant and producing documents and information relevant to the case or helpful to the Corporation. The Corporation agrees to reimburse the Executive for all reasonable costs and expenses he incurs in connection with his obligations under this Section 14 and, in addition, to reasonably compensate the Executive for time actually spent in connection therewith following the termination of his employment with the Corporation.

15. Assignment. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided, however, that in the event of a merger, consolidation, or transfer or sale of all or substantially all of the assets of the Corporation with or to any other individual(s) or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Corporation hereunder.

16. Number and Gender. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

17. Section Headings. The section headings of, and titles of paragraphs and subparagraphs contained in, this Agreement are for the purposes of convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation thereof.

18. Governing Law. This Agreement, and all questions relating to its validity, interpretation, performance and enforcement, as well as the legal relations hereby created between the parties hereto, shall be governed by and construed under, and interpreted and enforced in accordance with, the laws of the State of California, notwithstanding any California or other conflict of law provision to the contrary. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986 and the regulations promulgated thereunder.

19. Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

20. Entire Agreement. This Agreement replaces and supersedes prior employment agreements, including the employment agreement executed by and between the Executive and the Corporation dated June 1, 2004 or any prior consulting agreement. This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof shall be deemed to have been merged into this Agreement, and to the extent inconsistent herewith, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter hereof, except as expressly set forth herein.

21. Modifications. This Agreement may not be amended, modified or changed (in whole or in part), except by a formal definitive written agreement expressly referring to this Agreement, which agreement is executed by both of the parties hereto.

22. Waiver. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

23. Resolution of Disputes.

(a) Any controversy arising out of or relating to the Executive's employment (whether or not before or after the expiration of the Period of Employment), any termination of the Executive's employment, this Agreement or the enforcement or interpretation of this Agreement, or because of an alleged breach, default, or misrepresentation in connection with any of the provisions of this Agreement, including (without limitation) any state or federal statutory claims, shall be submitted to arbitration in Santa Rosa, California, before a sole arbitrator (the "Arbitrator") selected from judicial arbitration mediation services ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association (" AAA"), and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive remedy of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the Arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. Any award or relief granted by the Arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction.

(b) The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence of Section 23(a).

(c) The parties agree that the Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, the prevailing party will be entitled to recover its reasonable attorney's fees and costs from the non-prevailing party (other than forum costs associated with the arbitration which in any event shall be paid by the Corporation).

(d) Without limiting the remedies available to the parties and notwithstanding the foregoing provisions of this Section 23, the Executive and the Corporation acknowledge that any breach of any of the covenants or provisions contained in Sections 5.6, and 7 through 12 could result in irreparable injury to either of the parties hereto for which there might be no adequate remedy at law, and that, in the event of such a breach or threat thereof, the non-breaching party shall be entitled to obtain a temporary restraining order and/or a preliminary injunction and a permanent injunction restraining the other party hereto from engaging in any activities prohibited by any covenant or provision in Sections 5.6, and 7 through 12 or such other equitable relief as may be required to enforce specifically any of the covenants or provisions of Sections 5.6, and 7 through 12.

24. Notices.

(a) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly received if (i) delivered by hand or by courier, effective upon delivery, (ii) given by facsimile or electronic version, when transmitted if transmitted on a business day and during normal business hours of the recipient, and otherwise delivered on the next business day following transmission, or (iii) sent by registered or certified mail, postage prepaid, return receipt requested, five (5) business days after being deposited in the U.S. postal mail. Any notice shall be duly addressed to the parties as follows:

(i) If to the Corporation:

Oculus Innovative Sciences, Inc.
1129 North McDowell Boulevard
Petaluma, California 94954
Attn: General Counsel
Fax: +1 (707) 283-0551

(ii) If to the Executive:

Robert Miller
At the address on file with the Corporation

(b) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 24 for the giving of notice..

25. Legal Counsel; Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language.

26. Provisions that Survive Termination. The provisions of 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 7 through 25, 27, and this Section 26 shall survive any termination of the Period of Employment.

27. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

[Signature Page Follows]

IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the Effective Date.

CORPORATION

Oculus Innovative Sciences, Inc.,
a Delaware corporation

By /s/ Greg French
Name: Greg French
Title: Chairman of the Compensation Committee of
Oculus Innovative Sciences, Inc.

EXECUTIVE

By: /s/ Robert Miller
Name: Robert Miller

EXHIBIT A — SECTION 1.3 DISCLOSURE SCHEDULE

None.

EXHIBIT B — SECTION 5.7 EXCISE TAX GROSS-UP

B.1 Equalization Payment. If any payment, distribution, transfer, or benefit (including, without limitation, any amounts received or deemed received by the Executive within the meaning of any provision of the Internal Revenue Code of 1986, as amended (the "Code"), or by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Corporation's incentive plans) by the Corporation or a successor, or by a direct or indirect subsidiary or affiliate of the Corporation (or any successor or affiliate of any of them, and including any benefit plan of any of them), whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the "Total Payments"), is subject to the excise tax imposed under Section 4999 of the Code or any similar or successor tax (the "Excise Tax"), the Corporation shall pay in cash to Executive an additional amount (the "Gross-Up Payment") such that the net amount retained by the Executive after the deduction of any Excise Tax upon the Gross-Up Payment(s) provided for by this Section B.1 shall be equal to such Total Payments had they not been subject to the Excise Tax. Such Gross-Up Payment shall be paid by the Corporation, according to the terms of this Agreement, to the Executive by the end of the taxable year following the taxable year in which the Executive pays the Excise Tax.

B.2 Calculation of Gross-Up Payment. The determination of whether a Gross-Up Payment is required pursuant to this Exhibit B and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Corporation (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Corporation and the Executive. In the event of a termination of the Executive's employment which reasonably may require the payment of a Gross-Up Payment or in the event of a Change in Control, such documentation shall be provided no later than twenty (20) days following such event. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Corporation's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Section 280G(d)(1) of the Code); (ii) the present value of the Total Payments made to the Executive; (iii) the amount and present value of any "excess parachute payment" as such term is defined in the Code; and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Corporation, a firm of nationally-recognized executive compensation consultants. The Executive shall also have the right to obtain such an opinion of outside counsel in the event that the Corporation has not timely submitted the initial determination to the Accounting Firm as provided above (including, without limitation, in the event that the Corporation does not submit such a determination to the Accounting Firm following an event in connection with which the Executive reasonably believes that he may be entitled to a Gross-Up Payment). The outside counsel's opinion shall be binding upon the Corporation and the Executive and shall constitute the "Determination" for purposes of this Exhibit B instead of the initial determination by the Accounting Firm. The Corporation shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section B.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Corporation must approve the Executive's selection, which approval shall not be unreasonably withheld.

B.3 Computation Assumptions. For purposes of determining whether any Total Payments will be subject to Excise Tax, and the amount of any such Excise Tax:

(a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon any change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Corporation, or with any Person (as defined below) whose actions result in such a change or any Person (as defined below) affiliated with the Corporation or such Persons (as defined below)) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax. For purposes of this Section B.3(a), "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof);

(b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;

(c) The compensation and benefits provided for in Section 5 of this Agreement, and any other compensation earned prior to the termination of the Executive's employment pursuant to the Corporation's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by a change in the ownership or effective control of the Corporation or any change in the ownership of a substantial portion of the Corporation's assets or a termination of the Executive's employment), shall for purposes of the calculation pursuant to this Section B.3 be deemed to be reasonable; and

(d) The Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment, and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the date the Executive's employment terminates, and shall take into account the maximum reduction in federal income taxes that could be obtained from the deduction of such state and local taxes.

(e) It is the intent of the parties that the amounts payable under this Agreement, and the Corporation's and the Executive's exercise of authority or discretion hereunder shall comply with and avoid the imputation of any tax, penalty, or interest under Section 409A of the Code. This Agreement and this Exhibit B shall be construed in interpretation with that intent.

B.4 Executive's Obligation to Notify Corporation. The Executive shall promptly notify the Corporation in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Corporation of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Corporation notifies the Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Corporation any information reasonably requested by the Corporation relating to such claim; (b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Corporation that is reasonably acceptable to the Executive; (c) cooperate with the Corporation in good faith in order to effectively contest such claim; and (d) permit the Corporation to participate in any proceedings relating to such claim; provided that the Corporation shall bear and pay directly all attorneys' fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section B.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Corporation shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs Executive to pay such claim and sue for a refund, the Corporation shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

B.5 Subsequent Recalculation. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section B.1, the Corporation shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section B.1, then the Executive shall promptly pay to the Corporation (without interest) the amount of such excess.

Exhibit 21.1

Subsidiaries of Registrant

1. Aquamed Technologies, Inc., a corporation organized under the laws of California.
2. Oculus Technologies of Mexico, S.A. de C.V., a corporation organized under the laws of Mexico.
3. Oculus Innovative Sciences Netherlands B.V., a corporation organized under the laws of the Netherlands.
4. Ruthigen, Inc., a corporation organized under the laws of Nevada.

Exhibit 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Oculus Innovative Sciences, Inc. on Form S-3 (File No. 333-177462), Form S-3 (File No. 333-171411), Form S-8 (File No. 333-171412), Form S-8 (File No. 333-141017), Form S-8 (File No. 333-182263) and Form S-8 (File No. 333-163988) of our report dated June 25, 2013, with respect to our audits of the consolidated financial statements of Oculus Innovative Sciences, Inc. and Subsidiaries as of March 31, 2013 and 2012 and for the years then ended, which report is included in this Annual Report on Form 10-K of Oculus Innovative Sciences, Inc. for the year ended March 31, 2013.

/s/ Marcum LLP
Marcum LLP
New York, NY
June 25, 2013

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, Jim Schutz, certify that:

1. I have reviewed this Annual Report on Form 10-K of Oculus Innovative Sciences Inc. for the year ended March 31, 2013;

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/ Jim Schutz
Jim Schutz
Chief Executive Officer
(Principal Executive Officer)

Date: June 25, 2013

Exhibit 31.2

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

I, Robert Miller, certify that:

1. I have reviewed this Annual Report on Form 10-K of Oculus Innovative Sciences Inc. for the year ended March 31, 2013;

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

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

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

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

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

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

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

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

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

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

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

Date: June 25, 2013

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), each of the undersigned officers of Oculus Innovative Sciences, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the year ended March 31, 2013 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 25, 2013

By: /s/ Jim Schutz
Jim Schutz
Chief Executive Officer
(Principal Executive Officer)

Date: June 25, 2013

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