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 December 31, 2010

or

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

For the transition period from _____ to _____

Commission File Number 001-33216

OCULUS INNOVATIVE SCIENCES, INC.

(Exact name of registrant as specified in its charter)

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

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

(707) 782-0792
Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (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 February 3, 2010 the number of shares outstanding of the registrant's common stock, $0.0001 par value, was 26,486,922.

OCULUS INNOVATIVE SCIENCES, INC.

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

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

	December 31, 2010 (Unaudited)	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,673	$ 6,258
Accounts receivable, net	1,722	1,416
Inventories, net	615	565
Prepaid expenses and other current assets	395	811
Total current assets	7,405	9,050
Property and equipment, net	957	1,108
Other assets	51	60
Total assets	$ 8,413	$ 10,218
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 786	$ 981
Accrued expenses and other current liabilities	1,186	1,078
Current portion of long-term debt, net of discount	674	204
Derivative liability	273	472
Total current liabilities	2,919	2,735
Deferred revenue	167	328
Long-term debt, net of discount, less current portion	1,858	110
Put warrant liability	750	—
Total liabilities	5,694	3,173
Commitments and Contingencies		
Stockholders' Equity:		
Convertible preferred stock, $0.0001 par value; 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2010 (unaudited) and March 31, 2010	—	—
Common stock, $0.0001 par value; 100,000,000 shares authorized, 26,463,726 and 26,161,428 shares issued and outstanding at December 31, 2010 (unaudited) and March 31, 2010, respectively	3	3
Additional paid-in capital	128,992	127,067
Accumulated other comprehensive loss	(2,985)	(2,988)
Accumulated deficit	(123,291)	(117,037)
Total stockholders' equity	2,719	7,045
Total liabilities and stockholders' equity	$ 8,413	$ 10,218

See accompanying notes

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Revenues				
Product	$ 2,003	$ 1,357	$ 6,330	$ 4,327
Service	310	256	713	805
Total revenues	2,313	1,613	7,043	5,132
Cost of revenues				
Product	925	736	2,259	1,864
Service	239	186	573	659
Total cost of revenues	1,164	922	2,832	2,523
Gross profit	1,149	691	4,211	2,609
Operating expenses				
Research and development	467	372	1,416	1,676
Selling, general and administrative	2,760	2,324	8,914	7,494
Total operating expenses	3,227	2,696	10,330	9,170
Loss from operations	(2,078)	(2,005)	(6,119)	(6,561)
Interest expense	(109)	(2)	(256)	(9)
Interest income	2	—	3	1
Change in fair value of derivative liability	(55)	625	199	(132)
Other income (expense), net	10	36	(81)	(79)
Net loss	$ (2,230)	$ (1,346)	$ (6,254)	$ (6,780)
Net loss per common share: basic and diluted	$ (0.08)	$ (0.05)	$ (0.24)	$ (0.30)
Weighted-average number of shares used in per common share calculations:				
Basic and diluted	26,431	24,647	26,323	22,272
Other comprehensive loss, net of tax				
Net loss	$ (2,230)	$ (1,346)	$ (6,254)	$ (6,780)
Foreign currency translation adjustments	(20)	(5)	3	108
Other comprehensive loss	$ (2,250)	$ (1,351)	$ (6,251)	$ (6,672)

See accompanying notes

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

	Nine Months Ended December 31,	
	2010	**2009**
Cash flows from operating activities:		
Net loss	$ (6,254)	$ (6,780)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	282	332
Stock-based compensation	1,839	1,143
Change in fair value of derivative liability	(199)	132
Non-cash interest expense	103	—
Foreign currency transaction losses (gains)	4	(17)
Loss on disposal of assets	3	156
Changes in operating assets and liabilities:		
Accounts receivable	(304)	(134)
Inventories	(53)	(202)
Prepaid expenses and other current assets	415	395
Accounts payable	(138)	(296)
Accrued expenses and other liabilities	(53)	170
Net cash used in operating activities	(4,355)	(5,101)
Cash flows from investing activities:		
Change in long-term deposits	10	(47)
Purchases of property and equipment	(73)	(74)
Net cash used in investing activities	(63)	(121)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of offering costs	—	7,155
Proceeds from the exercise of common stock options and warrants	29	1,576
Proceeds from issued debt	3,000	—
Principal payments on debt	(202)	(299)
Payments on capital lease obligations	—	(6)
Net cash provided by financing activities	2,827	8,426
Effect of exchange rate on cash and cash equivalents	6	33
Net (decrease) increase in cash and cash equivalents	(1,585)	3,237
Cash and equivalents, beginning of period	6,258	1,921
Cash and equivalents, end of period	$ 4,673	$ 5,158
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 153	$ 9
Equipment financed	$ 67	$ 155
Obligations settled with common stock	$ 57	$ 417

See accompanying notes

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Oculus Innovative Sciences, Inc. (the "Company") was incorporated under the laws of the State of California in April, 1999 and was reincorporated under the laws of the State of Delaware in December, 2006. The Company's principal office is located in Petaluma, California. The Company develops, manufactures and markets a family of tissue care products to treat infections and, through a separate mechanism of action, enhance healing while reducing the need for antibiotics. The Company's platform technology, called Microcyn®, is a proprietary solution of electrically charged oxychlorine small molecules designed to treat a wide range of organisms that cause disease (pathogens). The Company conducts its business worldwide, with significant subsidiaries in Europe and Mexico.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of December 31, 2010 and for the three and nine months then ended have been prepared in accordance with the accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission ("SEC") and on the same basis as the annual audited consolidated financial statements. The unaudited condensed consolidated balance sheet as of December 31, 2010, condensed consolidated statements of operations for the three and nine months ended December 31, 2010 and 2009, and the condensed consolidated statements of cash flows for the nine months ended December 31, 2010 and 2009 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The results for the three and nine months ended December 31, 2010 are not necessarily indicative of results to be expected for the year ending March 31, 2011 or for any future interim period. The condensed consolidated balance sheet at March 31, 2010 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, 2010, and notes thereto included in the Company's Form 10-K, which was filed with the SEC on June 8, 2010.

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. Periodically, the Company evaluates and adjusts estimates accordingly. The allowance for uncollectible accounts receivable balances amounted to $54,000 and $99,000, which are included in accounts receivable, net in the accompanying December 31, 2010 and March 31, 2010 condensed consolidated balance sheets, respectively. The reserve for excess and obsolete inventory balances amounted to $140,000 and $143,000, which are included in inventories, net in the accompanying December 31, 2010 and March 31, 2010 condensed consolidated balance sheets, respectively.

Foreign Currency Reporting

The Company's subsidiary in Mexico uses the local currency (Mexican Pesos) as its functional currency and the Company's subsidiary in Europe uses the local currency (Euro) as its functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date, and revenue and expense accounts are translated at average exchange rates during the period. Resulting translation adjustments were recorded in accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets at December 31, 2010 and March 31, 2010.

Foreign currency transaction gains (losses) relate primarily to trade payables and receivables between the Company's subsidiaries in Mexico and Europe. These transactions are expected to be settled in the foreseeable future. The Company recorded foreign currency transaction losses of $11,000 and $1,000 for the three months ended December 31, 2010 and 2009, respectively. The Company recorded foreign currency transaction (losses) gains of ($4,000) and $17,000 for the nine months ended December 31, 2010 and 2009, respectively. The related (losses) gains were recorded in other income and expense, net, in the accompanying condensed consolidated statements of operations.

Net Loss per Share

The Company computes basic net loss per share by dividing net loss per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic and diluted net loss per share for the three and nine months ended December 31, 2010 and 2009 excludes potentially dilutive securities because their inclusion would be anti-dilutive.

The following securities were excluded from basic and diluted net loss per share calculation because their inclusion would be anti-dilutive (in thousands):

	December 31,	
	2010	**2009**
Options to purchase common stock	4,322	3,232
Restricted stock units	—	30
Warrants to purchase common stock	9,370	10,380
	13,692	13,642

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 December 31, 2010, other than certain warrants that contain reset provisions that the Company classified as derivative liabilities as more fully described in Note 5.

Fair Value of Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The fair value of capital lease obligations and equipment loans approximates their carrying amounts as a market rate of interest is attached to their repayment.

The Company measures the fair value of financial assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company uses three levels of inputs that may be used to measure fair value:

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

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

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

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

	Fair value measurements (in thousands) at December 31, 2010 using			
	December 31, 2010	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)	$273		—	$273

Subsequent Events

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

Recent Accounting Pronouncements

In March 2010, the FASB issued ASU No. 2010-17, "Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition." This standard provides that the milestone method is a valid application of the proportional performance model for revenue recognition if the milestones are substantive and there is substantive uncertainty about whether the milestones will be achieved. Determining whether a milestone is substantive requires judgment that should be made at the inception of the arrangement. To meet the definition of a substantive milestone, the consideration earned by achieving the milestone (1) would have to be commensurate with either the level of effort required to achieve the milestone or the enhancement in the value of the item delivered, (2) would have to relate solely to past performance, and (3) should be reasonable relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement. The new standard is effective for interim and annual periods beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this standard did not have any impact on the Company's consolidated financial position and results of operations.

Other 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

During the three and nine months ended December 31, 2010, the Company incurred a net loss of $2,230,000 and $6,254,000 respectively. At December 31, 2010, the Company's accumulated deficit amounted to $123,291,000. During the nine months ended December 31, 2010, net cash used in operating activities amounted to $4,355,000. At December 31, 2010, the Company's working capital amounted to $4,486,000. The Company may raise additional capital from external sources in order to continue the longer term efforts contemplated under its business plan. The Company expects to continue incurring losses for the foreseeable future and may raise additional capital to pursue its product development initiatives, penetrate markets for the sale of its products and continue as a going concern.

On May 1, 2010, the Company entered into a Loan and Security Agreement and a Supplement to the Loan and Security Agreement with Venture Lending & Leasing, Inc. (as discussed in Note 3) to borrow up to an aggregate of up to $3,000,000. On May 3, 2010, the Company borrowed $2,000,000 and on November 17, 2010 the Company borrowed the remaining $1,000,000. The effective interest rate on the loan is 13.3%.

During the nine months ended December 31, 2010, the Company received $29,000 in connection with the exercise of 71,369 stock options.

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 January 1, 2012. However, in order to execute the Company's long-term Microcyn product development strategy and to penetrate new and existing markets, the Company may need to raise additional funds, through public or private equity offerings, debt financings, corporate collaborations or other means. The Company may raise additional capital to pursue its product development initiatives and penetrate markets for the sale of its products.

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

Note 3. Condensed Consolidated Balance Sheets

Inventories

Inventories consisted of the following (in thousands):

	December 31, 2010	March 31, 2010
	(unaudited)	
Raw materials	$ 463	$ 406
Finished goods	$ 293	$ 302
	$ 756	$ 708
Less: inventory allowances	$ (141)	$ (143)
	$ 615	$ 565

Notes Payable

On May 1, 2010, the Company entered into a Loan and Security Agreement and a Supplement to the Loan and Security Agreement with Venture Lending & Leasing V, Inc. to borrow up to an aggregate of $3,000,000 (collectively, the "Agreements"). The Agreements provide for a first tranche of $2,000,000 and, upon meeting certain financial milestones, a second tranche of $1,000,000. On May 3, 2010, the Company borrowed $2,000,000 on the first tranche and on November 17, 2010 the Company borrowed $1,000,000 on the second tranche. The loan is secured by the assets of the Company excluding intellectual property under certain circumstances. Related to the first tranche, the Company made eight monthly interest only payments set at $16,660 through December 1, 2010. Thereafter, the Company will make interest and principal payments of $75,000 per month through June 1, 2013. Related to the second tranche, the Company pays monthly interest only payments set at $8,330 through May 1, 2011. Thereafter, the Company will make interest and principal payments of $37,500 per month through November 1, 2013. Additionally, the Company will make a final balloon payment related to the first tranche of $132,000 on June 1, 2013 and will make a final balloon payment related to the second tranche of $66,000 on November 1, 2013. The effective interest rate on the first and second tranche is 13.3%. During the three and nine months ended December 31, 2010, the Company made interest payments of $63,000 and $147,000, respectively.

Additionally, in connection with the Agreements, the Company issued warrants to Venture Lending & Leasing, Inc. for the purchase of 250,000 shares of the Company's common stock (the "Warrants"). The Warrants may be exercised for a cash payment of $2.00 per share of common stock. The Warrants are subject to adjustment for stock splits, dividends, a change in control or similar transactions. The Warrants also have a cashless exercise feature. The Warrants expire on November 30, 2017. The Warrants may be put back to the Company for $750,000 cash. The put feature is available to the holder for 60 days after the first of the following to occur: i) a change of control of the Company, ii) the closing of at least $15,000,000 of additional equity financing, or iii) March 31, 2014. The $750,000 cash value of the warrant was recorded as a put warrant liability and a corresponding amount of $750,000 was recorded as a discount on the note payable. The discount will be accreted to non-cash interest expense over the term of the loan using the effective interest method. During the three and nine months ended December 31, 2010, the Company recorded $43,000 and $103,000, respectively, of non-cash interest expense related to this to this note. The remaining balance of the notes amounted to $3,000,000, and the carrying value, net of $647,000 discount, amounted to $2,353,000, at December 31, 2010, of which $632,000, net of $233,000 discount, is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

On August 12, 2010, the Company entered into a note agreement for principal amounting to $40,000 with an interest rate of 11.99% per year. This instrument was issued in connection with the financing of an automobile. During the three months ended December 31, 2010, the Company made principal and interest payments related to this note in the amounts of $5,000 and $1,000, respectively. The remaining balance of this note amounted to $35,000 at December 31, 2010 of which $6,000 is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

On November 30, 2010, the Company entered into a note agreement for principal amounting to $27,000 with an interest rate of 8.90% per year. This instrument was issued in connection with the financing of an automobile. During the three months ended December 31, 2010, the Company did not make principal or interest payments related to this note. The remaining balance of this note amounted to $27,000 at December 31, 2010 of which $5,000 is included in the current portion of long-term debt in the accompanying condensed consolidated balance sheet.

Note 4. Commitments and Contingencies

Legal Matters

In February 2007, the Company's Mexico subsidiary served Quimica Pasteur ("QP"), a former distributor of the Company's products in Mexico, with a claim alleging breach of contract under a note made by QP. A trial date has not yet been set.

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

Employment Agreements

As of December 31, 2010, the Company had employment agreements with five of its key executives. The agreements provide, among other things, for the payment of nine to twenty-four months of severance compensation for terminations under certain circumstances. With respect to these agreements, at December 31, 2010, potential severance benefits amounted to $1,883,000 and aggregated annual salaries amounted to $1,350,000.

Commercial Agreements

On May 8, 2007, and June 11, 2007, the Company entered into separate commercial agreements with two unrelated customers granting such customers the exclusive right to sell the Company's products in specified territories or for specified uses. Both customers are required to maintain certain minimum levels of purchases of the Company's products in order to maintain the exclusive right to sell the Company's products. Up-front payments amounting to $625,000 were paid under these agreements and were recorded as deferred revenue. On April 16, 2010, the Company terminated the exclusive agreement with one of the customers. Accordingly, during the nine months ended December 31, 2010, the Company recorded as revenue the remaining balance of the unamortized upfront fees which amounted to $210,000. For the three months ended December 31, 2010 and 2009, the Company recorded revenues of $7,000 and $24,000, respectively, related to the upfront payments. For the nine months ended December 31, 2010 and 2009, the Company recorded revenues of $230,000 and $72,000, respectively, related to the upfront payments. These amounts were included in product revenue in the accompanying condensed consolidated statements of operations. At December 31, 2010, deferred revenue related to the remaining agreement amounted to $195,000 of which $28,000 was short-term and is included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet. The remaining up-front fee will be amortized on a straight-line basis over the term of the underlying agreement.

Agreements with Related Party

On January 26, 2009, the Company entered into a commercial agreement with VetCure, Inc., a California corporation, to market and sell the Company's Vetericyn products. VetCure, Inc. later changed its name to Vetericyn, Inc. This agreement was amended on February 24, 2009, July 24, 2009, June 1, 2010 and September 1, 2010. At the time of each of the 2009 transactions, Vetericyn was wholly-owned by Robert Burlingame, who was also a Director at the time of the transactions. Mr. Burlingame resigned from the Board on February 10, 2010 however, as of December 31, 2010, he continues to own a significant amount of the Company's common stock. Pursuant to the agreement, the Company provides Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Vetericyn Inc. products. The Company receives a fixed amount for each bottle of Vetericyn sold by Vetericyn, Inc. In addition, once certain financial milestones are met by Vetericyn, Inc., the Company shares revenue generated by Vetericyn, Inc. related to Vetericyn sales.

On February 24, 2009, the Company entered into a Purchase Agreement with Seamus Burlingame and Robert Burlingame. Robert Burlingame was a Director at the time of the transaction but subsequently resigned from the Board on February 10, 2010. Seamus Burlingame is Robert Burlingame's son. Pursuant to the terms of the Purchase Agreement, the investors agreed to make a $3,000,000 investment in the Company. The investors paid $1,000,000 (net proceeds of $948,000 after deducting offering expenses) for 854,701 shares of common stock on February 24, 2009 and paid $2,000,000 for 1,709,402 shares of common stock on June 1, 2009. In addition, the Company issued to the investors Series A Warrants to purchase a total of 1,500,000 shares of common stock pro rata to the number of shares of common stock issued on each closing date at an exercise price of $1.87 per share. The Series A Warrants became exercisable after nine months and have a five year term. The Company also issued to the investors Series B Warrants to purchase a total of 2,000,000 shares of common stock pro rata to the number of shares of common stock issued on each closing date at an exercise price of $1.13 per share. The Series B Warrants became exercisable after nine months and have a three year term. In addition, for every two shares of common stock the investor purchases upon exercise of a Series B Warrant, the investor will receive an additional Series C Warrant to purchase one share of common stock. The Series C Warrant shall be exercisable after nine months and will have an exercise price of $1.94 per share and a five year term. The Company will only be obligated to issue Series C Warrants to purchase up to 1,000,000 shares of common stock.

On September 15, 2009, the Company entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell Microcyn over-the-counter liquid and gel products on a non-exclusive basis. At the time of the 2009 transaction, V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was also a Director at the time of the transaction. V&M Industries, Inc. subsequently changed its name to Innovacyn, Inc. On June 1, 2010, and September 1, 2010, Innovacyn and the Company amended this agreement granting Innovacyn the exclusive right to sell certain over-the-counter products. Additionally, once certain milestones are met, but no later than July 1, 2011, the Company will share profits related to Vetericyn and Microcyn over-the-counter sales. During the three months ended December 31, 2010 and 2009, the Company recorded revenue related to the commercial agreements in the amounts of $292,000 and $165,000, respectively. During the nine months ended December 31, 2010 and 2009, the Company recorded revenue related to these agreements in the amounts of $1,400,000 and $256,000, respectively. This revenue is included in product revenues in the accompanying condensed consolidated statements of operations. Additionally, the Company had accounts receivables related to these agreements in the amount of $69,000 which is included in the accompanying December 31, 2010 condensed consolidated balance sheet.

Other Matters

On September 16, 2005, the Company entered into a series of agreements with QP, a Mexico-based company engaged in the business of distributing pharmaceutical products to hospitals and health care entities owned or operated by the Mexican Ministry of Health. These agreements provided, among other things, for QP to act as the Company's exclusive distributor of Microcyn to the Mexican Ministry of Health for a period of three years. In connection with these agreements, the Company was concurrently granted an option to acquire all except a minority share of the equity of QP directly from its principals in exchange for 150,000 shares of common stock, contingent upon QP's attainment of certain financial milestones. The Company's distribution and related agreements were cancelable by the Company on thirty days' notice without cause and included certain provisions to hold the Company harmless from debts incurred by QP outside the scope of the distribution and related agreements. The Company terminated these agreements on March 26, 2006 without having exercised the option.

Due to its liquidity circumstances, QP was unable to sustain operations without the Company's subordinated financial and management support. Accordingly, QP was deemed to be a variable interest entity in accordance with FIN 46(R) and its results were consolidated with the Company's consolidated financial statements for the period of September 16, 2005 through March 26, 2006, the effective termination date of the distribution and related agreement, without such option having been exercised.

Subsequent to having entered into the agreements with QP, the Company became aware of an alleged tax avoidance scheme involving the principals of QP. The audit committee of the Company's Board of Directors engaged an independent counsel, as well as tax counsel in Mexico to investigate this matter. The audit committee of the Board of Directors was advised that QP's principals could be liable for up to $7,000,000 of unpaid taxes; however, the Company is unlikely to have any loss exposure with respect to this matter because the alleged tax omission occurred prior to the Company's involvement with QP. The Company has not received any communications to date from Mexican tax authorities with respect to this matter.

Based on an opinion of Mexican counsel, the Company's management and the audit committee of the Board of Directors do not believe that the Company is likely to experience any loss with respect to this matter. However, there can be no assurance that the Mexican tax authorities will not pursue this matter and, if pursued, that it would not result in a material loss to the Company.

Note 5. Derivative Liability

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

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

	December 31, 2010	March 31, 2010
Expected life	2.12 years	2.37 years
Risk-free interest rate	0.61%	1.02%
Dividend yield	0%	0%
Volatility	84%	84%
Warrants outstanding	725,866	724,188
Fair value of warrants	$ 273,000	$ 472,000

The Company recorded a loss of $55,000 and a gain of $199,000 due to a change in the fair value of the Company's derivative liability for the three and nine months ended December 31, 2010, respectively. The Company recorded a gain of $625,000 and a loss of $132,000 due to a change in the fair value of the Company's derivative liability for the three and nine months ended December 31, 2009, respectively. These amounts are included as a change in the fair value of derivative instruments in the accompanying condensed consolidated statements of operations.

Note 6. Stockholders' Equity

Common Stock Issued to Service Providers

On April 24, 2009, the Company entered into an agreement with Advocos LLC, a contract sales organization that serves as part of the Company's sales force for the sale of wound care products in the United States. Pursuant to the agreement, the Company agreed to pay the contract sales organization a monthly fee and potential bonuses that will be based on achievement of certain levels of sales. The Company agreed to issue the contract sales organization shares of common stock each month as compensation for its services. During the three months ended December 31, 2010 and 2009, the Company issued 12,396 and 9,653 shares of common stock, respectively, in connection with this agreement. During the nine months ended December 31, 2010 and 2009, the Company issued 33,087 and 39,753 shares of common stock, respectively, in connection with this agreement. The Company has determined that the fair value of the common stock, which was calculated as shares were issued, 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. The expense will be recognized as the shares of stock are earned. During the three months ended December 31, 2010 and 2009, the Company recorded $20,000 and $21,000 of compensation expense related to this agreement, respectively. During the nine months ended December 31, 2010 and 2009, the Company recorded $61,000 and $62,000 of compensation expense related to this agreement, respectively. These expenses were recorded as selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

On December 17, 2009, the Company entered into an agreement with Windsor Corporation. Windsor Corporation provides financial advisory services to the Company. Pursuant to the agreement, the Company agreed to pay Windsor Corporation, on a quarterly basis, common stock as compensation for services provided. The Company determined 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 nine months ended December 31, 2010, the Company issued 37,842 shares of common stock. During the nine months ended December 31, 2010, the Company recorded $71,000 of expense related to this agreement which was recorded as selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

On May 19, 2010, the Company issued common stock to Life Tech Capital, a Division of Aurora Capital, LLC, for providing financial advisory services. The Company agreed to pay Life Tech Capital, a Division of Aurora Capital, LLC, 20,000 shares of common stock for the services provided. The Company determined the fair value of the common stock was more readily determinable than the fair value of the services rendered. The aggregate fair value of the common stock amounted to $44,000. Accordingly, during the nine months ended December 31, 2010, the Company recorded $44,000 of expense related to this agreement which was recorded as selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

On May 19, 2010, the Company issued common stock to Acute Care Partners, Inc., for providing recruiting and other management services. The Company agreed to pay Acute Care Partners, Inc. 50,000 shares of common stock for the services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. The aggregate fair value of common stock amounted to $111,000. Accordingly, during the nine months ended December 31, 2010, the Company recorded $111,000 of expense related to this agreement which was recorded as selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

On September 9, 2010, the Company issued common stock to Vista Partners, for providing financial advisory services. The Company agreed to pay Vista Partners 55,000 shares of common stock for the services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. The aggregate fair value of common stock amounted to $90,000. Accordingly, during the nine months ended December 31, 2010, the Company recorded $90,000 of expense related to this agreement which was recorded as selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

Common Stock Issued to Settle Obligations

During the three months ended December 31, 2010, the Company issued shares of common stock to a vendor to settle outstanding accounts payable. The Company entered into a settlement agreement with this vendor and issued a total of 35,000 shares with a fair value equal to the outstanding payable, or $57,000.

Note 7. Stock-Based Compensation

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Cost of service revenue	$ 13	$ 5	$ 43	$ 15
Research and development	$ 46	$ 18	$ 149	$ 77
Selling, general and administrative	$ 273	$ 182	$ 1,270	$ 504
Total stock-based compensation	$ 332	$ 205	$ 1,462	$ 596

The fair value of employee stock options was estimated using the following weighted-average assumptions:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Expected life	5.7 years	5.7 years	5.58 years	5.9 years
Risk-free interest rate	2.01%	2.69%	1.98%	2.12%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Volatility	84%	84%	84%	85%

The expected term of stock options represents the average period the stock options are expected to remain outstanding and is based on the expected term calculated using the approach prescribed by Staff Accounting Bulletin No. 110 for “plain vanilla” options. The expected stock price volatility for the Company’s stock options was determined by examining the historical volatilities for industry peers and using an average of the historical volatilities of the Company’s industry peers as well as the trading history for the Company’s common stock. The Company will continue to analyze the stock price volatility and expected term assumptions as more data for the Company’s common stock and exercise patterns becomes available. The risk-free interest rate assumption is based on the U.S. Treasury instruments whose term was consistent with the expected term of the Company’s stock options. The expected dividend assumption is based on the Company’s history and expectation of dividend payouts.

The Company estimates forfeitures based on historical experience and reduces compensation expense accordingly. The estimated forfeiture rates used during the three months ended December 31, 2010 was 2.48%.

At December 31, 2010, there were unrecognized compensation costs of $1,742,000 related to stock options which is expected to be recognized over a weighted-average amortization period of 1.78 years.

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

The Company 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 December 31, 2010 and changes during the nine months then ended is presented below:

Options	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value $0
Outstanding at April 1, 2010	3,987	$ 2.96		
Granted	600	1.93		
Exercised	(71)	0.41		
Forfeited or expired	(194)	5.15		
Outstanding at December 31, 2010	4,322	$ 2.76	7.59	$ 1,308
Exercisable at December 31, 2010	2,691	$ 3.39	6.94	$ 739

The aggregate intrinsic value is calculated as the difference between the exercise price of the stock options and the underlying fair value of the Company's common stock ($1.69) for stock options that were in-the-money as of December 31, 2010.

As provided under the Company's 2006 Stock Incentive Plan (the "2006 Plan"), the aggregate number of shares authorized for issuance as awards under the 2006 Plan automatically increased on April 1, 2010 by 1,308,071 shares (which number constitutes 5% of the outstanding shares on the last day of the year ended March 31, 2010).

Note 8. Income Taxes

At March 31, 2010, the Company completed a study to assess whether a change in control has occurred or whether there have been multiple changes of control since the Company's formation. The Company determined, based on the results of the study, no change in control occurred for purposes of Internal Revenue Code section 382. The Company, after considering all available evidence, fully reserved for these and its other deferred tax assets since it is more likely than not such benefits will not be realized in future periods. The Company has incurred losses for the financial reporting and income tax purposes for the three and nine months ended December 31, 2010. Accordingly, the Company is continuing to fully reserve for its deferred tax assets. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's deferred income tax assets satisfy the realization standards, the valuation allowance will be reduced accordingly.

The Company only recognizes tax benefits from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. To date, the Company has not recognized 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 is also subject to certain other foreign jurisdictions, principally Mexico and The Netherlands. The Company's evaluation of uncertain tax matters was performed for tax years ended through March 31, 2010. Generally, the Company is subject to audit for the years ended March 31, 2010, 2009 and 2008 and may be subject to audit for amounts relating to net operating loss carryforwards generated in periods prior to March 31, 2008. The Company has elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect interest and penalties attributable to income taxes, to the extent they arise, as a component of its income tax 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 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 December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
U.S.	$ 477	$ 307	$ 1,915	$ 594
Mexico	1,082	878	3,135	2,976
Europe and Other	444	172	1,280	757
	$ 2,003	$ 1,357	$ 6,330	$ 4,327

The Company's service revenues amounted to $310,000 and $256,000 for the three months ended December 31, 2010 and 2009, respectively. The Company's service revenues amounted to $713,000 and $805,000 for the nine months ended December 31, 2010 and 2009, respectively.

Note 10. Significant Customer Concentrations

One customer accounted for $292,000, or 13%, of revenue for the three months ended December 31, 2010, and the same customer accounted for $1,406,000, or 20%, of revenue for the nine months ended December 31, 2010.

At December 31, 2010, one customer had an accounts receivable balance of $452,000, or 24% of accounts receivable and at March 31, 2010, three customers had accounts receivables balances totalling $595,000, or 42% of accounts receivable.

Note 11. Subsequent Events

On January 28, 2011, the Company entered into an agreement with a distributor in China to sell specific Company products into the People's Republic of China. Pursuant to the agreement, the distributor will pay a $350,000 non-refundable upfront payment by February 23, 2011, for which they will be given exclusivity to sell these 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 cancellable if certain conditions are not met. Additionally, the Company will receive a prepayment of $180,000 which will be applied as payment to future product shipments.

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 December 31, 2010 and our audited consolidated financial statements for the year ended March 31, 2010 included in our report on Form 10-K, that was filed with the Securities and Exchange Commission on June 8, 2010.

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

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

Our Business

We develop, manufacture and market a family of tissue care products that cure infections and, through a separate mechanism of action, enhance healing while reducing the need for antibiotics. Infection is a serious potential complication in both chronic and acute wounds, and controlling infection is a critical step in wound healing. Our platform technology, called Microcyn®, is a proprietary solution of electrically charged oxychlorine small molecules designed to treat a wide range of organisms that cause disease (pathogens). These include viruses, fungi, spores and antibiotic-resistant strains of bacteria, such as methicillin-resistant *Staphylococcus aureus* , or MRSA, and vancomycin-resistant *Enterococcus,* or VRE, in wounds, as well as *Clostridium difficile* (C. diff), a highly contagious bacteria spread by human contact.

We do not have the necessary regulatory approvals to market Microcyn in the United States as a drug. In the United States, our device product does, however, have six clearances as a 510(k) medical device for the following summary indications:

1) moistening and lubricating absorbent wound dressings for traumatic wounds requiring a prescription;

2) moistening and debriding acute and chronic dermal lesions requiring a prescription;

3) moistening absorbent wound dressings and cleaning minor cuts as an over-the-counter product;

4) management of exuding wounds such as leg ulcers, pressure ulcers, diabetic ulcers and for the management of mechanically or surgically debridement of wounds in a gel form and required as a prescription;

5) debridement of wounds, such as stage I-IV pressure ulcers, diabetic foot ulcers, post surgical wounds, first and second degree burns, grafted and donor sites as a preservative, which can kill listed bacteria such as MRSA & VRE and required as a prescription; and

6) as a hydrogel, for management of wounds including itch and pain relief associated with dermal irritation, sores, injuries and ulcers of dermal tissue as a prescription. As an over-the-counter product, the hydrogel is intended to relieve itch and pain from minor skin irritations, lacerations, abrasions and minor burns. It is also indicated for management of irritation and pain from minor sunburn.

We do not have the necessary regulatory clearance or approval to market Microcyn in the U.S. as a medical device for an antimicrobial or wound healing indication. In the future we expect to apply with the FDA for clearance as an antimicrobial in a liquid and a hydrogel form and as conducive to wound healing via a 510(k) medical device clearance.

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

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

In 2005, chronic and acute wound care represented an aggregate of $9.6 billion in global product sales, of which $3.3 billion was spent for the treatment of skin ulcers, $1.6 billion to treat burns and $4.7 billion for the treatment of surgical and trauma wounds, according to Kalorama Information, a life sciences market research firm. In the Kalorama Information data, we believe the markets most related to our product involve approximately $1.3 billion for the treatment of skin ulcers, $300 million for the treatment of burns and $700 million for the treatment of surgical and trauma wounds. Common methods of controlling infection, including topical antiseptics and antibiotics, have proven to be only moderately effective in combating infection in the wound bed. However, topical antiseptics tend to inhibit the healing process due to their toxicity and may require specialized preparation or handling. Antibiotics can lead to the emergence of resistant bacteria, such as MRSA and VRE. Systemic antibiotics may be less effective in controlling infection in patients with disorders affecting circulation, such as diabetes, which are commonly associated with chronic wounds. As a result, no single treatment is used across all types of wounds and stages of healing.

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

Our goal is to become a worldwide leader as the standard of care in the treatment and irrigation of open wounds and skin care. We currently have, and intend to seek additional, regulatory clearances and approvals to market our Microcyn-based products worldwide. In July 2004, we began selling Microcyn60™ (brand eventually changed to Microdacyn60™) in Mexico after receiving approval from the Mexican Ministry of Health, for the use as an antiseptic, disinfectant and sterilant. Since then, physicians in the United States, Europe, India, Pakistan, China and Mexico have conducted more than 32 physician clinical studies assessing Microcyn Technology's use in the treatment of infections in a variety of wound types, including hard-to-treat wounds such as diabetic ulcers and burns. Most of these studies were not intended to be rigorously designed or controlled clinical trials and, as such, did not have all of the controls required for clinical trials used to support a new drug application submission to the FDA. A number of these studies did not include blinding, randomization, predefined clinical end points, use of placebo and active control groups or U.S. good clinical practices requirements. We used the data generated from some of these studies to support our application for the CE Mark, or European Union certification, for wound cleaning and reduction of microbial load. We received the CE Mark in November 2004 and additional international approvals in China, Canada, Mexico and India. Microcyn has also received six FDA 510(k) clearances for use as a medical device in wound cleaning, or debridement, lubricating, moistening and dressing, including traumatic wounds and acute and chronic dermal lesions. On May 27, 2009, we received a 510(k) clearance from the FDA to market our Microcyn Skin and Wound HydroGel™ as both a prescription and over-the-counter formulation. Additionally, on June 4, 2009, we received an expanded 510(k) label clearance from the FDA to market our Microcyn Skin and Wound Care with preservatives as both a prescription and over-the-counter formulation. The new prescription product is indicated for use by health care professionals to manage the debridement of wounds such as stage I-IV pressure ulcers, diabetic foot ulcers, post-surgical wounds, first- and second-degree burns, grafted and donor sites. Most recently, on March 8, 2010, we received a 510(k) clearance from the FDA to market our Microcyn Skin and Wound HydroGel for management of dermal irritation, sores, injuries and ulcers of dermal tissue including itch and pain relief as a prescription and as an over-the-counter product intended to relieve itch and pain from minor skin irritations, lacerations, abrasions and minor burns.

In the fourth quarter of 2007, we completed a Phase II randomized clinical trial, which was designed to evaluate the effectiveness of Microcyn in mildly infected diabetic foot ulcers with the primary endpoint of clinical cure or improvement in signs and symptoms of infection according to guidelines of Infectious Disease Society of America. We used 15 clinical sites and enrolled 48 evaluable patients in three arms, using Microcyn alone, Microcyn plus an oral antibiotic, and saline plus an oral antibiotic. We announced the results of our Phase II trial in March 2008. In the clinically evaluable population of the study, the clinical success rate at visit four (test of cure) for patients treated with Microcyn alone was 93.3% compared to 56.3% for the Levofloxacin plus saline-treated patients. This study was not statistically powered, but the high clinical success rate (93.3%) and the p-value (0.033) would suggest the difference is meaningfully positive for the Microcyn-treated patients. Also, for this set of data, the 95.0% confidence interval for the Microcyn-only arm ranged from 80.7% to 100.0% while the 95.0% confidence interval for the Levofloxacin and saline arm ranged from 31.9% to 80.6%; the confidence intervals do not overlap, thus indicating a favorable clinical success for Microcyn compared to Levofloxacin. At visit three (end of treatment) the clinical success rate for patients treated with Microcyn alone was 77.8% compared to 61.1% for the Levofloxacin plus saline-treated patients.

We conducted a review meeting with the FDA in August 2008 to discuss the results of our Phase II trial and our future clinical program. Following a review of the Phase II data on Microcyn Technology for the treatment of mildly infected diabetic foot ulcers, the FDA agreed:

- We could move forward into the pivotal phase of our U.S. clinical program for Microcyn Technology;
- There were no safety issues relative to moving into this next clinical phase immediately, and carcinogenicity studies would not be required for product approval; and
- Clinical requirements for efficacy and safety for a new drug application, or NDA, would be appropriately accounted for within the agreed upon pivotal trial designs.

Two pivotal clinical trials must be completed for submission of a new drug application to the FDA for the treatment of mildly infected diabetic foot ulcers. Commencement of these trials will be dependent upon the support of a strategic partner. In the event that we successfully complete clinical trials and obtain drug approval from the FDA, we may seek clearance for treatment of other types of wounds. We are currently pursuing strategic partnerships to assess potential applications for Microcyn in several other markets and therapeutic categories, including respiratory, ophthalmology, dermatology, dental and veterinary markets. FDA or other governmental approvals will be required for any potential new products or new indications.

Our products are purchased by hospitals, physicians, nurses, and other healthcare practitioners who are the primary caregivers to patients being treated for acute or chronic wounds or undergoing surgical procedures as well as to dermatologists for treatment of various skin afflictions. We currently make Microcyn Technology-based human wound care products available, both as prescription and over-the-counter products, under our six 510(k) clearances in the United States, primarily through a partnership with a combination of Advocos, a specialty U.S. contract sales organization, and a commissioned sales force. Additionally, a family of animal healthcare products branded Vetericyn® are being sold in the U.S. and will shortly be introduced into Europe, Canada and Asia.

In the quarter ending December 31, 2008, we began selling Microcyn into the podiatry market in the United States. In the second quarter of 2009, we expanded this sales effort to include wound care centers, hospitals, nursing homes, urgent care clinics and home 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. This agreement was amended on February 24, 2009, July 24, 2009, June 1, 2010 and September 1, 2010. At the time of the 2009 transactions, Vetericyn was wholly-owned by Robert Burlingame, who was a Director at the time of the transactions. Mr. Burlingame resigned from our Board on February 10, 2010, however he continues to own a significant position in our common stock. Pursuant to the agreement, we provide Vetericyn, Inc. with bulk product and Vetericyn, Inc. bottles, packages, and sells Vetericyn products. We receive a fixed amount for each bottle of Vetericyn sold by Vertericyn, Inc. In addition, once certain milestones are met by Vetericyn, Inc., but no later than July 1, 2011, we will share profits generated by Vetericyn, Inc. related to Vetericyn sales.

On September 15, 2009, we entered a commercial agreement with V&M Industries, Inc., a California corporation, to market and sell our Microcyn over-the-counter liquid and gel products. At the time of the transaction, V&M Industries, Inc. was wholly-owned by Robert Burlingame, who was also a Director at the time of the transaction. V&M Industries, Inc. subsequently changed its name to Innovacyn, Inc. On June 1, 2010 and September 1, 2010 we entered into amendments to this agreement. Once certain milestones are met by Innovacyn, Inc., but no later than July 1, 2011, we will share profits generated by Innovacyn, Inc. On May 13, 2010, Innovacyn, Inc. received notice from Health Canada that they can market these products in the Canadian market.

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 in the United States since January 2008.

Our prescription dental partner, OroScience, Inc. has the exclusive right to sell prescription dental products in the United States and Europe subject to certain annual minimum payments and has filed for 510(k) clearance to market our product for use as an oral rinse in liquid form and for oral mucositis in a gel form.

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

We have announced the commercialization of a Microcyn hydrogel for both wound care and dermatology, which received several 510(k) clearances in the U.S through a combination of a contract and commissioned sales force. We intend to pursue additional approvals in Europe, China, India and Mexico and plan to initiate commercialization upon obtaining these approvals.

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

In Mexico, we market our products through our established distribution network and direct sales organization. We have a dedicated contract sales force, including salespeople, nurses and clinical support staff responsible for selling Microcyn to private and public hospitals and to retail pharmacies.

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.

In China, we signed an exclusive distribution agreement with China Bao Tai, which in March 2008 secured marketing approval from the Chinese State Food and Drug Administration. In April 2010, we terminated the exclusivity of this distribution agreement and will continue to supply China Bao Tai with product on a non-exclusive basis. We are currently in the process of setting up a broader distribution network in China.

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.

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

Comparison of Three Months Ended December 31, 2010 and 2009

Revenues

Total revenues were $2,313,000 during the quarter ended December 31, 2010 compared to $1,613,000 in the prior year period. Product revenues increased $646,000, or 48%, with increases in the U.S, Mexico, Europe and Middle East offset by a slight decline in India.

Product revenue in the U.S. increased $170,000, or 55% with growth in animal wound care, related to television advertising and sales initiatives sponsored by Innovacyn, Inc. and in professional human wound care.

Revenue in Mexico increased 23% from the prior year period with 41% growth in the smaller 120 and 240 ml units, partially offset by 4% decline in the 5 liter units. Due to the higher margins of the smaller units, our sales force has focused on promoting the growth of the smaller units sold to pharmacies. The unit sales of our 120 & 240-milliliter presentation, which is primarily sold to pharmacies in Mexico, increased 33% from the prior year to a monthly average of 46,621 units compared to 35,095 in the same period last year.

Europe and Rest of World revenue increased $272,000, up 158% over the prior year period, caused by strong growth in sales to the Middle East and moderate growth in Europe offset by a slight decline in India.

The following table shows our product revenues by geographic region:

	Three Months Ended December 31,			
	2010	**2009**	**Increase**	**Increase**
U.S.	$ 477,000	$ 307,000	$ 170,000	55%
Europe and Rest of World	444,000	172,000	272,000	158%
Mexico	1,082,000	878,000	204,000	23%
Total	$ 2,003,000	$ 1,357,000	$ 646,000	48%

Service revenue increased $54,000 when compared to the prior year period due to an increase in the number of tests provided by our services business.

Gross Profit

We reported gross profit from our Microcyn products business of $1,078,000, or 54% of product revenues, during the three months ended December 31, 2010, compared to a gross profit of $621,000, or 46%, in the prior year period. The improved gross margins represent higher margins in U.S., partially offset by lower gross margins in Europe and Rest of World and Mexico. The higher margins in the U.S. are due to higher units sold and product mix for certain U.S. sales. Mexico's margins excluding their export sales were 71% during the quarter ended December 31, 2010, compared to 80% in the prior year period due to lower pricing and volume of the 5 liter product.

We expect our gross margins to improve in the U.S and Europe as our unit volume increases in U.S. and Europe.

Research and Development Expense

Research and development expense increased to $467,000 for the three months ended December 31, 2010, compared to $372,000 in the prior year period. Most of the increase was attributable to studies needed for regulatory approvals and the manufacturing process of new products and approvals.

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

Selling, General and Administrative Expense

Selling, general and administrative expense increased $436,000, or 19%, to $2,760,000 during the three months ended December 31, 2010, from $2,324,000 during the three months ended December 31, 2009. Primarily, this increase was due to higher sales related costs in U.S. and Mexico and higher compensation costs in the U.S. These increases were partially offset by lower sales and marketing costs in Europe.

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

Interest income and expense and other income and expense, net

Interest expense increased $107,000 to $109,000 during the three months ended December 31, 2010 from $2,000 during the three months ended December 31, 2009. Primarily this increase was due to $65,000 of cash interest incurred and $43,000 of non-cash interest incurred during the three months ended December 31, 2010. This interest is primarily related to $2,000,000 borrowed on May 3, 2010 and the $1,000,000 borrowed on November 17, 2010. Interest income showed no material change from the same period last year.

Other income and expense, net decreased $26,000 to net other income of $10,000 for the three months ended December 31, 2010, from net other income of $36,000 for the same period last year. The change in other income and expense, net was primarily related to the quarterly unrealized foreign exchange gains and losses on intercompany transactions.

Derivative liability

During the three months ended December 31, 2010 we recorded a change in the fair value of our derivative liability of $55,000 and as a result we recorded this loss as a non-cash expense. For the three months ended December 31, 2009 we recorded a non cash gain of $625,000, due to change in fair value of the derivative liability.

Net Loss

Net loss for the three months ended December 31, 2010 was $2,230,000, up $884,000 from $1,346,000 for the same period in the prior year. The stock compensation charges were $352,000 and $236,000 for the quarters ending December 31, 2010 and 2009 respectively.

Comparison of Nine Months Ended December 31, 2010 and 2009

Revenues

Total product revenues were $6,330,000 during the nine months ended December 31, 2010 compared to $4,327,000 in the prior year period. Product revenues increased $2,003,000, or 46%, with increases in the U.S., Europe and the Middle East.

Product revenue in the U.S. increased $1,321,000 with most of the growth in animal wound care, related to television advertising and sales initiatives sponsored by Innovacyn, Inc. along with increases in the human wound care.

Revenue in Mexico increased 5% from the prior year period, which had abnormally high sales last year, caused by the swine flu epidemic in Mexico in the first fiscal quarter last year. Total sales of our 120 & 240-milliliter presentation, which is primarily sold to pharmacies in Mexico, increased 4% from the prior year. The average prices increased while the number of units sold was about flat. Sales to hospitals increased 8% with price increases offsetting a decline in units sold. We believe that during the nine months ended December 31, 2009, the swine flu epidemic in Mexico resulted in sales of $300,000 to $400,000 higher than normal.

Europe and Rest of World revenue increased $523,000, up 69% over the prior year period, due to higher sales in Europe and the Middle East. During the nine months ended December 31, 2010, we recorded product revenue of $210,000 related to China which was the result of the conversion of our exclusive relationship with China Bao Tai to a non-exclusive relationship and recognition of deferred revenue related to an upfront payment from China Bao Tai.

The following table shows our product revenues by geographic region:

	Nine Months Ended December 31,			
	2010	**2009**	**Increase**	**Increase**
U.S.	$ 1,915,000	$ 594,000	$ 1,321,000	222%
Europe and Rest of World	1,280,000	757,000	523,000	69%
Mexico	3,135,000	2,976,000	159,000	5%
Total	$ 6,330,000	$ 4,327,000	$ 2,003,000	46%

Service revenue decreased $92,000 when compared to the prior year period due to a decrease in the number of tests provided by our services business.

Gross Profit

We reported gross profit from our Microcyn products business of $4,071,000, or 64% of product revenues, during the nine months ended December 31, 2010, compared to a gross profit of $2,463,000, or 57%, in the prior year period. The higher gross margins represent higher margins in U.S. and Europe and Rest of World, offset by lower gross margins in Mexico. The higher margins in the U.S. are due to improved product mix for certain U.S. sales. Mexico's margins were 75% during the nine months ended December 31, 2010, compared to 80% in the prior year period due to the high volume last year caused by the swine flu epidemic.

We expect our gross margins to improve in the U.S and Europe as our unit volume increases.

Research and Development Expense

Research and development expense declined $260,000, or 16%, to $1,416,000 for the nine months ended December 31, 2010, compared to $1,676,000 in the prior year period. Most of the decrease was attributable to the reduction in personnel and related expenses, as we converted our research and development facility and the related people to operational manufacturing, supporting the commercialization efforts in U.S.

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

Selling, General and Administrative Expense

Selling, general and administrative expense increased $1,420,000, or 19%, to $8,914,000 during the nine months ended December 31, 2010, from $7,494,000 during the nine months ended December 31, 2009. Primarily, this increase was due to higher sales and marketing costs in Mexico, greater stock compensation costs, up by $595,000 and higher salary and bonus costs in the U.S. Bonuses were recorded and paid during the quarter ending June 30, 2010, consisting of stock options and cash. These increases were partially offset by lower sales and marketing costs in Europe.

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

Interest income and expense and other income and expense, net

Interest expense increased $247,000 to $256,000 during the nine months ended December 31, 2010 from $9,000 during the nine months ended December 31, 2009. Primarily this increase was due to $153,000 of cash interest incurred and $103,000 of non-cash interest incurred during the nine months ended December 31, 2010. This interest is primarily related to $2,000,000 borrowed on May 3, 2010 and the $1,000,000 borrowed on November 17, 2010. Interest income showed no material change from the same period last year.

Other income and expense, net increased $2,000 to net other expense of $81,000 for the nine months ended December 31, 2010, from net other expense of $79,000 for the same period last year. The change in other income and expense, net was primarily related to the quarterly unrealized foreign exchange gains and losses on intercompany transactions.

Derivative liability

During the nine months ended December 31, 2010 we recorded a non-cash gain on the fair value of our derivative liability of $199,000 and as a result we recorded this amount as income. For the nine months ended December 31, 2009 we recorded a non-cash expense of $132,000, due to change in fair value of the derivative liability.

Net Loss

Net loss for the nine months ended December 31, 2010 was $6,254,000, down $526,000 from $6,780,000 for the same period in the prior year. The stock compensation charges were $1,839,000 and $1,143,000 for the nine months ended in December 31, 2010 and 2009, respectively.

Sources of Liquidity

As of December 31, 2010, we had cash and cash equivalents of $4,673,000. 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 our inception, substantially all of our operations have been financed through the sale of $114,456,000 (net proceeds) of our common and convertible preferred stock. This includes:

- net proceeds of $21,936,000 raised in our initial public offering on January 30, 2007;
- net proceeds of $9,124,000 raised in a private placement of common shares on August 13, 2007;
- net proceeds of $12,613,000 raised through a registered direct placement from March 31, 2008 to April 1, 2008;
- net proceeds of $1,514,000 raised through a private placement on February 6, 2009;
- net proceeds of $948,000 from a private placement on February 24, 2009;
- net proceeds of $2,000,000 from a private placement on June 1, 2009;
- net proceeds of $5,411,000 from a registered direct offering on July 30, 2009; and
- proceeds of $4,239,000 received from the exercise of common stock purchase warrants and options.

In June 2006, we entered into a loan and security agreement with a financial institution to borrow a maximum of $5,000,000. Under this facility we borrowed $4,182,000. The loan was repaid in full at March 31, 2009. We no longer have the ability to borrow against this facility.

On May 1, 2010, we entered into a loan and security agreement with a financial institution to borrow a maximum of $3,000,000. Under this facility we borrowed $3,000,000.

Cash Flows

As of December 31, 2010, we had cash and cash equivalents of $4,673,000, compared to $6,258,000 at March 31, 2010.

Net cash used in operating activities during the nine months ended December 31, 2010 was $4,355,000 primarily due to the $6,254,000 net loss for the period which was offset in part by non-cash transactions during the nine months ended December 31, 2010, including $1,839,000 of stock-based compensation.

Net cash used in operating activities during the nine months ended December 31, 2009 was $5,101,000 primarily due to the $6,780,000 net loss for the period. The use of cash was offset in part by non-cash charges during the year ended December 31, 2009, including $132,000 loss on the fair value of warrants, $1,143,000 of stock-based compensation, and $282,000 of depreciation and amortization.

Net cash used in investing activities was $63,000 for the nine months ended December 31, 2010 and $121,000 for the nine months ended December 31, 2009, primarily for the purchase of equipment

Net cash provided by financing activities was $2,827,000 during the nine months ended December 31, 2010, primarily due to the issuance of $3,000,000 of debt which was offset by payments of $202,000 of outstanding debt during the period. We also received $29,000 in connection with the exercise of stock options.

Net cash provided by financing activities was $8,426,000 for the nine months ended December 31, 2009. We received net proceeds from the sale of common stock during this period of $7,155,000. Additionally, we received proceeds of $1,576,000 related to the exercise of common stock purchase warrants and stock options.

Operating Capital and Capital Expenditure Requirements

We incurred a net loss of $6,254,000 for the nine months ended December 31, 2010. At December 31, 2010 our accumulated deficit amounted to $123,291,000 and at March 31, 2010 our accumulated deficit amounted to $117,037,000. At December 31, 2010, our working capital amounted to $4,486,000.

We may raise additional capital from external sources in order to continue the longer term efforts contemplated under our business plan. We expect to continue incurring losses for the foreseeable future and may raise additional capital to pursue our product development initiatives and to penetrate markets for the sale of our products. We cannot provide any assurance that we will 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; however, we have not secured any commitment for new financing at this time.

We have undertaken initiatives to reduce costs in an effort to conserve capital. Future pivotal trials will require the selection of a partner and must also be completed in order for us to commercialize Microcyn as a drug product in the United States. Commencement of the pivotal clinical trials will be delayed until we find a strategic partner to fund these trials.

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

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

Use of Estimates

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

Off-Balance Sheet Transactions

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

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

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

(b) ***Changes in Internal Controls.*** There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2010 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

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

Item 1A. Risk Factors

There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, as filed with the SEC on June 8, 2010.

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

We did not sell any unregistered equity securities during the quarter ended December 31, 2010.

Item 3. Default Upon Senior Securities

We did not default upon any senior securities during the quarter ended December 31, 2010.

Item 4. Removed and Reserved

Item 5. Other Information

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 products into the People's Republic of China. Pursuant to the agreement, the distributor will pay a $350,000 non-refundable upfront payment by February 23, 2011, for which they will be given exclusivity to sell these 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 cancellable if certain conditions are not met. Additionally, we will receive a prepayment of $180,000 which will be applied as payment to future product shipments.

Item 6. Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (included as Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended March 31, 2007, and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Company, as amended effective on June 11, 2008 (included as Exhibit 3.1(ii) to the Company's Annual Report on Form 10-K for the year ended March 31, 2008, and incorporated herein by reference).
3.3	Amended and Restated Bylaws of the the Company as Amended, effective November 3, 2010 (included as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, and incorporated herein by reference).
4.1	Specimen Common Stock Certificate (included as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
4.2	Warrant to Purchase Series A Preferred Stock of the Company 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 the Company 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 the Company (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 the Company (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 the Company (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).

Exhibit Number	Description
4.7	Form of Warrant to Purchase Common Stock of Registrant (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 Registrant (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 Registrant (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	Warrant issued to Dayl Crow, dated March 4, 2009 (included as Exhibit 4.16 to the Company's Annual Report on Form 10-K filed on June 11, 2009, and incorporated herein by reference).
4.11	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)
4.12	Warrant to Purchase Shares of Common Stock of Oculus Innovative Sciences, Inc., (Included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 6, 2010, and incorporated herein by reference).
10.1	Form of Indemnification Agreement between Registrant 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	Form of 2006 Stock Incentive Plan and related form stock option plan agreements (included as Exhibit 10.6 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).
10.3	Amended and Restated Investors Rights Agreement, effective as of September 14, 2006 (included as Exhibit 4.6 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.4	Form of Promissory Note issued to Venture Lending & Leasing III, Inc. (included as Exhibit 4.7 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.5	Form of Promissory Note (Equipment and Soft Cost Loans) issued to Venture Lending & Leasing IV, Inc. (included as Exhibit 4.8 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.6	Form of Promissory Note (Growth Capital Loans) issued to Venture Lending & Leasing IV, Inc. (included as Exhibit 4.9 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.7	Form of Promissory Note (Working Capital Loans) issued to Venture Lending & Leasing IV, Inc. (included as Exhibit 4.10 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.8	Office Lease Agreement, dated October 26, 1999, between Registrant and RNM Lakeville, L.P. (included as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.9	Amendment to Office Lease No. 1, dated September 15, 2000, between Registrant and RNM Lakeville L.P. (included as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.10	Amendment to Office Lease No. 2, dated July 29, 2005, between Registrant and RNM Lakeville L.P. (included as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.11	Amendment No. 3 to Lease, dated August 23, 2006, between Registrant 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).

Exhibit Number	Description
10.12	Amendment No. 4 to Lease, dated September 13, 2007, by and between Registrant and RNM Lakeville L.P. (included as Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended March 31, 2008, and incorporated herein by reference).
10.13	Office Lease Agreement, dated May 15, 2005, between Oculus Technologies of Mexico, S.A. de C.V. and Antonio Sergio Arturo Fernandez Valenzuela (translated from Spanish) (included as Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.14	Office Lease Agreement, dated July 2003, between Oculus Innovative Sciences, B.V. and Artikona Holding B.V. (translated from Dutch) (included as Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.15	Amendment to Office Lease Agreement, effective February 15, 2008, by and between Oculus Innovative Sciences Netherlands B.V. and Artikona Holding B.V. (translated from Dutch) (included as Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended March 31, 2008, and incorporated herein by reference).
10.16	Form of Director Agreement (included as Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.17	Leasing Agreement, dated May 5, 2006, by and between Mr. Jose Alfonzo I. Orozco Perez and Oculus Technologies of Mexico, S.A. de C.V. (included as Exhibit 10.22 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.18	Stock Purchase Agreement, dated June 16, 2005, by and between Registrant, Quimica Pasteur, S de R.L., Francisco Javier Orozco Gutierrez and Jorge Paulino Hermosillo Martin (included as Exhibit 10.24 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.19	Framework Agreement, dated June 16, 2005, by and among Javier Orozco Gutierrez, Quimica Pasteur, S de R.L., Jorge Paulino Hermosillo Martin, Registrant and Oculus Technologies de Mexico, S.A. de C.V. (included as Exhibit 10.25 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.20	Mercantile Consignment Agreement, dated June 16, 2005, between Oculus Technologies de Mexico, S.A. de C.V., Quimica Pasteur, S de R.L. and Francisco Javier Orozco Gutierrez (included as Exhibit 10.26 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.21	Partnership Interest Purchase Option Agreement, dated June 16, 2005, by and between Registrant and Javier Orozco Gutierrez (included as Exhibit 10.27 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.22	Termination of Registrant and Oculus Technologies de Mexico, S.A. de C.V. Agreements with Quimica Pasteur, S de R.L. by Jorge Paulino Hermosillo Martin (translated from Spanish) (included as Exhibit 10.28 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.23	Termination of Registrant and Oculus Technologies de Mexico, S.A. de C.V. Agreements with Quimica Pasteur, S de R.L. by Francisco Javier Orozco Gutierrez (translated from Spanish) (included as Exhibit 10.29 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.24	Director Agreement, dated November 8, 2006, by and between Registrant and Robert Burlingame (included as Exhibit 10.34 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.25†	Exclusive Marketing Agreement, dated December 5, 2005, by and between Registrant and Alkem Laboratories Ltd (included as Exhibit 10.35 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).

Exhibit Number	Description
10.26	Securities Purchase Agreement, dated August 7, 2007, by and between Registrant and certain purchasers identified on the signatures pages thereto (originally filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 13, 2007, and refiled as Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 to add signature pages of investors).
10.27	Registration Rights Agreement, dated August 7, 2007, by and between Registrant and certain purchasers identified on signatures pages thereto (originally filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 13, 2007, and refiled as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 to add signature pages of investors).
10.28	Form of Securities Purchase Agreement, dated March 27, 2008, by and between Registrant and each investor signatory thereto (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 28, 2008, and incorporated herein by reference).
10.29	Purchase Agreement by and between Registrant and Robert Burlingame, dated January 26, 2009 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 29, 2009 and incorporated herein by reference).
10.30	Purchase Agreement by and between Registrant and Non-Affiliated Investors, dated January 26, 2009 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 29, 2009 and incorporated herein by reference).
10.31	Revenue Sharing Distribution Agreement by and between Registrant and VetCure, Inc., dated January 26, 2009 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 29, 2009 and incorporated herein by reference).
10.32	Purchase Agreement by and between Registrant and certain accredited investors, dated February 6, 2009 (originally filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 9, 2009, and refiled as Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 to add investor lists and signature pages of investors).
10.33	Purchase Agreement by and between Registrant, Robert Burlingame and Seamus Burlingame, dated February 24, 2009 (incuded as Exhibit 10.4 to the Company's Current Report on Form 8-K filed February 27, 2009 and incorporated herein by reference).
10.34	Amendment to Revenue Sharing Distribution Agreement by and between Registrant and Vetericyn, Inc., dated February 24, 2009 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K filed February 27, 2009 and incorporated herein by reference).
10.35	Agreement by and between Registrant and Robert C. Burlingame, dated April 1, 2009 (included as Exhibit 10.52 to the Company's Annual Report on Form 10-K filed on June 11, 2009 and incorporated herein by reference).
10.36	Microcyn U.S. Commercial Launch Agreement, by and between Registrant and Advocos, dated April 24, 2009 (included as Exhibit 10.53 to the Company's Current Report on Form 10-K filed on June 11, 2009 and incorporated herein by reference).
10.37	Amendment No. 5 to Lease by and between Registrant and RNM Lakeville, LLC, dated May 18, 2009 (included as Exhibit 10.54 to the Company's Current Report on Form 10-K filed on June 11, 2009 and incorporated herein by reference).
10.38	Engagement Agreement by and between Registrant and Dawson James Securities, Inc., dated April 10, 2009, (included as Exhibit 10.55 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.39	Letter Agreement by and between Registrant and Dawson James Securities, Inc., dated July 2, 2009, (included as Exhibit 10.56 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.40	Letter Agreement by and between Registrant and Dawson James Securities, Inc., dated July 10, 2009, (included as Exhibit 10.57 to the Company's Registration Statement on Form S-1 (File No. 333-158539), as amended, declared effective on July 24, 2009, and incorporated herein by reference).
10.41	Warrant Purchase Agreement by and between Registrant 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).

Exhibit Number	Description
10.42	Loan and Security Agreement, dated May 1, 2010 between the Company and Venture Lending & Leasing V., Inc., (Included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 6, 2010, and incorporated herein by reference).
10.43	Supplement to the Loan and Security Agreement, dated as of May 1, 2010 between Oculus Innovative Sciences, Inc., and Venture Lending & Leasing V, Inc., (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 6, 2010, and incorporated herein by reference).
10.44††	Amendment No. 2 to Revenue Sharing, Partnership and Distribution Agreement between the Registrant and Vetericyn, Inc., dated July 24, 2009 (included as Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, and incorporated herein by reference).
10.45††	Amendment No. 3 to Revenue Sharing, Partnership and Distribution Agreement between the Registrant and Vetericyn, Inc. dated June 1, 2010 (Included as Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q filed on August 5, 2010 and incorporated herein by reference).
10.46††	Amendment No. 1 to Exhibit A to the Revenue Sharing Distribution Agreement and to the Revenue Sharing, Partnership and Distribution Agreement as Revised and Amended, June 1, 2010, dated September 1, 2010 (included as Exhibit 10.46 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, and incorporated herein by reference).
10.47*††	Distribution Agreement between the Company and Tianjin Ascent Import and Export Company, Ltd dated January 28, 2011.
21.1*	List of Subsidiaries
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*#	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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

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

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act.

SIGNATURES

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

Oculus Innovative Sciences, Inc.

Date: February 4, 2010

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

Date: February 4, 2010

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

DISTRIBUTION AGREEMENT

This Agreement is made and entered into as of the latest date set forth on the signature lines below (the "Effective Date") by and between Oculus Innovative Sciences, Inc., a California corporation having a place of business located at 1129 No. McDowell Boulevard, Petaluma, CA 94954 and a manufacturing site located at Industria Vidriera 81Fraccionamiento Industrial, Zapopan Norte Zapopan, Jalisco Mexico 45130 ("Company"), and **Tianjin Ascent Import and Export Company, Ltd**, a Chinese limited liability company having a place of business at Unit H, Third Floor, Bldg A, No 16, Rongyuan Road, Nan Kai District, Tianjin, China. ("Distributor").

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

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

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

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

1. Definitions.

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

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

1.3 “Markets” means the advanced human wound care for humans in hospital, pharmacy and clinic markets solely for use in the treatment of Professional Hospital Care within the Territory.

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

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

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

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

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

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

2. Purchases and Products.

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

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

2.3 Development Fee. After execution of this Agreement, Distributor will pay the Company a one time, non-refundable up-front fee by Feb. 23, 2011, equal to Three Hundred and Fifty Thousand ($350,000 USD) for the exclusive right to market and sell products referenced in Exhibit A for the first contractual year.

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

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

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

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

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

(c) Purchase Orders may NOT request shipment of the Products earlier than seven (7) days after the date the Purchase Order is received by Company.

(d) All Purchase Orders shall reference this Agreement.

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

2.7 Pricing. The Solution prices are set forth in Exhibit A, provided however that Company may adjust the prices from time to time on one hundred and eighty (180) days written notice to Distributor to reflect market conditions. Regarding pricing, please refer to 2.4 for reference

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

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

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

3. Delivery and Acceptance.

3.1 Delivery of Solution. Delivery of Solution shall be F.O.B. point of Mexico or U.S. delivery port. Shipment dates are approximate and are subject to change.

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

* Confidential material redacted and separately filed with the Commission.

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

3.4 Delivery Performance. Company may make partial deliveries of the Products under this Agreement. Partial deliveries will be separately invoiced by Company and paid for by Distributor without regard to subsequent deliveries.

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

3.6 Product Acceptance. Company is fully responsible for the quality of the products. Products shipped by Company must materially conform to the Solution Specifications as further defined in Exhibit B at the time of shipment by Company. Use of the Products by Distributor or its customers, or the failure by Distributor to return the defective Products after five (5) days following the arrival date of the Distributor's warehouse of such Products shall constitute acceptance by the Distributor. Any Products properly rejected will be returned to Company in accordance with the return procedures set forth in Article VI with respect to warranty claims.

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

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

4. Certain Obligations.

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

4.2 Laboratory testing. Company shall cooperate with Distributor for the rebottling aging test. The Distributor will be responsible for sending samples using Fedex express to Company for testing. Company shall provide test reports back to Distributor based on correct lot numbering.

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

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

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

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

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

* Confidential material redacted and separately filed with the Commission.

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

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

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

5. Ownership.

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

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

6. Limitation On Liability And Remedies.

6.1 Company Limited Warranty; Limitation of Remedies.

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

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

(c) Distributor is liable for all transit costs associated with return and Company is liable for all transit costs associated with replacement of non-conforming Solution.

(d) If modification or replacement is not reasonably possible, then Company may elect to refund to Distributor an amount equal to the purchase price for the non-conforming Products, and such refund shall be Distributor's entire remedy. Any replacement Solution will be warranted for the remainder of the original warranty period. Company shall not be responsible for any labor costs or other costs Distributor incurs incident to the replacement of any non-conforming Solution.

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

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

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

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

7. Indemnification.

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

8. Confidential Information

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

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

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

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

9. Term and Termination.

9.1 Term. This Agreement shall be effective and in full force for five (5) years from the Effective Date ("Term"), and thereafter shall renew by mutual written consent for additional, successive periods of three (3) years each, unless terminated earlier pursuant to this Article 9.

9.2 Termination for Failure to Meet Minimum Purchase Requirement. Company will have the right to terminate this Agreement if Distributor fails to meet the Minimum Purchase Requirements as listed in Exhibit A. Company will provide one hundred and eighty (180) days written notice upon failure to meet the Minimum Purchase Requirements during which time the Company will maintain effective pricing to Distributor and may elect to sell products to other parties.

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

9.4 Effect of Termination.

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

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

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

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

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

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

10. Miscellaneous.

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

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

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

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

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

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

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

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

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

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

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

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

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

COMPANY: OCULUS INNOVATIVE SCIENCES, INC.	DISTRIBUTOR: **Tianjin Ascent Import and Export Company, Ltd.**
BY: /s/ Bruce Thornton	BY: /s/ Jessie Dai
TITLE: Executive Vice President	TITLE: Vice General Manager
DATE: January 25, 2011	DATE: January 28, 2011
ADDRESS: 1129 No. McDowell Boulevard Petaluma, CA 94954	ADDRESS:
PHONE: (___) _____	PHONE: (___) _____
FAX: (___) _____	FAX: (___) _____

MANDARIN TRANSLATION OF DEFINITIVE ENGLISH TEXT FOR INFORMATION ONLY

EXHIBIT A

PRODUCTION VOLUME QUANTITY AND PRICING SCHEDULE

I. Solution

The solution shall be defined as "super-oxidized, pH-neutral water that is manufactured by Oculus using Oculus' patented electrolysis process and currently sold under the name Dermacyn in the United States in the advanced wound care human health market."

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

II. Minimum Order

Minimum ordering quantity per purchase order to be placed with Company under this Agreement shall not be less than [ ]* per shipment and may be comprised of any combination of the product sizes noted below. Pricing and Annual Minimum Quantity

The annual minimum purchase order volume to maintain distribution rights within the Territory is as listed below. The first order at the amount of $180,000 must be placed by January 25, 2010 and will be delivered to the destination port of Mexico or U.S. prior to March 31, 2010.

($US Dollars)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Minimum Sales	$[ ]*	$[ ]*	$[ ]*	$[ ]*	$[ ]*
Price per 1000 liter tote	$[ ]*	$[ ]*	$[ ]*	$[ ]*	$[ ]*
Price per 5 liter unit	$[ ]*	$[ ]*	$[ ]*	$[ ]*	$[ ]*

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

[ ]* shall equal [ ]* of the minimum purchase order volume in Years 1 and 2 for each year, and shall ship with the purchased products together. In Year 3, Year 4, and Year 5, [ ]* shall equal to [ ]* of the minimum purchase order volume for each year. If in Year 1 Distributor purchase [ ]* worth of products, then Company shall provide [ ]* to Distributor. In Year 2 Distributor purchase [ ]* worth of products, Company shall provide [ ]*. In Year 3 Distributor purchase [ ]* worth of products, Company shall provide [ ]* worth of free samples. In year 4 Distributor purchase [ ]* worth of products, Company shall provide [ ]*. And in year 5 Distributor purchase [ ]* worth of products, Company shall provide [ ]*. In addition, Company shall provide [ ]* to Distributor as the support to the development of Chinese market in December, 2011. [ ]* assumes shipping and insurance costs [ ]* from destination port in Mexico or U.S. to final destination in China.

* Confidential material redacted and separately filed with the Commission.

EXHIBIT B

PRODUCT SPECIFICATIONS

Product Specifications shall mean the product claims and specifications contained in the Company's current Dermacyn FDA cleared 510(K) label claim sold in the United States of America as an advanced wound care product with no less than a twenty four (24) month self life from date of shipment. The production date of the products cannot exceed more than 30 days since the shipment date of the products.

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

1. pH: [ ]*
2. Oxidation Reduction Potential: (ORP) [ ]*
3. Free Available Chlorine: [ ]*
4. Microbial Kill: [ ]*

* Confidential material redacted and separately filed with the Commission.

EXHIBIT C

CERTIFICATE OF CONFORMATION

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

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 December 31, 2010;

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

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

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

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

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

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

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

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

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

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

By: /s/ Hojabr Alimi
Hojabr Alimi
Chief Executive Officer

Date: February 4, 2010

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 December 31, 2010;

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

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

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

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

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

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

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

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

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

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

By: /s/ Robert Miller
Robert Miller
Chief Financial Officer

Date: February 4, 2010

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 December 31, 2010 (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: February 4, 2010 By: /s/ Hojabr Alimi
Hojabr Alimi
Chief Executive Officer

Date: February 4, 2010 By: /s/ Robert Miller
Robert Miller
Chief Financial Officer