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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from _____ to _____

Commission File Number 001-33216

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

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

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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (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 Exchange Act). Yes ☐ No ☑

As of July 23, 2012, the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 32,553,662.

OCULUS INNOVATIVE SCIENCES, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2012 (Unaudited)	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,399	$ 3,351
Accounts receivable, net	3,272	2,151
Inventories, net	818	953
Prepaid expenses and other current assets	380	505
Total current assets	8,869	6,960
Property and equipment, net	753	806
Other assets	71	72
Total assets	$ 9,693	$ 7,838
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 692	$ 816
Accrued expenses and other current liabilities	826	844
Deferred revenue	1,629	1,619
Current portion of long-term debt, net of debt discount of $641 and $624 at June 30, 2012 (unaudited) and March 31, 2012, respectively	1,481	1,415
Derivative liabilities	1,155	55
Total current liabilities	5,783	4,749
Deferred revenue	126	133
Long-term debt, net of debt discount of $602 and $769 at June 30, 2012 (unaudited) and March 31, 2012, respectively, less current portion	1,442	1,824
Put warrant liability	2,000	2,000
Total liabilities	9,351	8,706
Commitments and Contingencies		
Stockholders' Equity (Deficiency):		
Convertible preferred stock, $0.0001 par value; 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2012 (unaudited) and March 31, 2012	–	–
Common stock, $0.0001 par value; 100,000,000 shares authorized, 32,553,662 and 29,007,903 shares issued and outstanding at June 30, 2012 (unaudited) and March 31, 2012, respectively	3	3
Additional paid-in capital	135,381	134,496
Accumulated other comprehensive loss	(3,173)	(3,053)
Accumulated deficit	(131,869)	(132,314)
Total stockholders' equity (deficiency)	342	(868)
Total liabilities and stockholders' equity (deficiency)	$ 9,693	$ 7,838

See accompanying notes.

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

	Three Months Ended June 30,	
	2012	**2011**
Revenues		
Product	$ 3,816	$ 2,710
Service	235	230
Total revenues	4,051	2,940
Cost of revenues		
Product	988	790
Service	179	201
Total cost of revenues	1,167	991
Gross profit	2,884	1,949
Operating expenses		
Research and development	532	436
Selling, general and administrative	2,847	3,531
Total operating expenses	3,379	3,967
Loss from operations	(495)	(2,018)
Interest expense	(288)	(162)
Interest income	1	1
Gain due to change in fair value of derivative instruments	1,247	96
Other expense, net	(20)	(92)
Net income (loss)	445	(2,175)
Preferred stock deemed dividend	(1,062)	–
Net loss available to common shareholders	$ (617)	$ (2,175)
Net loss per common share: basic and diluted	(0.02)	(0.08)
Weighted-average number of shares used in per common share calculations:		
Basic and diluted	31,601	26,711
Other comprehensive income (loss), net of tax		
Net income (loss)	$ 445	$ (2,175)
Foreign currency translation adjustments	(120)	33
Other comprehensive income (loss)	$ 325	$ (2,142)

See accompanying notes.

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

	Three Months Ended June 30,	
	2012	**2011**
Cash flows from operating activities:		
Net income (loss)	$ 445	$ (2,175)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	73	83
Stock-based compensation	400	812
Change in fair value of derivative liability	(1,247)	(96)
Non-cash interest expense	150	58
Foreign currency transaction losses	4	9
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,218)	51
Inventories, net	91	(22)
Prepaid expenses and other current assets	117	106
Accounts payable	(103)	115
Accrued expenses and other liabilities	24	530
Net cash used in operating activities	(1,264)	(529)
Cash flows from investing activities:		
Change in long-term deposits	(2)	(16)
Purchases of property and equipment	(31)	(62)
Net cash used in investing activities	(33)	(78)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of offering costs	1,925	16
Proceeds from the issuance of convertible preferred stock, net of offering costs	907	–
Proceeds from issuance of long-term debt	–	1,500
Principal payments on long-term debt	(467)	(257)
Net cash provided by financing activities	2,365	1,259
Effect of exchange rate on cash and cash equivalents	(20)	2
Net increase in cash and cash equivalents	1,048	654
Cash and equivalents, beginning of period	3,351	4,371
Cash and equivalents, end of period	$ 4,399	$ 5,025
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 138	$ 104
Non-cash investing and financing activities:		
Debt discount in connection with long-term debt	$ –	$ 938

See accompanying notes.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Oculus Innovative Sciences, Inc. (the "Company") was incorporated under the laws of the State of California in April 1999 and was reincorporated under the laws of the State of Delaware in December 2006. The Company's principal office is located in Petaluma, California. The Company is a commercial healthcare company that designs, produces, and markets innovative, safe and effective drugs, devices, and nutritional products. It is pioneering innovative products for the dermatology, surgical, wound 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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of June 30, 2012 and for the three months then ended have been prepared in accordance with the accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission ("SEC") and on the same basis as the Company prepares its annual audited consolidated financial statements. The unaudited condensed consolidated balance sheet as of June 30, 2012, condensed consolidated statements of operations for the three months ended June 30, 2012 and 2011, and the condensed consolidated statements of cash flows for the three months ended June 30, 2012 and 2011 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The results for the three months ended June 30, 2012 are not necessarily indicative of results to be expected for the year ending March 31, 2013 or for any future interim period. The condensed consolidated balance sheet at March 31, 2012 has been derived from audited consolidated financial statements. However, it does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended March 31, 2012, and notes thereto included in the Company's annual report on Form 10-K, which was filed with the SEC on June 21, 2012.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the dates of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Significant estimates and assumptions include reserves and write-downs related to receivables and inventories, the recoverability of long-lived assets, deferred taxes and related valuation allowances, valuation of equity and derivative instruments, and debt discounts. Periodically, the Company evaluates and adjusts estimates accordingly. The allowance for uncollectible accounts receivable balances amounted to $57,000 and $52,000, which are included in accounts receivable, net in the accompanying June 30, 2012 and March 31, 2012 condensed consolidated balance sheets, respectively. The reserve for excess and obsolete inventory balances amounted to $114,000 and $105,000, which are included in inventories, net in the accompanying June 30, 2012 and March 31, 2012 condensed consolidated balance sheets, respectively

Net Loss per Share

The Company computes basic net loss per share by dividing net loss per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic loss per share for the three months ended June 30, 2012 and 2011 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	June 30,	
	2012	2011
	(in thousands)	
Options to purchase common stock	6,205	5,666
Warrants to purchase common stock	10,704	9,590
	16,909	15,256

Common Stock Purchase Warrants and Other Derivative Financial Instruments

The Company classifies common stock purchase warrants and other free standing derivative financial instruments as equity if the contracts (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company), (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement), or (iii) contracts that contain reset provisions as either an asset or a liability. The Company assesses classification of its freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that its freestanding derivatives, which principally consist of warrants to purchase common stock, satisfied the criteria for classification as equity instruments at June 30, 2012, other than certain warrants that contain reset provisions and certain warrants that require net-cash settlement that the Company classified as derivative liabilities as more fully described in Note 5.

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.

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 GAAP.

Fair Value of Financial Assets and Liabilities

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

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

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

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

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

	Fair value measurements (in thousands) at June 30, 2012 using			
	June 30, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities:				
Fair value of warrant obligations (Note 5)	$ 1,155	–	–	$ 1,155

	Fair value measurements (in thousands) at March 31, 2012 using			
	March 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities:				
Fair value of warrant obligations (Note 5)	$ 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 derivate 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 Change in Fair Value of Derivative Instruments on the Company's condensed consolidated statements of operations.

As of June 30, 2012, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

Subsequent Events

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

Recent Accounting Pronouncements

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

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

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

Note 2. Liquidity and Financial Condition

The Company reported a net income of $445,000 for the three months ended June 30, 2012. At June 30, 2012, the Company's accumulated deficit amounted to $131,869,000. The Company had working capital of $3,086,000 as of June 30, 2012. 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, penetrate markets for the sale of its products and continue as a going concern.

On April 22, 2012, the Company entered into agreements with various investors to issue up to: a) 2,360,001 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 3,471,112 shares of common stock (the "Warrants"). The Company also offered up to 1,111,111 shares of common stock issuable upon conversion of the Series A Preferred Stock and 3,471,112 shares of common stock in the event the Warrants are exercised. The Warrants have an initial exercise price of $1.18 per share, are not exercisable for six months from the date of issuance, and have an 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 $2,832,000. The Company retained Rodman & Renshaw, LLC as the exclusive placement agent for this offering, and paid them $218,680 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 1,111,111 shares of common stock.

The Company currently anticipates that its cash and cash equivalents will be sufficient to meet its working capital requirements to continue its sales and marketing and research and development through at least July 1, 2013. 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. Condensed Consolidated Balance Sheets

Inventories

Inventories consisted of the following (in thousands):

	June 30, 2012	March 31, 2012
	(unaudited)	
Raw materials	$ 503	$ 558
Finished goods	429	500
	932	1,058
Less: inventory allowances	(114)	(105)
	$ 818	$ 953

Note 4. Commitments and Contingencies

Legal Matters

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

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

Employment Agreements with Executives

As of June 30, 2012, the Company had employment agreements in place with five of its key executives. The agreements provide, among other things, for the payment of six to twenty-four months of severance compensation for terminations under certain circumstances. With respect to these agreements, at June 30, 2012, potential severance amounted to $1,918,000 and aggregated annual salaries amounted to $1,360,000.

Commercial Agreements

On February 14, 2011, the Company entered into a Product Option Agreement with an Amneal affiliate, AmDerma Pharmaceuticals, LLC ("AmDerma"). The Company plans to use its proprietary Microcyn technology to develop a prescription pharmaceutical product for the treatment of acne (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 entered into 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." The aforementioned option payment of $500,000 will be credited against future milestone payments in the transaction. This amount is recorded in deferred revenue in the June 30, 2012 and March 31, 2012 accompanying condensed consolidated balance sheets.

Related Party Agreements

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

On September 15, 2009, the Company entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell its Microcyn over-the-counter liquid and gel products. 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. At the time of the 2009 transaction, V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was also a director of the Company at that time. Mr. Burlingame resigned from the Company's board of directors on February 10, 2010. After his resignation, Mr. Burlingame continued to own a significant portion of the Company's stock from a transaction in 2009. To the Company's knowledge, he ceased being a holder of more than 5% of its common stock in 2010.

Additionally, beginning on July 1, 2011, the Company shares profits related to Vetericyn and Microcyn over-the-counter sales. During the three months ended June 30, 2012 and 2011, the Company recorded revenue related to these agreements in the amounts of $1,136,000 and $563,000, respectively. The revenue is recorded in product revenues in the accompanying condensed consolidated statements of operations. At June 30, 2012 and March 31, 2012, the Company had outstanding accounts receivable of $837,000 and $290,000, respectively, related to Innovacyn, Inc.

Other 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 has 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 has granted the Company a period of 180 calendar days, or until November 19, 2012, to regain compliance with the Rule. The Company may regain compliance with the Listing Rule at any time during this compliance period if its Market Value of Listed Securities closes at $35 million or more for a minimum of ten consecutive business days.

The letter has no effect on the listing or trading of the Company's common stock at this time. However, there can be no assurance that the Company will be able to regain compliance with Listing Rule 5550(b)(2) or the other compliance alternatives under Listing Rule 5550(b). In the event the Company does not regain compliance with the Listing Rule prior to the expiration of the compliance period, it will receive written notification that its securities are subject to delisting, at which time the Company may appeal the delisting determination to a Hearings Panel.

On June 18, 2012, the Company received a letter from the Listing Qualifications staff of NASDAQ, notifying the Company that, for the previous 30 consecutive business days, it has failed to comply with NASDAQ Listing Rule 5550(a)(2), which requires the Company to maintain a minimum bid price of $1 per share for its common stock.

In accordance with Listing Rule 5810(c)(3)(C), NASDAQ has granted the Company a period of 180 calendar days, or until December 17, 2012, to regain compliance with the Rule. The Company may regain compliance with the Rule at any time during this compliance period if the minimum bid price for its common stock is at least $1 for a minimum of ten consecutive business days.

The letter has no effect on the listing or trading of the Company's common stock at this time. However, there can be no assurance that the Company will be able to regain compliance with Listing Rule 5550(a)(2). In the event the Company does not regain compliance with the Listing Rule prior to the expiration of the compliance period, the Company may be eligible for additional time. To qualify, the Company will be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for NASDAQ Capital Market, with the exception of the bid price requirement, and will need to provide written notice of its intention to cure the deficiency during the second compliance period, by effecting a reverse split, if necessary. If the Company meets these requirements, NASDAQ will inform the Company that it has been granted an additional 180 calendar days. However, if it appears to the Staff of NASDAQ that the Company will not be able to cure the deficiency, or if the Company is otherwise not eligible, NASDAQ will provide notice that its securities will be subject to delisting.

Note 5. Derivative Liabilities

The Company considers financial instruments which do not have fixed settlement provisions to be derivative instruments. The common stock purchase warrants issued with the Company's August 13, 2007 private placement, and the common stock purchase warrants issued to the placement agent in the transaction, do not have fixed settlement provisions because their exercise prices may be lowered if the Company issues securities at lower prices in the future. The Company was required to include the reset provisions in order to protect the warrant holders from the potential dilution associated with future financings. At issuance, the warrants were recognized as equity instruments and have since been re-characterized as derivative liabilities. Accordingly, the warrant obligations are adjusted to fair value at the end of each reporting period with the change in value reported in the statement of operations. Such fair values were estimated using the Black-Scholes valuation model. Although the Company determined the common stock warrants include an implied down-side protection feature, it performed a Monte-Carlo simulation and concluded that the value of the feature is de minimis 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 derivative liability related to warrants without fixed settlement provisions were valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

	June 30, 2012	March 31, 2012

Expected term	0.62 years	0.87 years
Risk-free interest rate	0.18%	0.18%
Dividend yield	0.00%	0.00%
Volatility	68.0%	89.0%
Warrants outstanding	835,935	762,876
Fair value of warrants	$ –	$ 55,000

The Company deems financial instruments which require net-cash settlement as either an asset or a liability. The common stock purchase warrants issued with the Company's April 22, 2012 registered direct offering contain a net-cash settlement feature which gives the warrant holder the right to net-cash settlement in the event certain transactions occur. Pursuant to the terms of the warrants, if such a transaction occurs the warrant holder will 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 warrant, and applicable risk-free interest rate corresponding to the U.S. Treasury. Accordingly, the fair value of the warrant obligation was determined at the date of issuance and was adjusted to fair value at the end of the reporting period using the Black-Scholes valuation model. The change in value reported from issue date to the reporting date was recorded in the accompanying condensed consolidated statement of operations.

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

	June 30, 2012	April 22, 2012
Expected life	2.32 years	2.50 years
Risk-free interest rate	0.41%	0.40%
Dividend yield	0.00%	0.00%
Volatility	100%	100%
Warrants outstanding	3,471,112	3,471,112
Fair value of warrants	$ 1,155,000	$ 2,347,000

The Company will continue to adjust the derivative liabilities 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.

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

	Three Months Ended June 30,	
	2012	2011
Beginning balance	$ (55)	$ (337)
Fair value of warrants issued	(2,347)	–
Net unrealized gain	1,247	96
Ending balance	$ (1,155)	$ (241)

Note 6. Stockholders' Equity

Registered Direct Offering

On April 22, 2012, the Company entered into agreements with various investors to issue up to: a) 2,360,001 shares of common stock b) 1,000 shares of Series A Preferred Stock; and c) warrants to purchase up to 3,471,112 shares of common stock. The Company also offered up to 1,111,111 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 $2,832,000. 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, the investor converted 1,000 shares of the Series A Preferred Stock purchased in the transaction into 1,111,111 shares of common stock.

In connection with the convertible 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 condensed consolidated statement of statement of operations for the three months ended June 30, 2012.

The warrants issued with the offering have an initial exercise price of $1.18 per share, are not exercisable for six months from the date of issuance, and have an exercise term of 2.5 years from the date of issuance. Additionally, the common stock purchase warrants contain a net-cash settlement feature which gives the warrant holder the right to net-cash settlement in the event certain transactions occur. Pursuant to the terms of the warrants, if such a transaction occurs the warrant holder will be 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 detailed in the warrants. Accordingly, at April 22, 2012, the Company recorded $2,347,000 related to the Black-Scholes fair value of the warrants as a derivative liability and adjusted the derivative liability to the current fair value of $1,155,000 at June 30, 2012 in the accompanying condensed consolidated balance sheet. The change in fair value amounted to $1,247,000 and was recorded as a gain due to change in fair value of derivative instruments in the accompanying condensed consolidated statement of operations in the three months ended June 30, 2012.

Common Stock Issued to Service Providers

On April 24, 2009, the Company entered into an agreement with Advocos LLC, a contract sales organization that serves as part of the Company's sales force for the sale of wound care products in the United States. Pursuant to the agreement, the Company agreed to pay the contract sales organization a monthly fee and potential bonuses that will be based on achievement of certain levels of sales. Additionally, the Company agreed to issue the contract sales organization shares of common stock as compensation for its services. The Company has determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as compensation expense. During the three months ended June 30, 2012 and 2011, the Company issued 74,647 and 25,000 shares of common stock, respectively, in connection with this agreement. During the three months ended June 30, 2012 and 2011, the Company recorded $92,000 and $47,000 of stock compensation expense related to this agreement, respectively. The expense was recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

Anti-dilution Adjustments

Pursuant to anti-dilution provisions contained in the August 13, 2007 private placement and in the placement agent warrant agreement, for various financing transactions and common stock issuances, the Company is required to adjust the exercise price and the number of warrants held by each warrant holder under these agreements. Over-time, the exercise price for the warrants has been adjusted from the original exercise price of $9.50 to $3.76. At June 30, 2012 and March 31, 2012, there were 835,935 and 762,876 warrants outstanding that contain this anti-dilution provision, respectively. During the three months ended June 30, 2012, the Company reduced the exercise price from $4.12 to $3.76 and issued an additional aggregate of 73,059 warrants as a result of the dilutive effect of the April 22, 2012 registered direct offering and due to shares issued to a service provider in a separate transaction. The warrants were classified as derivative liabilities in the June 30, 2012 and March 31, 2012 condensed consolidated balance sheets.

Note 7. Stock-Based Compensation

The Company accounts for share-based awards exchanged for employee services at the estimated grant date fair value of the award. The Company amortizes the fair value of employee stock options on a straight-line basis over the requisite service period of the awards. Compensation expense includes the impact of an estimate for forfeitures for all stock options. The estimated forfeiture rates used during the three months ended June 30, 2012 ranged from 2.53% to 2.95%.

Employee stock-based compensation expense is as follows (in thousands):

	Three Months Ended June 30,	
	2012	**2011**
Cost of revenues	$ 32	$ 20
Research and development	67	62
Selling, general and administrative	209	473
Total stock-based compensation	$ 308	$ 555

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

At June 30, 2012, there were unrecognized compensation costs of $1,546,000 related to stock options which is expected to be recognized over a weighted-average amortization period of 1.74 years.

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

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

A summary of all option activity as of June 30, 2012 and changes during the three months then ended is presented below:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value (in thousands)
Options				
Outstanding at April 1, 2012	6,266	$ 2.36		
Granted	–	–		
Exercised	–	–		
Forfeited or expired	(61)	5.76		
Outstanding at June 30, 2012	6,205	$ 2.32	7.26	$ 160
Exercisable at June 30, 2012	4,920	$ 2.48	6.90	$ 158

The aggregate intrinsic value is calculated as the difference between the exercise price of the stock options and the underlying fair value of the Company's common stock ($0.74) for stock options that were in-the-money as of June 30, 2012.

Increase in Number of Shares Authorized in the 2006 Plan

As provided under the Amended and Restated 2006 Stock Incentive Plan (the "2006 Plan"), the aggregate number of shares authorized for issuance as awards under the 2006 Plan automatically increased on April 1, 2012 by 1,450,395 shares (which number constitutes 5% of the outstanding shares on the last day of the year ended March 31, 2012). At June 30, 2012, the total shares authorized for issuance from the 2006 Plan is 4,345,166.

Note 8. Income Taxes

The Company is not aware of any changes in ownership that would result in a change in control under Internal Revenue Code section 382. The Company, after considering all available evidence, fully reserved for these assets 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, 2012. 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 the Company's deferred tax assets and liabilities do not include certain deferred tax assets at June 30, 2012 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 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, 2012. Generally, the Company is subject to audit for the years ended March 31, 2011, 2010 and 2009 and may be subject to audit for amounts relating to net operating loss carryforwards generated in periods prior to March 31, 2009. The Company has elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect interest and penalties attributable to income taxes, to the extent they arise, as a component of its income tax provision or benefit as well as its outstanding income tax assets and liabilities. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments, other than those identified above that would result in a material change to its financial position.

Note 9. Segment and Geographic Information

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

	Three Months Ended June 30,	
	2012	**2011**
U.S.	$ 2,033	$ 840
Mexico	1,378	1,380
Europe and "Rest of World"	405	490
	$ 3,816	$ 2,710

The Company's service revenues amounted to $235,000 and $230,000 for the three months ended June 30, 2012 and 2011.

Note 10. Significant Customer Concentrations

For the three months ended June 30, 2012, one customer represented 28% of the quarter's revenue, and for the three months ended June 30, 2011, one customer represented 19% of the quarter's revenue.

At June 30, 2012, one customer represented 26%, and one customer represented 11% 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.

Note 11. Subsequent Events

On July 10, 2012, the Compensation Committee of the Board of Directors granted a cash bonus of $166,000 to Hojabr Alimi, Chairman of the Board of Directors and Chief Executive Officer. The bonus was granted pursuant to the FY 2012 Bonus Plan to Mr. Alimi for meeting his target milestones.

On July 25, 2012, the Company was notified that one of its strategic partners received a warning letter from the FDA regarding their manufacturing and marketing of certain Microcyn® Technology-based products. While the Company is still assessing the letter, it currently believes it does not have an obligation to respond to the FDA, although it may choose to assist its partner in the partner's response. It is possible such letter will have a material impact on the Company's business. However, the Company cannot predict when or how its partner will respond to the FDA or if its partner will adequately address all of the FDA's concerns. If the partner does not meet all of the FDA's concerns, the partner may cease selling some or all of the Company's products. It is also possible that the FDA may require the partner to take other actions regarding the Company's products including a recall. If the partner ceases to sell the Company's products on a temporary or permanent basis, the Company's revenues will be adversely affected.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes to those statements included elsewhere in this Quarterly Report on Form 10-Q as of June 30, 2012 and our audited consolidated financial statements for the year ended March 31, 2012 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on June 21, 2012.

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

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

Our Business

We are a commercial healthcare company that designs, produces, and markets innovative, safe and effective drugs, devices, and nutritional products. We are pioneering innovative products for the dermatology, surgical, wound care, and animal healthcare markets. Our primary focus is on 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 include viruses, fungi, spores and antibiotic-resistant strains of bacteria, such as methicillin-resistant *Staphylococcus aureus*, or MRSA, and vancomycin-resistant *Enterococcus,* or VRE, in wounds, as well as *Clostridium difficile,* or C. diff, a highly contagious bacteria spread by human contact. 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. In the future, we expect to apply with the U.S. Food and Drug Administration, or FDA, for clearance as an antimicrobial in a liquid and a hydrogel form.

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

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

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 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 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 some of these studies to support our application for the CE Mark, the European Union certification, for wound cleaning and reduction of microbial load. We received the CE Mark in November 2004 and additional international approvals in China, Canada, Mexico and India. To date, our Microcyn-based products have received seven FDA 510(k) clearances. 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 has been classified by the FDA as a Class II recall, which means the probability of serious health consequences is 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.

Sales and Marketing

In the quarter ending December 31, 2008, our initial sales were in the podiatry market in the United States. In the second quarter of 2009, we expanded our sales 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. Our products are purchased by, among others, hospitals, physicians, nurses, and other healthcare practitioners who are the primary caregivers to patients being treated for acute or chronic wounds or undergoing surgical procedures as well as to dermatologists for treatment of various skin afflictions.

We currently make Microcyn-based human wound and skin 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 with such partners as Amneal Enterprises, PreCision Dermatology and Eloquest Healthcare, Inc., a subsidiary of Ferndale Pharma, Inc., described in greater detail below. Specifically, we have announced the commercialization of a Microcyn® product for wound care sold through a combination of contract and commissioned sales forces and by Eloquest Healthcare, and the commercialization of Microcyn® products for dermatology through partnerships with Quinnova Pharmaceuticals and PreCision Dermatology. Our partner, Union Springs Pharmaceuticals, a subsidiary of the Drug Enhancement Company of America, has marketed MyClyns, an over-the-counter “first responder” pen application with Microcyn as a component, in the United States since January 2008.

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

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

Animal Healthcare

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

On September 15, 2009, we entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell our Microcyn over-the-counter liquid and gel products. V&M Industries, Inc. subsequently changed their name to Innovacyn, Inc. On June 1, 2010, September 1, 2010, and November 1, 2010, we amended this agreement granting Innovacyn, Inc. the exclusive right to sell certain of our over-the-counter products. On May 13, 2010, Innovacyn received confirmation from Health Canada that it has approval to market these veterinary products in the Canadian market as well. At the time of the 2009 transaction, V&M Industries, Inc. was wholly owned by Robert Burlingame, who was also our Director at that time. Mr. Burlingame resigned from our Board on February 10, 2010. After his resignation, Mr. Burlingame continued to own a significant portion of our stock from a transaction with us in 2009. To our knowledge, he ceased being a holder of more than 5% of our common stock in 2010.

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

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 Eloquest Healthcare 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.

Dermatology

On November 8, 2010, we announced a definitive agreement with Onset Therapeutics, now called PreCision Dermatology, Inc. Under this agreement, PreCision Dermatology combined our Microcyn® hydrogel with its new skin barrier product into a prescription convenience kit. The kit was launched in the first quarter of 2011 and sales are targeted toward patients with atopic dermatitis and related conditions. PreCision Dermatology has a sales force of about 35 people whom market a complete line of dermatology products throughout the United States.

On February 14, 2011, we announced the formation of a broad multi-year collaboration with Amneal Enterprises to realize the development and commercial potential of Microcyn® Technology. Amneal Enterprises is an affiliation of independent pharmaceutical marketing, discovery and development companies. As a part of this collaboration, Quinnova Pharmaceuticals, Inc., an Amneal alliance member, has licensed, with a $500,000 prepayment and ongoing double-digit royalties, the U.S. and Canadian rights to the Microcyn-based dermatology atopic dermatitis hydrogel that received FDA clearance in February 2011. Future prescription dermatology products can also be licensed for undisclosed upfront payments. In addition, Quinnova agreed to co-promote the current prescription Microcyn-based wound care products to podiatry professionals in the United States and Canada. Quinnova has a sales force of over 35 people, selling to dermatologists and podiatrists with a complete line of dermatology products. In addition, Quinnova launched the Atrapro™ family of products formulated from Microcyn® Technology platform in late February 2012.

Additionally, we sold the option to exclusively sell and distribute our proprietary Microcyn-based acne drug candidate to AmDerma Pharmaceuticals, LLC, an Amneal alliance member, for a one-time non-refundable payment of $500,000. On June 23, 2011, AmDerma exercised its option to license rights to the drug candidate. 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." The option payment of $500,000 will be credited against future milestone payments in the transaction.

Marketing Abroad

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

In Mexico, we market our products through our established distribution network and a direct sales organization. We have a dedicated contract sales force, including salespeople, nurses and clinical support staff, responsible for selling Microcyn to private and public hospitals and to retail pharmacies. Our dedicated sales force, comprised of over 30 people based in Mexico, is focused on the wound care and dermatology markets. We have also launched a dermatology product, designed to treat acne in the country.

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

On January 28, 2011, we entered into an agreement with Tianjin Ascent Import and Export Company, Ltd., a distributor in China, to sell certain of our liquid products, which are currently sold under the product name "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.

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.

Nutritional Products

We established a nutritional products division under the name Napa Valley Nutritionals, in the beginning of 2012 to expand our product pipeline. Under this division based out of Sacramento, California, we aim to develop and manufacture medical foods that combine the best of science and nature to create products which provide patients with natural healthcare therapies with a particular focus on the development of products to assist diabetics.

We launched our first nutritional product in April 2012, 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. Primary marketing efforts for our nutritional products are directed toward securing the recommendation of our Napa Valley Nutritional brand of products by physicians or other health care professionals.

Competition for nutritional products in the 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.

Comparison of Three Months Ended June 30, 2012 and 2011

Revenues

Total revenues were $4,051,000 for the three months ended June 30, 2012 compared to $2,940,000 for the same period in the prior year. Product revenues increased $1,106,000, or 41%, with increases in the United States, the Middle East and Singapore, offset by a decline in Europe, India and China.

Product revenue in the United States increased $1,193,000, or 142%, due to both unit growth and new product launches into the dermatology market, and higher unit growth and increased royalty fees received from our partner Innovacyn, Inc. Effective July 1, 2011, the royalty rate we receive from Innovacyn increased from approximately 19% to approximately 30%. We recorded revenue in the amounts of $1,136,000 and $563,000 for the three months ended June 30, 2012 and 2011, respectively. Revenue growth attributed to our dermatology partners reflected strong unit growth and heavy sampling as three new product lines were launched in the fourth quarter of the fiscal year ended March 31, 2012.

Revenue in Mexico for the three months ended June 30, 2012 decreased $2,000 from the same period in the prior year. When adjusted for the impact of foreign currency fluctuation, revenue in Mexico increased 15% when compared to the same period in the prior year. The increase in local currency was driven by a 33% increase in sales of our 120 ml, 240 ml and gel presentations, partially offset by a 19% decrease in sales of our 5 liter presentation. The growth in our 120 ml, 240 ml and gel presentations occurred as a result of unit growth of 21% in the 120 ml, 240 ml and gel categories and a 32% unit decline in the 5 liter presentation as a result of slower unit growth in sales to public hospital.

Revenue in Europe and Rest of World for the three months ended June 30, 2012 decreased $85,000, or 17% over the same period in the prior year, primarily as the result of decreases in sales in Europe, India, and China, partially offset by increases in the Middle East and Singapore.

The following table shows our product revenues by geographic region:

	Quarter ended Ended June 30,			
	2012	2011	$ Change	% Change
United States	$ 2,033,000	$ 840,000	$ 1,193,000	142%
Mexico	1,378,000	1,380,000	(2,000)	0%
Europe and "Rest of World"	405,000	490,000	(85,000)	(17)%
Total	$ 3,816,000	$ 2,710,000	$ 1,106,000	41%

Service revenue increased $5,000 when compared to the prior year due to an increase in the number of tests provided by our services business.

Gross Profit

We reported gross profit related to our Microcyn® products of $2,828,000 or 74% of product revenues, during the three months ended June 30, 2012, compared to a gross profit of $1,920,000, or 71%, for the same period in the prior quarter. Our improved gross profit is primarily the result of higher gross profit margins for products sold in the U.S. Our gross margins in Mexico were 77% of product revenues during the three months ended June 30, 2012, compared to 81% for the same period in the prior quarter.

Research and Development Expense

Research and development expense increased $96,000, or 22%, to $532,000 for the three months ended June 30, 2012, compared to $436,000 for the same period in the prior quarter due to increased tests and studies conducted during the three months ended June 30, 2012 primarily related to the initiation of a study for the treatment of scars.

We expect that our research and development expense will increase slightly 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 $684,000, or 19%, to $2,847,000 during the three months ended June 30, 2012, from $3,531,000 during the same period in the prior quarter. The decrease for the three months ended June 30, 2012 was primarily due to lower stock compensation expenses of $428,000 incurred and lower salary related expenses.

We expect selling, general and administrative expenses to grow slightly in future periods as we incur additional expenses as we continue to expand our sales efforts in the United States and Europe.

Interest Expense and Interest Income

Interest expense increased $126,000 during the three months ended June 30, 2012 as compared to the same period of the prior quarter. The increase relates to an additional $34,000 of cash interest incurred and an additional $92,000 of non-cash interest incurred during the three months ended June 30, 2012. The cash and non-cash interest is related to borrowings from Venture Lending & Leasing V, Inc. and Venture Lending & Leasing VI, Inc. Interest income for the three months ended June 30, 2012 showed no material change from the same period of the prior quarter.

Other Expense, Net

Other expense, net decreased $72,000 to other expense, net of $20,000 for the three months ended June 30, 2012, compared to $92,000 for the same period in the prior quarter. The change in other expense, net for the three months ended June 30, 2012 was primarily related to unrealized foreign exchange gains and losses on intercompany transactions and tax accruals.

Derivative Liabilities

During the three months ended June 30, 2012, we recorded a decrease in the fair value of our derivative liabilities of $1,247,000 and as a result we recorded this amount as a non-cash gain. For the three months ended June 30, 2011, we recorded a non-cash gain of $96,000. The change in the fair value of our derivative liability for the three months ended June 30, 2012 as compared to the same period in the prior year was primarily the result of decreases in our stock price, and the issuance of warrants and Series A Preferred Stock in connection with our April 2012 registered direct offering that took place during the quarter.

Net Income (Loss)

Net income for the three months ended June 30, 2012 was $445,000, an increase of $2,620,000, as compared to a net loss of $2,175,000 for the same period in the prior quarter.

Liquidity and Capital Resources

We incurred a net income of $445,000 for the three months ended June 30, 2012. At June 30, 2012, our accumulated deficit amounted to $131,869,000. We had working capital of $3,086,000 as of June 30, 2012. 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 June 30, 2012, we had cash and cash equivalents of $4,399,000. 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 July 1, 2010, substantially all of our operations have been financed through the following transactions:

- proceeds of $313,000 received from the exercise of common stock purchase warrants and options;
- proceeds of $3,000,000 received from the issuance of a debt instrument in the year ended March 31, 2011;
- 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; and
- net proceeds of $2,832,000 received from a registered direct offering on April 22, 2012.

On April 22, 2012, we entered into agreements with institutional and accredited investors to issue up to: a) 2,360,001 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 3,471,112 shares of common stock (the "Warrants"). We also offered up to 1,111,111 shares of common stock issuable upon conversion of the Series A Preferred Stock and 3,471,112 shares of common stock in the event the Warrants are exercised. The Warrants have an initial exercise price of $1.18 per share, are not exercisable for six months from the date of issuance, and have 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 $2,832,000. We retained Rodman & Renshaw, LLC as the exclusive placement agent for this offering, and paid them $218,680 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 1,111,111 shares of common stock.

Cash Flows

As of June 30, 2012, we had unrestricted cash and cash equivalents of $4,399,000 compared to $3,351,000 at March 31, 2012.

Net cash used in operating activities during the year ended June 30, 2012 was $1,264,000, primarily due to an increase in accounts receivable of $1,218,000 as a result of increased revenues and the timing of customer payments. Additionally, the $1,247,000 gain on the value of our derivative liabilities was offset by changes in operating assets and liabilities and other non-cash charges.

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

Net cash used in investing activities was $33,000 and $78,000 for the three months ended June 30, 2012 and 2011, respectively, primarily related to the purchase of equipment.

Net cash provided by financing activities was $2,365,000 for the three months ended June 30, 2012. During the period ended June 30, 2012, we received net proceeds from the registered direct offering of common and preferred stock of $2,832,000. The offering proceeds were offset by principal payments on the debt in the amount of $467,000.

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

Operating Capital and Capital Expenditure Requirements

We incurred a net income of $445,000 for the three months ended June 30, 2012. At June 30, 2012, our accumulated deficit amounted to $131,869,000. At June 30, 2012, our working capital amounted to $3,086,000.

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.

Use of Estimates

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

Off-Balance Sheet Transactions

We currently have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information required by this Item.

Item 4. Controls and Procedures

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

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

(b) ***Changes in Internal Controls.*** There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 1A. Risk Factors

There have been no material changes from risk factors previously disclosed in our annual report on Form 10-K for the fiscal year ended March 31, 2012, as filed with the SEC on June 21, 2012, except as follows:

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.

On July 25, 2012, we were notified that one of our strategic partners received a warning letter from the FDA regarding their manufacturing and marketing of certain Microcyn® Technology-based products. While we are still assessing the letter, we currently believe we do not have an obligation to respond to the FDA, although we may choose to assist our partner in their response. It is possible such letter will have a material impact on our business. However, we cannot predict when or how our partner will respond to the FDA or if our partner will adequately address all of the FDA's concerns. If our partner does not meet all of the FDA's concerns, our partner may cease selling some or all of our products. It is also possible that the FDA may require our partner to take other actions regarding our products including a recall. If our partner ceases to sell our products on a temporary or permanent basis, our revenues will be adversely affected.

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.

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

On June 26, 2012, we issued 74,767 shares of common stock to Advocos, LLC as compensation for services provided.

With respect to the issuance of securities described above, we relied on the Section 4(2) exemption from securities registration under the federal securities laws for transactions not involving any public offering. No advertising or general solicitation was employed in offering the securities. The securities were issued to an accredited investor. The securities were offered for investment purposes only and not for the purpose of resale or distribution, and the transfer thereof was appropriately restricted by us.

Item 3. Default Upon Senior Securities

We did not default upon any senior securities during the quarter ended June 30, 2012.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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).
4.1	Specimen Common Stock Certificate (included as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.2	Warrant to Purchase Series A Preferred Stock of Oculus Innovative Sciences, Inc. by and between the Company and Venture Lending & Leasing III, Inc., dated April 21, 2004 (included as Exhibit 4.2 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.3	Warrant to Purchase Series B Preferred Stock of Oculus Innovative Sciences, Inc. by and between the Company and Venture Lending & Leasing IV, Inc., dated June 14, 2006 (included as Exhibit 4.3 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.4	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.4 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.5	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.5 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.6	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.11 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.7	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.12 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.8	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed August 13, 2007, and incorporated herein by reference).

4.9	Form of Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. (included as Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 28, 2008, and incorporated herein by reference).
4.10	Form of Common Stock Purchase Warrant for April 2009 offering (included as Exhibit 4.15 to the Company's Registration Statement on Form S-1 (File No. 333-158539) declared effective on July 24, 2009, and incorporated herein by reference).
4.11	Warrant issued to Dayl Crow, dated March 4, 2009 (included as Exhibit 4.16 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference).
4.12	Form of Common Stock Purchase Warrant for July 2009 offering (included as Exhibit 4.15 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference)
4.13	Warrant to Purchase Shares of Common Stock of Oculus Innovative Sciences, Inc. issued to Venture Lending & Leasing V, LLC (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed May 6, 2010, and incorporated herein by reference).
4.14	Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. issued to Venture Lending & Leasing VI, LLC (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 6, 2011 and incorporated herein by reference).
4.15	Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. issued to Venture Lending & Leasing VI, LLC (included as Exhibit 4.15 to the Company's Quarterly Report on Form 10-Q filed November 3, 2011, and incorporated herein by reference).
4.16	Warrant to Purchase Common Stock of Oculus Innovative Sciences, Inc. issued to Venture Lending & Leasing VI, LLC (included as Exhibit 4.16 to the Company's Quarterly Report on Form 10-Q, filed February 10, 2012, and incorporated herein by reference.
4.17	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).
4.18	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).
10.1	Form of Indemnification Agreement between Oculus Innovative Sciences, Inc. and its officers and directors (included as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.2	Amended and Restated Oculus Innovative Sciences, Inc. 2006 Stock Incentive Plan and related form stock option plan agreements (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 2, 2007, and incorporated herein by reference).
10.3	Amended and Restated Investors Rights Agreement, effective as of September 14, 2006 (included as Exhibit 4.6 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.4	Form of Promissory Note (Growth Capital Loans) issued to Venture Lending & Leasing IV, Inc. (included as Exhibit 4.9 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.5	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).
10.6	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).
10.7	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).
10.8	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).
10.9	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).
10.10	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).
10.11	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).

10.12	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).
10.13	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).
10.14	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).
10.15	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).
10.16	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).
10.17	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).
10.18	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).
10.19	Form of Securities Purchase Agreement, dated March 27, 2008, by and between Oculus Innovative Sciences, Inc. and each investor signatory thereto (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 28, 2008, and incorporated herein by reference).
10.20	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).
10.21	Purchase Agreement by and between Oculus Innovative Sciences, Inc. and Non-Affiliated Investors, dated January 26, 2009 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 29, 2009, and incorporated herein by reference).
10.22	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).
10.23	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).
10.24	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).
10.25	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).
10.26	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).
10.27	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).
10.28	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).
10.29	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).
10.30	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).

10.31	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).
10.32	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).
10.33	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).
10.34	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).
10.35†	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).
10.36†	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).
10.37†	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).
10.38	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).
10.39†	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).
10.40†	Exclusive Sales and Distribution Agreement between Oculus Innovative Sciences, Inc. and Quinnova Pharmaceuticals, Inc., dated February 14, 2011 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2011, and incorporated herein by reference).
10.41†	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).
10.42	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).
10.43	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).
10.44	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).
10.45	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).
10.46	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).
10.47	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).
10.48	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).
10.49†	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).

10.50	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).
10.51	Securities Purchase Agreement by and between Oculus Innovative Sciences, Inc. 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).
10.52†	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).
10.53††*	Collaboration Agreement between Oculus Innovative Sciences, Inc. and AmDerma Pharmaceuticals, LLC, dated June 21, 2012
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 405(a)(2) of Regulation S-T, the Company will furnish the XBRL Interactive Data Files with detailed footnote tagging as Exhibit 101 in an amendment to this Form 10-Q within the permitted 30-day grace period for the first quarterly period in which detailed footnote tagging is required after the filing date of this Form 10-Q.

SIGNATURES

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

OCULUS INNOVATIVE SCIENCES, INC.

Date: August 3, 2012

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

Date: August 3, 2012

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

COLLABORATION AGREEMENT

THIS COLLABORATION AGREEMENT (the ***"Agreement")*** is entered into as of June 21, 2012 (the ***"Effective Date"***) by and between **OCULUS INNOVATIVE SCIENCES INC.** ***("Oculus"),*** a Delaware corporation having an address at 1129 North McDowell Blvd., Petaluma, CA, and **AMDERMA PHARMACEUTICALS LLC** *("AmDerma"),* a New Jersey Limited Liability Company having an address at 440 US Highway 22 East, Bridgewater, NJ 08807.

RECITALS

WHEREAS, Oculus is a pharmaceutical company focused on developing novel treatments for dermatological conditions utilizing hypochlorous acid (the "API", as further defined below), and Oculus has developed a stable topical formulation containing the API (the "Product", as further defined below);

WHEREAS, AmDerma desires to license from Oculus the right to further develop, manufacture, use, market, promote and sell the Product in the Territory in the Field of Use; and

WHEREAS, AmDerma and Oculus desire that AmDerma develop, manufacture and commercialize the Product.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

1. DEFINITIONS

1.1 "Affiliate" shall mean any entity controlled by, controlling, or under common control with a party hereto. Solely for purposes of the foregoing definition, the term "control" {including, with correlative meaning, the terms "controlling", "controlled by", and "under common control with") as used with respect to any party, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such party, whether through ownership of interests representing the equity, voting securities or general partnership interest or by contract, or otherwise. Without limiting the foregoing, the term Affiliate shall include any entity where fifty percent (50%) or more of the voting stock or profit interest of which entity is owned or controlled, directly or indirectly, by a party, and any entity which owns or controls, directly or indirectly, fifty percent (50%) or more of the voting stock or profit interest of a party.

1.2 "API" shall mean the active pharmaceutical ingredient hypochlorous acid.

1.3 "Applicable Law" means all laws, rules and regulations, including any rules, regulations, guidelines, or other requirements of Governmental Authorities, applicable to the Development, manufacturing, market, distributing, using or selling of the Product, as the case may be, that may be in effect from time to time in the United States.

1.4 "Calendar Quarter" shall mean each respective period of three consecutive months ending on March 31, June 30, September 30 and December 31.

1.5 "cGCP" means the applicable regulatory requirements for current good clinical practices promulgated by the FDA under 21 C.F.R. § 50, as the same may be amended from time to time.

1.6 "cGLP" means the applicable regulatory requirements for current good laboratory practices promulgated by the FDA under 21 C.F.R. § 58, as the same may be amended from time to time.

1.7 "cGMP" means the applicable regulatory requirements for current good manufacturing practices promulgated by the FDA under 21 C.F.R. §§ 210, 211 as the same may be amended from time to time.

1.8 "Class 1 Recall" means a recall for dangerous or defective products that predictably could cause serious health problems or death.

1.9 "Class 2 Recall" means a recall conducted in a situation in which use of, or exposure to Product may cause temporary or medically reversible adverse health consequences or where the probability of serious adverse health consequences is remote.

1.10 "Clinical Studies" shall mean the Phase 1 Proof of Concept Study, the Phase 2 Study and the Phase 3 Study.

1.11 "Commercialization" means the act of introducing the Product to the market.

1.12 "Commercialize" means introducing the Product to the market.

1.13 "Commercialization Plan" shall have the meaning provided in Section 5.1.

1.14 "Competing Product" shall mean any pharmaceutical product containing the API as the sole active ingredient in topical form.

1.15 "Confidential Information" shall have the meaning provided in Section 11.1.

1.16 "Control(s)" shall mean, with respect to any Information, Patent or other intellectual property right, or Regulatory Approval, possession by a party of the ability (whether by ownership, license or otherwise) to grant access, rights, title, possession, a license or a sublicense to such Information, Patent or other intellectual property right without violating the terms of any agreement or other arrangement with any Third Party.

1.17 "Development" shall mean pre-clinical and clinical drug development activities which occur prior to or as a condition of Regulatory Approval including, among other things: test method development and stability testing, toxicology, formulation, process development, manufacturing scale-up, development-stage manufacturing, cGMP audits, cGCP audits, cGLP audits, analytical method validation, manufacturing process validation, cleaning validation, scale-up and post approval changes and requirements, quality assurance/quality control development, statistical analysis and report writing, pre-clinical and clinical studies, regulatory filing submissions and pre-approvals, and regulatory affairs related to the foregoing. When used as a verb, "Develop" means to engage in Development.

1.18 **"Development Plan"** shall mean the plan for the Development of the Product in the United States which plan is designed to generate the Development, clinical and regulatory information required for filing the NDA for the Product and to further support the Development of the Product for the purpose of obtaining the Regulatory Approvals for the Product in the United States and shall set forth all activities contemplated to achieve the foregoing.

1.19 **"Executives"** shall have the meaning provided in Section 13.2.

1.20 **"FDA"** shall mean the United States Food and Drug Administration, or any successor agency or agencies thereto.

1.21 **"Field of Use"** shall mean for all dermatological indications in human. Field of use shall not include (i) any and all applications related to the genito-urinary, gastrointestinal, ophthalmological (including the eye) or otolaryngological (including the ear or nasal passages) systems or any other mucosal surfaces, (ii) any and all applications related to wound care, or (iii) any and all applications related to the prevention or disinfection of pre-, peri- or post-surgical infections.

1.22 **"First Commercial Sale"** shall mean with respect to the United States, the first sale for end use or consumption of the Product in the United States after the FDA has approved the NDA, and with respect to Other Countries, the first sale in such country after the application or submission required to market the Product in such country has received the relevant Regulatory Approvals. Product furnished for Clinical Studies, compassionate use, named patient programs, sales under the IND (or foreign equivalent), test marketing, any nonregistrational studies, or any similar instance where Product is supplied with or without charge shall not constitute a First Commercial Sale.

1.23 **"Force Majeure"** has the meaning set forth in Section 14.9.

1.24 **"Generic Product"** means a pharmaceutical product that is (i) a Therapeutic Equivalent of the Branded Product or (ii) approved by the FDA pursuant to a suitability petition in connection with a filing referencing the Branded Product under Section 505 (j)(2)(c) of the Federal Food, Drug, and Cosmetic Act and FDA regulation 21 C.F.R. § 314.93.

1.25 **"Governmental Authority"** means any court, tribunal, arbitrator, agency, legislative body, commission, official or other instrumentality of (a) any government of any country; (b) a federal, state, province, county, city or other political subdivision thereof; or (c) any supranational body, including the FDA.

1.26 **"IND"** shall mean an Investigational New Drug Application filed with the FDA related to the Product.

1.27 **"Information"** shall mean all tangible and intangible, proprietary or nonproprietary, (a) techniques, clinical study protocols, formulations, technology, practices, trade secrets, inventions (whether patentable or not), methods, knowledge, know-how, skill, ideas, discoveries, experience, test data and results (including pharmacological, toxicological and clinical test data and results), analytical and quality control data, results or descriptions, software and algorithms; and (b) compositions of matter, cells, cell lines, assays, animal models and physical, biological or chemical material.

1.28 **"Losses"** shall have the meaning provided in Section 12.1.

1.29 **"NDA"** shall mean a New Drug Application filed with the FDA related to the Product.

1.30 **"Net Sales"** shall mean the gross amounts invoiced by (a) AmDerma and its Affiliates and sublicensees to distributors or customers for sales of Product in the Territory, in each case, less the following items, as allocable to the Product (if not previously deducted from the amount invoiced) if taken in compliance with United States Generally Accepted Accounting Principles: (i) trade, quantity or cash discounts, credits or allowances; (ii) credits or allowances reserved for returns, rejections, rebates or recalls; (iii) allowances for chargebacks and other amounts paid on sale or dispensing of such Product; (iv) rebates or other price reductions provided to any Governmental Authority in respect of any state or federal Medicare, Medicaid or similar programs; (v) freight, shipping and insurance charges if stated on and included in the applicable invoice; (vi) tariffs, duties and excise, sales, value-added or other taxes (other than taxes based on income) charged for the sale, distribution, delivery or use of the Product if stated on and included on the applicable invoice; and (vii) credits, chargebacks and prime vendor rebates, fees, reimbursements, and similar payments actually granted or given to wholesalers, distributors, buying groups, health care insurance carriers, pharmacy benefit management companies, health maintenance organizations, other similar institutions or health care organizations or other customers that are in excess of amounts previously reserved as allowances at the time of sale.

1.31 **"Primary Indication"** shall mean the use of the API for the treatment of acne,

1.32 **"Product NDA"** shall mean the NDA filed by AmDerma for the Product.

1.33 **"Other Countries"** means countries in the Territory other than the United States.

1.34 **"Parties"** means Oculus and AmDerma collectively, each of which, individually, is a "Party".

1.35 **"Patent(s)"** means (a) all national, regional and international patents and patent applications, including nonprovisional and provisional patent applications; (b) all patent applications filed either from such patents, nonprovisional patent applications or provisional patent applications or from an application claiming priority from any of these, including divisionals, continuations, continuations-in-part, provisionals, converted provisionals, and continued prosecution applications; (c) any and all patents that have issued or in the future issue from the foregoing patent applications described in clauses (a) or (b) of this definition, including utility models, petty patents and design patents and certificates of invention; (d) any and all extensions or restorations by existing or future extension or restoration mechanisms, including revalidations, reissues, re-examinations and extensions (including any supplementary protection certificates and the like) of the foregoing patents or patent applications described in clauses (a), (b) or (c) of this definition; and (e) any similar rights, including so-called pipeline protection, or any importation, revalidation, confirmation or introduction patent or registration patent or patent of additions to any such foregoing patent applications and patents.

1.36 **"Phase 1 Study"** means a human clinical trial of the Product that is intended to initially evaluate the safety and/or pharmacological effect of the Product in normal or diseased volunteer subjects and that would otherwise satisfy requirements of 21 CFR 312.21(a).

1.37 **"Phase 2 Study"** means a human clinical trial of the Product that is intended to initially evaluate the effectiveness of the Product for a particular indication or indications in subjects or patients with the disease or indication under study, and that would otherwise satisfy requirements of 21 CFR 312 .21 (b).

1.38 **"Phase 3 Study"** means a pivotal human clinical trial of the Product the results of which could be used to establish safety and efficacy of the Product for a particular indication or indications in subjects or patients with the disease or indication under study as a basis for the NDA and that would otherwise satisfy requirements of 21 CFR 312.21(c) to obtain Regulatory Approval to market the Product.

1.39 **"Product"** shall mean all topical formulations, presentations, and packaging configurations of the pharmaceutical product containing the API as the primary active pharmaceutical ingredient for use in the Field of Use in the Territory.

1.40 **"Regulatory Approval"** shall mean all approvals (including, where applicable, pricing and reimbursement approval and schedule classifications), product and/or establishment licenses, registrations or authorizations of any Governmental Authority, necessary for the commercialization, use, storage, import, export, transport, offer for sale, or sale of a pharmaceutical product for human use in a regulatory jurisdiction within the Territory, including all required activities up to the receipt of the NDA approval.

1.41 **"Reasonable Efforts"** shall mean, with regard to a Party, those efforts consistent with the exercise of customary scientific and business practices that are consistent with the efforts and resources such Party uses for other products owned by it or to which it has exclusive rights, for development and commercialization activities conducted with respect to other products of similar potential and market size and at a similar stage in their life cycle, taking into account the competitiveness of the marketplace, the regulatory structure involved, the profitability of the product and other relevant factors, including, technical, legal, scientific, medical, sales performance, marketing factors and/or any regulatory, intellectual property or product liability disputes or issues.

1.42 **"Oculus Know-How"** shall mean Information that Oculus or any of its Affiliates Controls, as of the Effective Date or that is discovered, acquired or licensed as a result of the implementation of the Development Plan, and that is useful or necessary for the manufacture, use, sale, marketing, offer for sale, export or import of Product, including, without limitation, any replication or any part of such Information.

1.43 **"Oculus Patents"** shall mean the Patents that Oculus or any of its Affiliates Controls as of the Effective Date, if any, or that are discovered, acquired or licensed as a result of the implementation of the Development Plan, and that are useful or necessary for the manufacture, use, sale, offer for sale or import of Product in the Territory, including those Patents set forth on Exhibit A.

1.44 **"Oculus Technology"** shall mean the Oculus Patents and Oculus Know-How.

1.45 **"Secondary Indication(s)"** shall mean the use of the API as a therapeutic medication in the Field of Use other than the treatment of acne.

1.46 **"Term"** shall have the meaning provided in Section 11.1.

1.47 **"Territory"** shall mean the United States and India. AmDerma shall have the right of first refusal to expand the Territory to include any or all countries in the twenty seven (27) member states of the European Union, Canada, Brazil or Japan.

1.48 **"Therapeutic Equivalent"** shall have the meaning given to it by the FDA in the current edition of the "Approved Drug Product with Therapeutic Equivalence Evaluations" (the "Orange Book"), as may be amended from time to time during the Term.

1.49 **"Third Party"** shall mean any entity other than Oculus or AmDerma or an Affiliate of Oculus or AmDerma.

1.50 **"Trademark"** shall mean the trademark under which the Product may be sold in the Territory, including as set forth in Exhibit B, as may be amended from time to time.

1.51 **"United States," "US," "U.S.," and "USA"** means the United States of America including its territories, possessions, protectorates and the Commonwealth of Puerto Rico and any installation, territory, location or jurisdiction under the control of the United States government.

1.52 **"US Commercialization"** means Commercialization of the Product in the United States.

1.53 **"US Development"** means Development of the Product for use in the United States.

2. LICENSES

2.1 **Oculus License Grant.** Subject to the terms and conditions of this Agreement, during the Term, Oculus hereby grants to AmDerma and its Affiliates an exclusive (even as to Oculus and its Affiliates), royalty-bearing license, with the right to sublicense and subcontract as set forth below, to the Oculus Technology and any Regulatory Approvals for Product utilizing the Oculus Technology, [ ]*, promote, market, have marketed, use, develop, have developed, sell, offer for sale, have sold and import or export Product in the Field of Use in the Territory (the ***"License"***).

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* Confidential material redacted and separately filed with the Commission.

2.1.1 **Sublicenses.** AmDerma shall have the right to grant sublicenses of the License without Oculus' consent.

2.1.2 **Subcontracts.** AmDerma shall have the right to subcontract to any Third Party any of AmDerma's rights and responsibilities under this Agreement without Oculus' consent. In the event that AmDerma elects to use a subcontractor for the purpose of performing AmDerma's obligations under this Agreement, AmDerma shall be responsible for subcontractor's performance of AmDerma's obligations under this Agreement.

3. DEVELOPMENT MATTERS

3.1 **General.** AmDerma shall have responsibility for the US Development of the Product and to use Reasonable Efforts to perform all required actions as set forth in this Agreement and the Product Development Plan. Without limiting the foregoing, and as part of AmDerma' respective responsibilities set forth below, AmDerma shall:

3.1.1 Conduct the US Development of the Product in compliance in all material respects with all requirements of Applicable Law;

3.1.2 Maintain records, which shall be complete and accurate in all material respects and shall fully and properly reflect all expenses, in connection with the US Development of the Product and make such records available to AmDerma on an ongoing basis with reasonable notice; and

3.1.3 Consult with and keep Oculus current on all activities relating to the US Development of the Product, and notify Oculus when information contrary in any material respect to the Development Plan or related timeline is received.

3.2 **Development Responsibilities of AmDerma.** AmDerma shall perform all US Development activities required to gain all Regulatory Approvals necessary to manufacture, market, promote, use, distribute and sell the Product in the United States, including final formulation development, analytical method development and validation, API and Product specifications, commercial scale-up and process validation, manufacturing of registration and validation batches, pre-approval inspection and approval of manufacturing facilities, maintaining cGMP processes and procedures in conjunction with manufacturing, packaging, storage and stability of the Product, and other manufacturing-related activities required for Regulatory Approval of the Product. Oculus and AmDerma shall mutually agree upon a development budget and milestones to complete the US Development of the Product.

3.3 **Development Responsibilities of Oculus.** Oculus shall provide AmDerma with all cooperation and assistance as reasonably required by AmDerma, for the US Development activities to gain all Regulatory Approvals for the Product. AmDerma shall reimburse Oculus for all of the out-of-pocket costs and expenses incurred by Oculus to provide such assistance.

3.4 **Development Plan for the Primary Indication.** Within sixty (60) days of the Effective Date, AmDerma and Oculus shall mutually agree upon the Development Plan for the Product. In connection with the preparation and implementation of the Development Plan, each of the Parties will make available to the other information then in its possession pertaining to the Product which is reasonably necessary or useful for such US Development activities.

3.5 Development Plan for Secondary Indication. Within one (1) year of the first commercial sale by AmDerma of the Product in the United States, AmDerma shall identify at least one (1) Secondary Indication for which AmDerma shall pursue Development and Commercialization. In the event AmDerma declines to pursue at least one (1) Secondary Indication for the Product in the Territory, all rights and responsibilities for the use of the API for any Secondary Indications in the Field of Use shall revert to Oculus, and AmDerma shall have no further rights to Develop or Commercialize such Secondary Indications.

3.6 Development for Use in Other Countries. AmDerma, in its sole discretion, and at its sole cost and expense, may at any time during the Term, Develop the Product for use in one or more Other Countries.

4. REGULATORY MATTERS

4.1 Regulatory and Development Responsibilities of AmDerma. AmDerma shall use Reasonable Efforts to gain Regulatory Approval for the Product in the United States. AmDerma shall use Reasonable Efforts to conduct any clinical trials (including the Clinical Studies and any clinical and non-clinical activities not contemplated as of the Effective Date or requiring a reformulation of the Product) required by the FDA to gain Regulatory Approval in the United States for the Product or otherwise as a condition to Regulatory Approval of the Product in the United States. AmDerma shall have overall responsibility, in accordance with the Development Plan, for the performance of the selected Development activities of preparation and submission of the pre-IND meeting package, preparation and filing of the Product's IND, preparation and submission of the Product's end of Phase 2 meeting package, pre-NDA preparation, preparation and filing of the Product's NDA. A person designated by AmDerma shall serve as the designated regulatory official for the Product for purposes of receiving communications from all Governmental Authorities in the United States.

4.2 Approval Activities. AmDerma shall file all United States Regulatory Approvals related to the Product in AmDerma's or its Affiliate's name, including the IND and the NDA, and shall pay all fees related to the filing and prosecution of all United States Regulatory Approvals related to the Product through and including NDA approval. AmDerma shall exclusively own all Regulatory Approvals, including the IND and the NDA related to the Product.

4.3 Cooperation. The Parties shall cooperate in good faith with respect to the submission, prosecution and maintenance of the Regulatory Approvals for the Product with the FDA or other applicable Governmental Authority within the United States and AmDerma shall keep Oculus informed with respect to all critical matters related to the Regulatory Approvals for the Product in the United States. A pharmacovigilance alert process will be implemented by AmDerma in the United States in order to comply with all legal obligations.

4.4 Regulatory Approval in Other Countries. AmDerma, in its sole discretion, and at its sole cost and expense, may apply for Regulatory Approvals for the Product in one or more Other Countries during the Term. Oculus will cooperate with AmDerma in such activities at no cost to AmDerma. Subject to AmDerma's right of first refusal to expand the Territory to include additional countries, Oculus, in its sole discretion and at it sole cost and expense, may apply for Regulatory Approvals for the Product in countries outside the Territory. Oculus shall not have the right to reference AmDerma's Clinical Studies and Regulatory Approvals in the Territory without the express written consent of AmDerma, which may be withheld in its sole discretion.

5. COMMERCIALIZATION

5.1 AmDerma Commercialization Activities. AmDerma shall use Reasonable Efforts to Commercialize Product in the United States. AmDerma, may, in its sole discretion, Commercialize the Product in one or more Other Countries following Regulatory Approval in a subject country. Without limiting the foregoing, AmDerma shall Commercialize Product in the United States in accordance with a commercialization plan for Product, which plan shall be prepared by AmDerma and delivered to Oculus no later than [ ]* ([ ]*) months prior to the expected date of First Commercial Sale in the United States (the ***"Commercialization Plan"***). AmDerma may amend the Commercialization Plan at any time during the Term. AmDerma shall promptly provide any proposed amendment to the Commercialization Plan to Oculus. AmDerma shall have sole decision-making authority over the Commercialization Plan. In addition, AmDerma will keep Oculus informed on a quarterly basis of the commercialization activities of AmDerma with regard to Product in the Territory. AmDerma covenants and agrees that it shall comply with all Applicable Laws in the Commercialization of Product (including, without limitation, all anti-fraud laws and regulations) and shall only market Product for uses approved by applicable Governmental Authorities.

5.2 Product Manufacturing. AmDerma shall, in its sole discretion, determine the appropriate commercial manufacturing location for the Product in the Territory. AmDerma shall have the right to designate Oculus as the commercial manufacturer of the Product. In such event, Oculus shall ensure that all manufacturing facilities for the Product are compliant with cGMP and FDA standards and the Parties shall negotiate a supply agreement for the Product on terms and conditions that are customary in the industry. Notwithstanding the foregoing, should AmDerma designate Oculus as the commercial manufacturing site for the Product, the supply price for the sale of Product manufactured by Oculus for AmDerma shall not exceed Oculus' standard cost of manufacturing plus a markup of [ ]* percent ([ ]*%). In the event that AmDerma elects to manufacture the Product in a site controlled by AmDenna, its Affiliates, or an independent Third Party, Oculus shall cooperate with AmDerma in (i) installing and qualifying any proprietary equipment necessary to manufacture the Product at the designated site, and (ii) training or hiring all necessary personnel to operate the Oculus manufacturing equipment within AmDerma's designated site. All such equipment shall be finded and owned exclusively by Oculus and utilized by AmDerma solely to manufacture the Product. AmDerma shall not be permitted to provide maintenance services to the equipment. Oculus shall at its own expense train and hire outside service engineers to maintain the equipment. AmDerma will be responsible for all costs associated with raw materials, packagaing, supply chain, warehousing and shipping the Product.

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* Confidential material redacted and separately filed with the Commission.

6. FEES AND PAYMENTS

6.1 Upfront Fees. AmDerma shall pay to Oculus an upfront fee of $250,000 (Two Hundred and Fifty Thousand Dollars) upon the effectiveness of the IND (pursuant to 21 C.F. R. §312.40(b)) for the Primary Indication. At AmDerma's discretion, AmDerma may require Oculus to credit the $250,000 (Two Hundred and Fifty Thousand Dollars) previously paid by AmDerma to Oculus under the February 14, 2011 Option Agreement against such milestone.

6.2 Milestones. Upon the first occurrence of each milestone event related to the Primary Indication set forth below (each, a ***"Milestone"),*** a one-time Milestone payment will be due from AmDerma to Oculus as follows:

Milestone Event	**MilestonePayment**
	(U.S. Dollars)
Upon successful completion of the Phase 1 Clinical Study	$[ ]*
Upon successful completion of the Phase 2 Clinical Study	$[ ]*
Upon successful completion of the Phase 3 Clinical Study	$[ ]*
Upon the FDA's final approval of the NDA for the Product	$[ ]*

For the purposes of this Section ***"successful completion"*** shall mean that: (a) the subject Clinical Study was conducted in accordance with the relevant IRB-approved clinical study protocol and all amendments thereof and in conformance with the relevant FDA cGCP guidelines, data lock has occurred, and a draft clinical study report has been completed and submitted to AmDerma; (b) in addition, in the case of a Phase 2 Clinical Study, such Clinical Study has not revealed any adverse data that would prevent or render scientifically imprudent a Phase 3 Clinical Trial being undertaken; and (c) in the case of a Phase 3 Clinical Study, that such Clinical Study has achieved each of its primary endpoints in a statistically significant manner and has not revealed any adverse data that would lead a reasonably prudent person skilled in the field of clinical development in the United States to conclude that those data would prevent a Product NDA from being filed and approved or that a product based upon the results of that Phase 3 Clinical Study would be unsafe or ineffective.

When a Milestone is achieved, AmDerma shall promptly, but in no event more than fifteen (15) business days after the achievement of each such Milestone, notify Oculus in writing of the achievement of same. For all Milestones achieved, AmDerma shall promptly, but in no event more than thirty (30) business days after receipt of notice relating to the achievement of each such Milestone, remit payment to Oculus for such Milestone in accordance with this Section 10.2. The upfront and milestone payments shall not be refundable or creditable against royalties due under this Agreement.

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* Confidential material redacted and separately filed with the Commission.

6.3 Oculus Royalties. AmDerma shall during the Term, pay to Oculus the below royalties for Net Sales during a Calendar Quarter, based upon the annual Net Sales of Product in the Territory for the Primary Indication as follows:

Annual Net Sales of Branded Product	**Royalty Rate**
On the annual Net Sales in the Territory of less than $35,000,000 (Thirty-Five Million Dollars)	[ ]*%
On the annual Net Sales in the Territory equal to or greater than $35,000,000 (Thirty-Five Million Dollars), but less than $150,000,000 (One Hundred and Fifty Million Dollars)	[ ]*%
On the annual Net Sales in the Territory equal to or greater than $150,000,000 (One Hundred and Fifty Million Dollars)	[ ]*%

Annual Net Sales shall be determined based on a calendar year. The annual Net Sales for the year in which the First Commercial Sale in the United States occurs and the last year of the Term shall be prorated as follows. The three thresholds of annual Net Sales used to determine the applicable royalty rate described in this Section 6.3 shall be multiplied by the quotient of the number of days remaining in the calendar year after the date of the First Commercial Sale in the United States divided by 365. For example, if the First Commercial Sale in the United States occurred on June 30th then the first threshold of Net Sales used to determine the royalty rate would be $17,500,000 (Seventeen and One-Half Million Dollars), (i.e., (184 days/365 days) x $35mm = $17.5mm); rather than the $35,000,000 (Thirty-Five Million Dollars) threshold that would be applied to a full year of Product Net Sales.

6.4 Commercial Milestones AmDerma shall pay to Oculus the following one-time milestone payments upon achievement of each designated milestone event related to the Primary Indication:

Milestone Event	**MilestonePayment**
	(U.S. Dollars)
Upon the first anniversary of the First Commercial Sale	$[ ]*
In the event that cumulative Net Sales of the Product exceed $50,000,000 (Fifty Million Dollars) within [ ]* ([ ]*) years of the First Commercial Sale	$[ ]*

6.5 Payment for Secondary Indications. For each Secondary Indication pursued by AmDerma, AmDerma shall pay to Oculus: (a) milestone payments in accordance with the structure outlined in Section 6.2, which shall be adjusted depending on the required milestone events for such Secondary Indications, and (b) the same royalties described in Section 6.3 for each Secondary Indication pursued by AmDerma.

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7. PAYMENT; RECORDS; AUDITS

7.1 Payment; Reports. All payments due under this Agreement shall be paid within sixty (60) days of the end of each Calendar Quarter, unless otherwise specifically provided herein. Each payment shall be accompanied by a report of Net Sales of Product by AmDerma in sufficient detail to permit confirmation of the accuracy of the payment made, including, the number of Products sold, the gross sales and Net Sales of such Products, the royalties payable, and the method used to calculate the royalties. AmDerma shall keep complete and accurate records pertaining to the sale or other disposition of Products in sufficient detail to permit Oculus to confirm the accuracy of all payments due hereunder.

7.2 Manner and Place of Payment. All payments hereunder shall be payable in United States Dollars. All payments owed under this Agreement shall be made by wire transfer in immediately available funds to a bank and account designated in writing by Oculus.

7.3 Audits. During the Term and for a period of three (3) years thereafter, AmDerma shall keep complete and accurate records pertaining to the sale or other disposition of Products upon which royalties are due, in sufficient detail to permit Oculus to confirm the accuracy of all payments due hereunder. Once a calendar year during the Term, and for a period of three (3) years thereafter, Oculus shall have the right to cause an independent, certified public accountant reasonably acceptable to AmDerma to audit such records to confirm Net Sales, royalty payments and other payments for a period covering not more than the preceding three years; provided, however, that such auditor shall enter into a confidentiality agreement with AmDerma and will not disclose AmDerma's Confidential Information to Oculus, except and only to the extent such disclosure is necessary to verify the amount of payments due under this Agreement, and such certified public accountant is not paid on a commission or contingency fee basis. Such audits may be exercised during normal business hours upon reasonable prior written notice. Prompt adjustments shall be made by the Parties to reflect the results of such audit. Oculus shall bear the full cost of such audit unless such audit discloses an underpayment by AmDerma of more than the five percent (5%) of the amount of royalty payments or other payments due to Oculus under this Agreement, in which case, AmDerma shall bear the full cost of such audit and shall promptly remit the amount of any underpayment along with interest calculated as described in Section 11.4.

7.4 Late Payments. In the event that any payment due under this Agreement is not made when due, the payment shall accrue interest from the date due at LIBOR +2% during the delinquent period per annum; provided, however, that in no event shall such rate exceed the maximum legal annual interest rate. The payment of such interest shall not limit Oculus from exercising any other rights it may have as a consequence of the lateness of any payment.

7.5 Accounting. The Parties acknowledge that any expenses or costs deducted from Net Sales under this Agreement may be based upon accruals, which accruals will be compliant with Generally Accepted Accounting Principles ***("GAAP"),*** consistently applied; provided that when the actual results become known relative to any accrued amount, any difference between the actual results and the accrual is reported and accounted for in the next payment due hereunder. To the extent that the difference between such accruals and the actual results has led to an underpayment, AmDerma shall pay Oculus the amount of such underpayment within 30 days of the report indicating an underpayment. To the extent that the difference between such accruals and the actual results has led to an overpayment to Oculus, AmDerma may set-off such overpayments against subsequent payments to be made to Oculus; additionally, if any overpayments remain upon the expiration or termination of this Agreement, Oculus shall refund such overpayments to AmDerma within thirty (30) days of receiving an invoice for such overpayment together with applicable supporting documentation.

8. INTELLECTUAL PROPERTY AND RELATED INDEMNITIES AND WARRANTIES.

8.1 Patent Prosecution and Maintenance.

8.1.1 Invention Disclosure. Oculus agrees to disclose in writing to AmDerma any material Oculus Technology it conceives of during the Term which may be relevant to the use, sale, manufacture, marketing, offer for sale, export or import of Product, to the prosecution (including decisions of whether to prosecute) of a Patent to protect the Product market, or to enforce such intellectual property against Third Party infringers *("**Product Inventions**"),* together with any such related Information in Oculus' Control as reasonably requested by AmDerma. Oculus shall make such disclosures promptly after such Product Inventions are conceived, and in any event no less frequently than every Calendar Quarter (to the extent there are Product Inventions to disclose during the applicable Calendar Quarter).

8.1.2 Patents.

8.1.2.1 Oculus Patents. During the Term, Oculus shall be responsible, in its discretion, for the preparation, filing, prosecution and maintenance of Oculus' United States Patents disclosing Oculus inventions relative to the Product. AmDerma may in its sole discretion, prepare, file and prosecute, in Oculus' name, the Oculus PCT application(s) for Oculus inventions relative to the Product plus the foreign national phase patent applications(s) within the Territory (exclusive of the United States). The cost of such preparation, filing, prosecution and maintenance of Oculus' United States Patents shall be borne by Oculus. The cost of such preparation, filing, prosecution and maintenance of Oculus' non-US Patents shall be borne by AmDerma. The Parties shall keep each other informed of their respective progress with regard to the preparation, filing, prosecution and maintenance of Oculus' United States Patents and Oculus' non-United States Patents in the Territory, including providing the other Party with a copy of any and all correspondence between the Party and the respective patent offices of filing and the Parties shall provide each other with sufficient time to review and comment on such communications (excluding any non-substantive correspondence or communications). Oculus shall adhere to the requests and suggestions of AmDerma with respect to strategies for prosecution and maintenance of Oculus' United States Patents and revisions to correspondence with the U.S. Patent Office.

8.1.2.2 Third Party Patents. Oculus shall at its sole cost and expense use Reasonable Efforts to obtain for use by itself and AmDerma, Third Party patents, intellectual property, know-how, trade secrets or other technologies (or a license for itself and AmDerma to same) for use in Development, Commercialization or manufacture of the Product to the extent necessary (including, without limitation to prevent infringement of Third Party intellectual property) for the Development, Commercialization or manufacture of the Product for sale in the Territory. The cost, including up-front, milestone and royalties of a license established between Oculus and a Third Party relative to the Product or manufacture of the Product shall be the financial responsibility of Oculus.

8.1.3 Cooperation of the Parties. The Parties agree to cooperate fully in the preparation, filing, prosecution and maintenance of any Oculus Patents under this Agreement and in the obtaining and maintenance of any patent extensions, supplementary protection certificates and the like with respect to any Oculus Patent claiming the composition or use of a Product being commercialized pursuant to this Agreement.

8.1.4 Abandonment. If Oculus elects during the Term of this Agreement (i) to abandon the prosecution or maintenance of any Oculus Patent, or (ii) not to file a patent application in the Territory for any Product Invention, then Oculus shall promptly notify AmDerma in writing at least sixty (60) days before the abandonment or applicable filing deadline and AmDerma shall have the right to cause Oculus, at AmDerma's expense, to file, prosecute, continue prosecution and/or maintenance, as applicable, of such Oculus Patent. In the event of the forgoing, AmDerma shall be entitled, at its discretion and expense, upon written notice to Oculus, to file, prosecute and/or maintain such Oculus Patents, in Oculus' name. Additionally, if competent evidence demonstrates that Oculus has failed to diligently prosecute and/or maintain an Oculus Patent in the Territory, and Oculus has not cured such failure within sixty (60) days of notice thereof from AmDerma (or, if shorter, at least ten (10) business days before any applicable time limit or deadline), AmDerma shall be entitled, upon written notice to Oculus, to prosecute and maintain such Oculus Patent in Oculus' name. In either case, AmDerma shall keep Oculus reasonably informed on matters regarding such prosecution and maintenance, including by providing Oculus with a copy of any and all correspondence between AmDerma and the U.S. Patent Office, providing Oculus with sufficient time to review and comment on such communications (excluding any non-substantive correspondence or communications) and considering in good faith the requests and suggestions of Oculus with respect to such communications with the U.S. Patent Office. With respect to the activities set forth in this Section, Oculus shall provide a power of attorney and all files and other Information Controlled by Oculus pertaining to such Oculus Patents, as soon as reasonably practical after receiving such written election.

8.1.5 AmDerma Patents. Nothing in this Agreement shall be interpreted as in any way limiting AmDerma's right to file patents on inventions or discoveries made by AmDerma on the Product.

8.2 Infringement by Third Parties. The Parties shall promptly notify the other in writing of any alleged or threatened infringement of any Oculus Patent of which they become aware.

8.2.1 Oculus Patents. With respect to infringement of any Oculus Patent that is likely to have an effect or impact on the sales or commercial potential of the Product in the Territory, AmDerma, at its own expense, shall have the sole right, but not the obligation, to bring and control any action or proceeding with respect to infringement of any Oculus Patent at its own expense and using counsel of its own choice, and Oculus shall have the right, at its own expense, to participate in any such action with counsel of its own choice, subject to AmDerma's control.

8.2.2 Cooperation. In the event a Party brings an infringement action in accordance with this Section 8.2, the other Party shall cooperate fully, including, if required to bring such action, the furnishing of a power of attorney to bring suit in the other Party's name and/or being named as a Party and the Party bringing the action shall keep the other Party and/or their designated legal counsel reasonably informed as to the progress of such action. AmDerma, at its own expense, shall have the sole right to settle any litigation under this Section 8.2. Except as otherwise agreed to by the Parties as part of a cost-sharing arrangement, any recovery realized as a result of such litigation, after reimbursement of any litigation expenses of the Parties, shall be retained by [ ]*, except that [ ]*, shall, to the extent [ ]* for purposes of this Agreement. In the event [ ]* the [ ]* the [ ]*. By way of example, if [ ]* and [ ]*, then [ ]*.

8.3 Infringement of Third Party Rights. Each Party shall promptly notify the other in writing of any allegation by a Third Party that the activity of either of the Parties or their Affiliates or contractor in connection with the development, manufacture, use, offer for sale, sale or import of Product infringes the issued patent rights (or would infringe the claims, if issued, of a pending patent application) of any Third Party in the Territory *("**Patent Claims**").*

8.3.1 Without limiting the Parties' other rights or remedies under this Agreement, AmDerma shall have the first right (but not the obligation) of control in addressing, defending, managing and conducting any negotiations, litigation, threatened litigation or settlement regarding such Patent Claims (collectively ***"Litigation"),*** using counsel of its choice and at its own expense. Subject to AmDerma's control, AmDerma and Oculus and their respective Affiliates shall when reasonably practical consult with each other on the course of action to be followed. In the event that AmDerma does not respond to any claim of Litigation against Oculus within (a) sixty (60) days following the notice of such claim or (b) ten (10) days before the time limit, if any, set forth in the appropriate laws and regulations for the filing of a response to such claim, whichever comes first, Oculus shall have the right to bring and control any such Litigation at its own expense and using counsel of its own choice.

8.3.2 Cooperation. In the event of a Litigation in accordance with this Section 12.3, Oculus shall cooperate fully with AmDerma, including, if joined in such Litigation, the furnishing of a power of attorney to defend such Litigation in the other Party's name and/or being named as a Party for the purposes of any cross claim or counterclaim and AmDerma shall keep Oculus and/or Oculus' designated legal counsel reasonably informed as to the progress of such action. Neither Party shall enter into any settlement of Litigation, without the prior written consent of the other, such consent not to be unreasonably withheld, delayed or conditioned.

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* Confidential material redacted and separately filed with the Commission.

8.3.3 Responsibility for Licensing. Notwithstanding the other provisions of this Section 12.3, if the settlement of Litigation provides for or requires the licensing or acquisition of any Third Party intellectual property, the portion of the settlement attributable to such licensing or acquisition shall allocated between the Parties in accordance with Section 8.1.2.2.

9. REPRESENTATIONS AND WARRANTIES

9.1 Representations and Warranties of Both Parties. Each Party represents and warrants to the other that: (a) it is duly organized and validly existing under the laws of its jurisdiction of incorporation or formation, and has full corporate or other power and authority to enter into this Agreement and to carry out the provisions hereof; (b) it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder, and the person or persons executing this Agreement on its behalf has been duly authorized to do so by all requisite corporate or partnership action; and (c) this Agreement is legally binding upon it, enforceable in accordance with its terms, and does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor violate any material law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

9.2 Representations, Warranties and Covenants of Oculus. Oculus represents, warrants and covenants to AmDerma as follows (provided that with respect to Oculus Technology, or any part thereof, any representations, warranties and covenants in this Section 9.2 (other than those set forth in Sections 9.2.10 through and including Section 9.2.14) shall be limited to the sale, use and distribution of the Product in the United States for the approved uses directly resulting from the implementation of the Development Plan by AmDerma):

9.2.1 As of the Effective Date, neither Oculus nor any of its Affiliates has received any written notice from any person, or has knowledge, of any actual or threatened claim or assertion that (i) Oculus' or its Affiliates' Development of the Product (including the components of the Product), (ii) any of Oculus' or its Affiliates' activities in the Development, license or acquisition of the Oculus Technology, or (iii) the manufacture, use, offer for sale, sale or import of Product under the Oculus Technology, for approved uses directly resulting from the Development Plan infringes (or would infringe) or misappropriates any intellectual property rights of any Third Party (including the claims, if issued, of pending patent applications); and Oculus will inform AmDerma if Oculus receives any such notice during the Term;

9.2.2 As of the Effective Date, (i) there is no action or proceeding pending or, to Oculus' knowledge, threatened, with respect to the Product or the Oculus Technology, including with respect to the conduct of any clinical trials, manufacturing activities or other activities involving the Product, or that questions the validity of this Agreement or any action taken by Oculus in connection with the effectiveness of this Agreement; and (ii) there are no unsatisfied judgments or outstanding orders, injunctions, decrees, stipulations or awards (whether rendered by a court, an administrative agency or by an arbitrator) against Oculus with respect to the Product, API, or the Oculus Technology, including with respect to the conduct of any clinical trials, manufacturing activities or other activities involving the Product, in either case that is reasonably likely to have a material adverse effect on the rights granted to AmDerma hereunder, and Oculus will inform AmDerma if any of the forgoing occurs during the Term;

9.2.3 As of the Effective Date, to the knowledge of Oculus, the use of the Oculus Technology by AmDerma, Oculus and their respective Affiliates and contractors, as contemplated by this Agreement, including in the development of the Product (including the components of the Product), and in the manufacture, use, offer for sale, sale or import of Product including the components of the Product) does not infringe any claim of any issued patent of any Third Party. As of the Effective Date, Oculus has no knowledge of any pending patent application, which if issued, would similarly be infringed by the use of the Oculus Technology as contemplated by this Agreement;

9.2.4 To the knowledge of Oculus, Oculus has not and will not violate the trade secrets or misappropriate the confidential Information or intellectual property of any Third Party in connection with the Development or manufacturing of the Product or the development, license or acquisition of the Oculus Technology;

9.2.5 Oculus owns all right, title and interest in and to, or has a license, sublicense or otherwise permission to use and license, all of the Oculus Technology in existence as of the Effective Date;

9.2.6 Oculus has and will maintain during the Term the right to grant the licenses granted to AmDerma relating to the Oculus Technology in existence as of the Effective Date; and to the knowledge of Oculus, (i) Oculus has or through the Development process will secure and will maintain during the Term the right to grant the licenses granted to AmDerma relating to all Oculus Technology created or invented during the Development process, and (ii) Oculus owns all right, title and interest in and to, or has or will have a license, sublicense or otherwise permission to use and license, all of the Oculus Technology created or invented during the Development process;

9.2.7 Oculus has not as of the Effective Date, and will not during the Term, grant or place any liens, security interests and/or other encumbrances in or on the Oculus Technology that would conflict or interfere (including as due to a default or breach of a Third Party obligation of Oculus) with the licenses granted to AmDerma herein;

9.2.8 Exhibit A sets forth a true and complete list of all Patents Controlled by Oculus that claim the Product or the use of the Product in the Territory as of the Effective Date;

9.2.9 To Oculus' knowledge, as of the Effective Date, there is no unauthorized use, infringement or misappropriation Oculus any of the Oculus Technology by any Third Party, including any current or former employee or consultant of Oculus and its Affiliates, and Oculus will inform AmDerma if any of the forgoing occurs during the Term;

9.2.10 All current, former and future employees and consultants of Oculus and its Affiliates who are, have been or will be substantively involved in the design, review, evaluation or development of Oculus Technology or the Product have executed (or with respect to future employees or consults will execute) written contracts or are otherwise obligated to protect the Confidential Information of Oculus, and of any Third Party received through their position with Oculus, and to vest in Oculus or its Affiliates exclusive ownership or license rights consistent with this Agreement of the Oculus Technology as they invent or develop;

9.2.11 Oculus has made, or will make, available to or provide AmDerma with copies of all material Information in Oculus' Control regarding the Product and the Oculus Technology, which could reasonably be expected to be material to assessing the commercial potential for the Product, the ability to timely gain Regulatory Approval of the Product, and/or the risks of infringing Third Party intellectual property through development, manufacture, use, offer for sale, sale or import of Product;

9.2.12 As of the Effective Date, Oculus has not granted any license herein to AmDerma, which could cease, expire or terminate upon the default or breach of any agreement with a Third Party;

9.2.13 Neither Oculus nor any of its employees, agents or consultants have been debarred under the Generic Drug Enforcement Act of 1992, 21 U.S.C. §§ 335a(a) or (b), or sanctioned by a Federal Health Care Program (as defined in 42 U.S.C. § 1320a-7b(f)), including, but not limited to, the Federal Medicare or a state Medicaid program, nor shall TI employ, contract with or retain any person directly or indirectly to perform Services if such person is debarred by the FDA under the Generic Drug Enforcement Act of 1992, 21 U.S.C. §§335a(a) or (b), or sanctioned by a Federal Health Care Program (as defined in 42 U.S.C. § 1320a-7b(f)), including, but not limited to, the Federal Medicare or a state Medicaid program. Oculus agrees to immediately disclose in writing to AmDerma if any employee, investigator or agent is debarred by the FDA, if any action or investigation is pending, or to the best of Oculus' knowledge, is threatened relating to the debarment of Oculus or any person performing Services in connection with any of the projects contemplated under this Agreement;

9.2.14 Oculus agrees that during the Term it will not (a) enable or contract with any Third Party to develop, import or export, market, sell or distribute the Product in the Field of Use in the Territory or itself develop or supply the Product for sale in the Territory, except for the development and supply of the Product pursuant to this Agreement; (b) enable or contract with any Third Party to develop, manufacture, import, market, sell or distribute any Competing Product in the Field of Use in the Territory or itself develop or supply any Competing Product for sale in the Field of Use in the Territory; or (c) enable or contract with any Third Party for the use of the Trademark in the Territory or itself use the Trademark in connection with any product in the Territory other than the Product pursuant to this Agreement.

9.3 Representations, Warranties and Covenants of AmDerma. AmDerma represents, warrants and covenants to Oculus as follows:

9.3.1 As of the Effective Date, to AmDerma's knowledge, (i) there is no action or proceeding pending or threatened, with respect the Product or the Oculus Technology, including with respect to the conduct of any clinical trials, manufacturing activities or other activities involving the Product, or that questions the validity of this Agreement or any action taken by AmDerma in connection with the effectiveness of this Agreement, and (ii) there are no unsatisfied judgments or outstanding orders, injunctions, decrees, stipulations or awards (whether rendered by a court, an administrative agency or by an arbitrator) against AmDerma with respect to the Product or the API including with respect to the conduct of any clinical trials, manufacturing activities or other activities involving the Product, in either case that is reasonably likely to have a material adverse effect on the rights granted to AmDerma hereunder, and AmDerma will inform Oculus if any of the forgoing occurs during the Term.

9.3.2 To the knowledge of AmDerma, AmDerma has not and will not violate the trade secrets or misappropriate the confidential Information or intellectual property of any Third Party in connection with the development or Commercialization of the Product.

9.3.3 AmDerma has not as of the Effective Date, and will not during the Term, grant or place any liens, security interests and/or other encumbrances in or on the Oculus Technology that would conflict or interfere with the licenses granted to AmDerma herein or AmDerma's ability to exercise the rights granted and perform its obligations provided for herein.

9.3.4 All current, former and future employees and consultants of AmDerma and its Affiliates who are, have been or will be substantively involved in the design, review, evaluation or development of Oculus Technology or the Product have executed (or with respect to future employees or consults will execute) written contracts or are otherwise obligated to protect the Confidential Information of Oculus, and of any Third Party received through their position with AmDerma, and to vest in Oculus or its Affiliates exclusive ownership of the Oculus Technology as they invent or develop.

9.3.5 AmDerma agrees that during the Term, except as permitted under this Agreement, it will not, and will not enable or contract with any Third Party to develop, manufacture, import, market, sell or distribute any Competing Product in the Territory.

9.3.6 Neither AmDerma nor any of its employees, agents or consultants have been debarred under the Generic Drug Enforcement Act of 1992, 21 U.S.C. §§ 335a(a) or (b), or sanctioned by a Federal Health Care Program (as defined in 42 U.S.C. § 1320a-7b(f)), including, but not limited to, the Federal Medicare or a state Medicaid program, nor shall AmDerma employ, contract with or retain any person directly or indirectly to perform Services if such person is debarred by the FDA under the Generic Drug Enforcement Act of 1992, 21 U.S.C. §§335a(a) or (b), or sanctioned by a Federal Health Care Program (as defined in 42 U.S.C. § 1320a-7b(f)), including, but not limited to, the Federal Medicare or a state Medicaid program. AmDerma agrees to immediately disclose in writing to Oculus if any employee, investigator or agent is debarred by the FDA, if any action or investigation is pending, or to the best of AmDerma's knowledge, is threatened relating to the debarment of AmDerma or any person performing Services in connection with any of the projects contemplated under this Agreement.

9.4 Disclaimer. Except as expressly set forth herein, EACH PARTY EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION THE WARRANTIES OF DESIGN, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR ARISING FROM A COURSE OF DEALING, USAGE OR TRADE PRACTICES, AND IN ALL CASES WITH RESPECT THERETO. Without limiting the generality of the foregoing, neither Party warrants that the Development or Commercialization of the Product will be successful.

9.5 Limitation of Liability. EXCEPT FOR LIABILITY FOR BREACH OF SECTION 10 OR CAUSED BY FRAUD, NEITHER PARTY SHALL BE ENTITLED TO RECOVER FROM THE OTHER PARTY ANY SPECIAL, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES (INCLUDING, WITHOUT LIMITATION, LOST PROFITS) IN CONNECTION WITH THIS AGREEMENT OR ANY LICENSE GRANTED HEREUNDER, provided however, that this Section 9.5 shall not be construed to limit either Party's indemnification obligations under Section 12 relating to consequential damages awarded to a Third Party.

10. CONFIDENTIALITY

10.1 Confidential Information. Except to the extent expressly authorized by this Agreement or otherwise agreed in writing by the Parties, the Parties agree that, during the Term and for five (5) years thereafter, the receiving Party shall keep confidential and shall not publish or otherwise disclose and shall not use for any purpose other than as expressly provided for in this Agreement, any Information and materials furnished to it by the other Party pursuant to this Agreement (collectively, ***"Confidential Information"***). Each Party may use such Confidential Information only to the extent required to accomplish the purposes of this Agreement. Each Party will use at least the same standard of care as it uses to protect proprietary or confidential information of its own (but in no event less than reasonable care) to ensure that its employees, agents, consultants and other representatives do not disclose or make any unauthorized use of the Confidential Information. Each Party will promptly notify the other upon discovery of any unauthorized use or disclosure of the Confidential Information.

10.2 Exceptions. Confidential Information, as used throughout this Agreement, shall not include any information that receiving Party can prove by competent written evidence: (a) is now, or hereafter becomes, through no act or failure to act on the part of the receiving Party, generally known or available; (b) is known by the receiving Party at the time of receiving such information, as evidenced by its contemporary written records; (c) is hereafter furnished to the receiving Party by a Third Party, as a matter of right and without restriction on disclosure; (d) is independently discovered or developed by the receiving Party without the use of Confidential Information belonging to the disclosing Party; or (e) is the subject of a written permission to disclose provided by the disclosing Party.

10.3 Authorized Disclosure. Each Party may disclose Confidential Information belonging to the other Party to the extent such disclosure is reasonably necessary in the following instances:

10.3.1 regulatory filings for Product as contemplated by this Agreement;

10.3.2 prosecuting or defending litigation as permitted by this Agreement;

10.3.3 complying with applicable court orders or governmental regulations or inquires, including the listing standard of any national or international securities exchange;

10.3.4 conducting (i) commercialization activities in accordance with a license granted under Section 2.1 or (ii) Development activities pursuant to Article 3; and

10.3.5 disclosure to Affiliates, employees, consultants, accountants or agents or to other Third Parties in connection with due diligence or similar investigations by such Third Parties, and disclosure to potential Third Party investors in confidential financing documents, provided, in each ease, that any such Affiliate, employee, consultant, accountant, agent or Third Party agrees to be bound by terms of confidentiality and non-use comparable in scope to those set forth in this Section 10.

Notwithstanding the foregoing, in the event a Party is required to make a disclosure of the other Party's Confidential Information pursuant to Section 10.3.2 or 10.3.3, it will, except where impracticable, give reasonable advance notice to the other Party of such disclosure and use efforts to secure confidential treatment of such information at least as diligent as such Party would use to protect its own confidential information, but in no event less than reasonable efforts. In any event, the Parties agree to take all reasonable action to avoid disclosure of Confidential Information hereunder. The Parties will consult with each other on the provisions of this Agreement to be redacted in any filings made by the Parties with any regulatory authority (such as the Securities and Exchange Commission) or as otherwise required by law.

10.4 Publications. Each Party to this Agreement recognizes that the publication of papers regarding results of and other information regarding development activities with respect to Product, including oral presentations and abstracts, may be beneficial to both Parties provided such publications are subject to reasonable controls to protect Confidential Information. Each Party will keep the other informed of any plan to publish anything related to the Product. Each Party shall have the right to review and comment on any material proposed for disclosure or publication by the other Party, such as by oral presentation, manuscript or abstract, related to the Product, including any Confidential Information of the other Party. Before any such material is submitted for publication, the publishing Party shall deliver a complete copy, including an English translation if applicable, to the other Party at least forty-five *(45)* days prior to submitting the material to a publisher or initiating any other disclosure. Such other Party shall review any such material and give its comments to the Party proposing publication within thirty (30) days of the delivery of such material to such other Party. With respect to oral presentation materials and abstracts, the reviewing Party shall make reasonable efforts to expedite review of such materials and abstracts, and shall return such items as soon as practicable to the other Party with appropriate comments.

10.5 Publicity. It is understood that AmDerma may issue a press release announcing the execution of this Agreement. The Parties agree to consult with each other reasonably and in good faith with respect to the text and timing of such press releases prior to the issuance thereof, provided that either Party may issue a press release if it determines, based on advice of counsel, that it is necessary to comply with laws or regulations or for appropriate market disclosure. In addition, following the initial press release announcing this Agreement, either Party shall be free to disclose, without the other Party's prior written consent, the existence of this Agreement, the identity of the other Party and those terms of the Agreement which have already been publicly disclosed in accordance herewith; however such press release shall not disclose the Product's dosage form, API or Trademark without the prospective written permission of AmDerma.

11. TERM AND TERMINATION

11.1 Term. The term of this Agreement (the ***"Term")*** shall commence on the Effective Date and continue in perpetuity, unless the Agreement is Terminated pursuant to this Section 11.1.

11.2 Breach.

11.2.1 Termination. Each Party shall have the right to terminate this Agreement upon written notice to the other upon the occurrence of or after a material breach of this Agreement by the other Party if the breaching Party has not cured such breach within sixty (60) days following written Notice of termination by the non-breaching Party provided, however, that (1) if the allegedly breaching Party disputes whether there has been a material breach and initiates a declaratory judgment action, then (subject to the limitation set forth in the following sentence) the time to cure such breach shall toll pending such action and such Party shall have until sixty (60) days following the determination (or dismissal) of such action to cure such breach; or (2) if a material breach has taken place and is not cured within 60 days of written notice and the defaulting Party is demonstrating good faith efforts to cure such breach, the Agreement shall not be terminated as long as the breaching Party's good faith efforts to cure the breach continue. Nevertheless, if the breaching Party's good faith efforts do not cure the breach within one hundred and twenty (120) days, the non-defaulting Party shall have the right, at its option, to cancel and terminate this Agreement.

Notwithstanding any termination under this Section 15.2, any obligation by a Party to make any monetary payment, which had accrued or has become payable as of the date of termination shall survive termination of this Agreement.

11.2.2 AmDerma Option to Retain License on Oculus Breach. In the event that Oculus has materially breached this Agreement and failed to cure such breach as provided in Section 11.2.1 above, and AmDerma does not wish to terminate its exclusive license hereunder, AmDerma may in its discretion, retain its license on a royalty free basis for so long as AmDerma continues to Commercialize the Product in the Territory.

11.2.3 Oculus Rights on AmDerma Breach. In the event that AmDerma has materially breached this Agreement and failed to cure such breach as provided in Section 11.2.1 above, and Oculus does not wish to terminate this Agreement, Oculus may, in its discretion, seek to have the court determine whether such material breach has occurred and if it is deemed to have occurred, assign appropriate relief or damages as may be available at law or in equity.

11.3 Termination for Convenience. AmDerma shall have the right to terminate this Agreement at any time upon sixty (60) days notice to Oculus. If AmDerma elects to terminate the Agreement as set forth in this Section 11.3 and Oculus continues the development of the Product, either itself or through a Third Party, AmDerma shall be reimbursed for its documented, out-of-pocket development costs, including all clinical costs, from the proceeds of the Commercialization of the Product.

11.4 Effect of Expiration or Termination; Surviving Obligations.

11.4.1 Effect of Expiration or Termination. Upon the expiration of the Term or termination of this Agreement pursuant to Section 11.2 or 14.9, all rights and obligations of the Parties under this Agreement shall terminate and the license provided in Section 2.2 shall terminate, except in the case of each of the above, as provided in this Section 11.4, Section 11.2.2 and Section 11.2.3. Upon termination of this Agreement by AmDerma for Oculus's breach of the Agreement, AmDerma shall continue to have the right, itself and/or through or with its Affiliates and sublicensees or any of their designees to develop, have developed, make, have made, use distribute, offer for sale, import, export and sell the Product in the Territory and shall have a fully paid-up, non exclusive, irrevocable license in such countries under the rights licensed to AmDerma pursuant to Section 2.1. Without limiting the foregoing, upon the termination of this Agreement, AmDerma may continue to sell inventory of Product then on hand for an additional period not to exceed one (1) year, and the sale of such Product shall be subject to the terms and conditions of this Agreement.

11.4.2 Return of Confidential Information. Except as otherwise provided in this Agreement, within thirty (30) days following the expiration or termination of this Agreement, each Party shall deliver to the other Party any and all Confidential Information of such Party then in its possession.

11.4.3 Surviving Obligations. Expiration or termination of this Agreement shall not relieve the Parties of any obligation accruing prior to such expiration or termination. Except as set forth below or elsewhere in this Agreement, the obligations and rights of the Parties under the following provisions of this Agreement shall survive expiration or termination of this Agreement.

11.5 Exercise of Right to Terminate. The rightful use by either Party hereto of a termination right provided for under this Agreement shall not give rise to the payment of damages or any other form of compensation or relief to the other Party with respect thereto.

11.6 Damages; Relief. Subject to Section 11.4 above, termination of this Agreement shall not preclude either Party from claiming any other damages, compensation or relief that it may be entitled to upon such termination.

11.7 Rights in Bankruptcy. All rights and licenses granted under or pursuant to any article or section of this Agreement are, and shall otherwise be deemed to be, for purposes of Section 365(n) of Title 11 of the United States Code and other similar foreign laws (collectively, the ***"Bankruptcy Code"),*** licenses of rights to be "intellectual property" as defined under the Bankruptcy Code or such foreign laws.

11.7.1 If a case is commenced during the Term by or against Oculus or its Affiliates under a Bankruptcy Code then, unless and until this Agreement is rejected as provided in such Bankruptcy Code, Oculus (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a trustee) shall perform all of the obligations provided in this Agreement to be performed by such Party. If a Bankruptcy Code case is commenced during the Term by or against Oculus, this Agreement is rejected as provided in the Bankruptcy Code and AmDerma elects to retain its rights hereunder as provided in the Bankruptcy Code, then Oculus, subject to the Bankruptcy Code case (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Title 11 trustee), shall provide to AmDerma copies of all Information necessary for AmDerma to prosecute, maintain and enjoy its license under the Oculus Technology under the terms of this Agreement held by Oculus and such successors and assigns promptly upon AmDerma's written request therefor. To retain its rights, AmDerma is required to continue to satisfy its payment obligations under this Agreement. All rights, powers and remedies of AmDerma, as a licensee hereunder, provided herein are in addition to and not in substitution for any and all other rights, powers and remedies now or hereafter existing at law or in equity (including, without limitation, the Bankruptcy Code) in the event of the commencement of a Bankruptcy Code case by or against Oculus.

11.7.2 If a case is commenced during the Term by or against AmDerma or its Affiliates under a Bankruptcy Code then, unless and until this Agreement is rejected as provided in such Bankruptcy Code, AmDerma (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a trustee) shall perform all of the obligations provided in this Agreement to be performed by such Party. If a Bankruptcy Code case is commenced during the Tenn by or against AmDerma, this Agreement is rejected as provided in the Bankruptcy Code and Oculus elects to retain its rights hereunder as provided in the Bankruptcy Code, then AmDerma, subject to the Bankruptcy Code case (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Title 11 trustee), shall provide to Oculus copies of all Information necessary for Oculus to prosecute, maintain and enjoy the Oculus Technology rights granted to AmDerma under the terms of this Agreement held such successors and assigns promptly upon Oculus' written request therefor. All rights, powers and remedies of Oculus as a licensor provided herein are in addition to and not in substitution for any and all other rights, powers and remedies now or hereafter existing at law or in equity (including, without limitation, the Bankruptcy Code) in the event of the commencement of a Bankruptcy Code case by or against AmDerma.

12. INDEMNIFICATION

12.1 Indemnification by Oculus. Oculus hereby agrees to save, defend and hold AmDerma and its Affiliates and their respective directors, officers, employees and agents (each, a ***"AmDerma Indemnitee")*** harmless from and against any and all claims, suits, actions, demands, liabilities, expenses and/or loss, including reasonable legal expense and attorneys' fees (collectively, ***"Losses"),*** to which any AmDerma Indemnitee may become subject as a result of any claim, demand, action or other proceeding by any Third Party to the extent such Losses arise out of (a) the material breach by Oculus of any warranty, representation, covenant or agreement made by Oculus in this Agreement; (b) any and all Losses relating to the post Termination. Oculus continued Development and Commercialization; or (c) any Third Party intellectual property infringement or misappropriation claims allegations, investigations or demands to the extent arising from use of the Oculus Technology (as permitted by this Agreement and directly resulting from the implementation of the Development Plan) in the manufacture, marketing or distribution of the Product for use in the United States, except in the case of (b) and (c), above to the extent that such Losses result from: (a) product liability or personal injury claims relating to manufacturing and handling of commercial Product, including but not limited to source and supply of API or any formulation component, any stage of finished Product manufacturing, packaging, shipping and storage by AmDerma or any Third Party; (b) the negligence or willful misconduct of any AmDerma Indemnitee; (c) the breach by AmDerma of any warranty, representation, covenant or agreement made by AmDerma in this Agreement; or (d) AmDerma's separate Development of Product for Regulatory Approval and Commercialization outside the United States.

12.2 Indemnification by AmDerma. Except and then only to the extent provided in Sections 12.1 and 12,4, AnaDerma hereby agrees to save, defend and hold Oculus and its Affiliates and their respective directors, officers, employees and agents (each, an ***"Oculus Indemnitee")*** harmless from and against any and all Losses to which any Oculus Indemnitee may become subject as a result of any allegation, investigation, claim, demand, action or other proceeding by any Third Party to the extent such Losses arise out of the Development or Commercialization of any Product in the Territory.

12.3 Control of Defense. Except for Patent Claims as set forth in Section 8.2, any entity entitled to indemnification under this Section 16 shall give notice to the indemnifying Party of any Losses that may be subject to indemnification, promptly after learning of such Losses, and the indemnifying Party shall assume the defense of such Losses with counsel reasonably satisfactory to the indemnified Party. If such defense is assumed by the indemnifying Party with counsel so selected, the indemnifying Party will not be subject to any liability for any settlement of such Losses made by the indemnified Party without its consent (but such consent will not be unreasonably withheld, delayed or conditioned), and will not be obligated to pay the fees and expenses of any separate counsel retained by the indemnified Party with respect to such Losses.

12.4 Other Product Liability Claims. To the extent either party incurs any Losses arising from or in connection with any claim based on product liability with respect to the Product that is not a "Known Product Risk" as defined below ***("Product Claim"),*** such Losses shall be [ ]* during the Royalty Term [ ]* percent ([ ]*%) by Oculus and [ ]* percent ([ ]*%) by AmDerma. AmDerma shall have sole control in addressing, defending, managing and conducting any negotiations, litigation, threatened litigation or settlement regarding such Product Claim, using counsel of its choice. Subject to AmDerma's control, AmDerma and Oculus and their respective Affiliates when reasonably practical shall consult with each other on the course of action to be followed. In the event that AmDerma does not respond to any Product Claim against Oculus within (a) sixty (60) days following the notice of such claim, or (b) ten (10) days before the time limit, if any, set forth in the appropriate laws and regulations for the filing of a response to such Product Claim, whichever comes first, Oculus shall have the right to control any such Product Claim, using counsel of its own choice. In the event of a Product Claim, Oculus shall cooperate fully with AmDerma, including, if a party in such Product Claim, the furnishing of a power of attorney to defend Oculus in such litigation in Oculus' name and/or being named as a party for the purposes of any cross claim or counterclaim and AmDerma shall keep Oculus and/or Oculus' designated legal counsel reasonably informed as to the progress of such action. Neither party shall enter into any settlement of a Product Claim, without the prior written consent of the other, such consent not to be unreasonably withheld, delayed or conditioned. For purposes of this Section 12.4, "Known Product Risk" shall consist of the following: any and all known side effects, contraindications, drug interactions, adverse events, and risks of use of the API, any other components singly or in combination of the Product formulation, the Product container and propellant, but in each such case only as noted in available information in the English, German, French or other European Union languages, such as reputable and published, scientific studies, reports, case reports, and textbooks and product labeling, adverse event reporting and other available databases. For the avoidance of doubt any Losses relating to post Termination Oculus continued Development and Commercialization shall be the sole obligation of Oculus.

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* Confidential material redacted and separately filed with the Commission.

12.5 Contributory Negligence. Subject to the indemnification obligations under Sections 12.1 and 12.2 of this Agreement and unless otherwise agreed upon between the Parties to the extent any Losses are caused and attributed by a court of competent jurisdiction to the negligence of both Parties, the apportionment of liability, assigned by the court, shall be shared between the Parties based upon the same proportionate sharing as stated in Section 16.4 and each Party shall be responsible for its own defense and its own costs including, but not limited to, the cost of defense attorneys' fees and witnesses' fees and expenses incident thereto.

12.6 Insurance. The Parties shall maintain during the Term, at their own expense, general liability coverage appropriate to its activities with reputable and financially secure insurance carriers to cover its activities related to this Agreement.

13. DISPUTE RESOLUTION

13.1 Disputes. The Parties recognize that disputes as to certain matters arising under this Agreement may arise from time-to-time. It is the objective of the Parties to seek to resolve any issues or disputes arising under this Agreement in an expedient manner and, if at all possible, without resort to litigation, and to that end the Parties agree to abide by the procedures set forth in this Section 17 to resolve any such issues or disputes. The Parties initially shall attempt to settle any such issue or dispute through good faith negotiations in the spirit of mutual cooperation between business executives with authority to resolve the dispute.

13.2 Escalation. Notwithstanding provisions elsewhere in this Agreement, prior to taking action as provided in Section 13.3 of this Agreement, the Parties shall first submit such dispute to the Chief Executive Officer of Oculus and the Chief Executive Officer of AmDerma (collectively, the ***"Executives"),*** or their respective designated representatives who shall be a senior executive officer with authority to settle the applicable issue or dispute, for resolution. The Executives to whom any dispute is submitted shall attempt to resolve the dispute through good faith negotiations over a reasonable period, not to exceed forty-five (45) calendar days, unless the Executives mutually agree in writing to extend such period of negotiation. Such 45-calendar day period shall be deemed to commence on the date the dispute was submitted to the Executives. The Executives shall, if mutually agreed by the Executives, submit the dispute to voluntary mediation at such place and following such procedures as the Parties shall reasonably agree. All negotiations pursuant to this Section 13.2 shall be confidential, and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence.

13.3 Court Actions. Notwithstanding the above, but subject to Section 14.1, to the full extent allowed by law, either Party may bring an action in any court of competent jurisdiction for injunctive relief (or any other provisional remedy) to protect the Parties' rights or enforce the Parties' obligations under this Agreement. Subject to Section 14.1, in addition, either Party may bring an action in any court of competent jurisdiction to resolve disputes pertaining to the validity, construction, scope, enforceability, infringement or other violations of patents or other proprietary or intellectual property rights. The Parties shall use their reasonable efforts to conduct all dispute resolution procedures under this Agreement as expeditiously, efficiently and cost-effectively as possible.

14. GENERAL PROVISIONS

14.1 Governing Law and Jurisdiction. This Agreement and any disputes, claims, or actions related thereto shall be governed by and construed in accordance with the laws of the State of New York without regard to the conflicts of law provisions thereof with the exception of sections 5-1401 and 5-1402 of New York General Obligations Law. The Parties irrevocably agree that the State and Federal courts located in the State, City, and County of New York, shall have exclusive jurisdiction to deal with any disputes arising out of or in connection with this Agreement and that venue is proper in such courts. Solely for purposes of disputes arising under this Agreement, each Party hereby expressly consents and submits to the personal jurisdiction of Federal and State courts in the State and County of New York. The Parties hereby agree that the United Nations Convention on Contracts shall not apply to this Agreement. Each Party hereby agrees to accept service of process, without limitation, by certified mail, return receipt requested or by overnight delivery through a large reputable international delivery service (e.g., FedEx or DHL).

14.2 Entire Agreement; Modification. This Agreement is both a final expression of the Parties' agreement and a complete and exclusive statement with respect to all of its terms. This Agreement supersedes all prior and contemporaneous agreements and communications, whether oral, written or otherwise, concerning any and all matters contained herein. No rights or licenses with respect to any intellectual property of either Party are granted or deemed granted hereunder or in connection herewith, other than those rights expressly granted in this Agreement. This Agreement may only be modified or supplemented in a writing expressly stated for such purpose and signed by the Parties to this Agreement.

14.3 Relationship Between the Parties. The Parties' relationship, as established by this Agreement, is solely that of independent contractors. This Agreement does not create any partnership, joint venture or similar business relationship between the Parties; neither Party is a legal representative of the other Party; and neither Party can assume or create any obligation, representation, warranty or guarantee, express or implied, on behalf of the other Party for any purpose whatsoever.

14.4 Non-Waiver. The failure of a Party to insist upon strict performance of any provision of this Agreement or to exercise any right arising out of this Agreement shall neither impair that provision or right nor constitute a waiver of that provision or right, in whole or in part, in that instance or in any other instance. Any waiver by a Party of a particular provision or right shall be in writing, shall be as to a particular matter and, if applicable, for a particular period of time and shall be signed by such Party.

14.5 **Assignment**. Except as expressly provided hereunder, neither this Agreement nor any rights or obligations hereunder may be assigned or otherwise transferred by either Party without the prior written consent of the other Party (which consent shall not be unreasonably delayed, conditioned or withheld); provided however, that either Party may assign this Agreement and its rights and obligations hereunder without the other Party's consent:

14.5.1 In connection with the transfer or sale of all or substantially all of the business of such Party to a Third Party, whether by merger, sale of stock, sale of assets or otherwise, provided that in the event of a transaction (whether this Agreement is actually assigned or is assumed by the acquiring Party by operation of law *(e.g.,* in the context of a reverse triangular merger)), intellectual property rights of such Third Party acquiring party to such transaction shall not be included in the technology licensed hereunder (except to the extent already included herein); or

14.5.2 To an Affiliate, provided that the assigning Party shall remain liable and responsible to the non-assigning Party hereto for the performance and observance of all such duties and obligations by such Affiliate.

The rights and obligations of the Parties under this Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Parties. Any assignment or transfer not in accordance with this Agreement shall be void.

14.6 **No Third Party Beneficiaries.** This Agreement is neither expressly nor impliedly made for the benefit of any Party other than those executing it.

14.7 **Severability.** If, for any reason, any part of this Agreement is adjudicated invalid, unenforceable or illegal by a court of competent jurisdiction, such adjudication shall not affect or impair, in whole or in part, the validity, enforceability or legality of any remaining portions of this Agreement. All remaining portions shall remain in full force and effect as if the original Agreement had been executed without the invalidated, unenforceable or illegal part.

14.8 **Notices.** Any notice to be given under this Agreement must be in writing and delivered in person, by any method of mail (postage prepaid) requiring return receipt, or by overnight courier, or by facsimile confirmed thereafter by any of the foregoing, to the Party to be notified at its address given below, or at any address such Party has previously designated by prior written notice to the other. Notice shall be deemed sufficiently given for all purposes upon the earliest of (a) the date of actual receipt; (b) if mailed, seven (7) days after the date of postmark; or (c) if delivered by overnight courier, upon actual receipt as demonstrated by signature for the package ("Notice").

If to AmDerma, notices must be addressed to:

AmDerma Pharmaceuticals LLC
_____
_____

with a copy to:

Quinnova Pharmaceuticals Inc.
_____
_____

If to Oculus, notices must be addressed to:

_____
_____

14.9 Force Majeure. Except for the obligation to make payment when due, each Party shall be excused from liability for the failure or delay in performance of any obligation under this Agreement by reason of any event beyond such Party's reasonable control and without the fault or negligence of the affected Party, including Acts of God, fire, flood, explosion, earthquake, or other natural forces, war, terrorist activity, civil unrest, accident, destruction or other casualty, any lack or failure of transportation facilities, any lack or failure of supply of raw materials, any strike or labor disturbance, or any other event similar to those enumerated above *("**Force Majeure**").* Such excuse from liability shall be effective only to the extent and duration of the event(s) causing the failure or delay in performance and provided that the Party has not caused such event(s) to occur. Notice of a Party's failure or delay in performance due to force majeure must be given by such affected Party to the other Party within ten (10) business days after its occurrence. All delivery dates under this Agreement that have been affected by force majeure shall be tolled for the duration of such force majeure. In no event shall any Party be required to prevent or settle any labor disturbance or dispute. Notwithstanding the foregoing, should the event(s) of force majeure suffered by a Party extend beyond a three (3) month period, the other Party may then terminate this Agreement by written notice to the non-performing Party, with the consequences of such termination as set forth in Sections 11.2.2, and 11.4.

14.10 Interpretation.

14.10.1 Captions & Headings. The captions and headings of clauses contained in this Agreement preceding the text of the articles, sections, subsections and paragraphs hereof are inserted solely for convenience and ease of reference only and shall not constitute any part of this Agreement, or have any effect on its interpretation or construction.

14.10.2 Singular & Plural. All references in this Agreement to the singular shall include the plural where applicable, and all references to gender shall include both genders and the neuter.

14.10.3 Articles, Sections & Subsections. Unless otherwise specified, references in this Agreement to any article shall include all sections, subsections, and paragraphs in such article; references in this Agreement to any section shall include all subsections and paragraphs in such sections; and references in this Agreement to any subsection shall include all paragraphs in such subsection.

14.10.4 Days. All references to days in this Agreement shall mean calendar days, unless otherwise specified.

14.10.5 Ambiguities. Ambiguities and uncertainties in this Agreement, if any, shall not be interpreted against either Party, irrespective of which Party may be deemed to have caused the ambiguity or uncertainty to exist,

14.10.6 Miscellaneous. Unless the context of this Agreement otherwise requires, (a) the terms "hereof," "herein," "hereby," and other similar words refer to this entire Agreement; (b) the terms "include," "includes," or "including" shall be deemed to be followed by the words "without limitation"; (c) references in this Agreement to "Dollars" or "$" shall mean the legal tender of the US.

14.11 Counterparts. This Agreement may be executed in two or more counterparts, including by transmission of facsimile or PDF copies of signature pages to the Parties or their representative legal counsel, each of which shall be deemed an original document, and all of which, together with this writing, shall be deemed one instrument.

[Remainder of this page intentionally left blank]

[Signature Page of Collaboration Agreement]

IN WITNESS WHEREOF, the Parties hereto have duly executed this **COLLABORATION AGREEMENT** as of the Effective Date.

OCULUS INNOVATIVE SCIENCES, INC.

By:/s/ Hojabr Alimi
Name:Hojabr Alimi
Title:President and CEO

AmDerma Pharmaceuticals LLC

By: /s/ Chirag Patel
Name: Chirag Patel
Title: Manager

EXHIBIT A
OCULUS PATENTS

Country	Application Filing Date	Application Number	Date of Publication	Publication n°	Patent Issue Date	Patent Number
None						

Exhibit 31.1

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

I, Hojabr Alimi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oculus Innovative Sciences, Inc. for the quarter ended June 30, 2012;

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2012

Exhibit 31.2

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

I, Robert Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oculus Innovative Sciences, Inc. for the quarter ended June 30, 2012;

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: August 3, 2012

Exhibit 32.1

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2012

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

Date: August 3, 2012

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