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

Form 10-K

(Mark One)

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

For the fiscal year ended March 31, 2017

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

For transition period from _____ to _____

Commission File Number: 001-33216

SONOMA PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

Common Stock, $0.0001 par value	NASDAQ Capital Market
Warrants (expiring January 26, 2020)	NASDAQ Capital Market
(Title of Each Class)	(Name of Each Exchange on Which Registered)

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on September 30, 2016, was $18,125,593 based on a total of 4,176,404 shares of the registrant's common stock held by non-affiliates on September 30, 2016, at the closing price of $4.34 per share, as reported on the NASDAQ Capital Market.

There were 4,300,138 shares of the registrant's common stock issued and outstanding on June 26, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors and Section 16(a) Beneficial Ownership Reporting Compliance), 11, 12, 13 and 14 of Part III will incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2017 Annual Meeting of Stockholders.

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PART I

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

ITEM 1. Business

Corporate Information

We incorporated under the laws of the State of California in April 1999 as Micromed Laboratories, Inc. In August 2001, we changed our name to Oculus Innovative Sciences, Inc. In December 2006, we reincorporated under the laws of the State of Delaware. On December 6, 2016, we changed our name from Oculus Innovative Sciences, Inc. to Sonoma Pharmaceuticals, Inc. Our principal executive offices are located at 1129 N. McDowell Blvd., Petaluma, California, 94954, and our telephone number is (707) 283-0550. We have two active wholly-owned subsidiaries: Oculus Technologies of Mexico, S.A. de C.V., organized in Mexico; and Sonoma Pharmaceuticals Netherlands, B.V., organized in the Netherlands. Our fiscal year end is March 31. Our website is www.sonomapharma.com. We do not intend for information on our website to be incorporated into this annual report.

Our Business

We are a specialty pharmaceutical company dedicated to identifying, developing and commercializing unique, differentiated therapies to millions of patients living with chronic skin conditions. We believe our products, which are sold throughout the United States and internationally, have improved patient outcomes for more than five million patients globally by treating and reducing certain topical skin diseases including acne, atopic dermatitis, scarring, infections, itch, pain and harmful inflammatory responses.

Our past fiscal year ended March 31, 2017, was the most successful year since we changed our focus to dermatology. Among our many achievements were:

- Our market capitalization increased by 57% from $19 million on April 1, 2016 to $30 million on March 31, 2017;
- Our product revenue increased by 48% from $8.1 million in fiscal year 2016 to $12.0 million in fiscal year 2017 (see discussion of discontinued operations in Note 4);
- We sold our Latin America business for $22 million in October 2016;
- Our cash position increased 133% from $7.5 million at April 1, 2016 to $17.5 million at March 31, 2017;
- Our dermatology net revenue increased by 87% from $2.2 million in fiscal year 2016 to $4.1 million in fiscal year 2017;
- The number of dermatology prescriptions filled increased 86% from 28,188 in fiscal year 2016 to 52,563 in fiscal year 2017;
- We launched four new products, Ceramax™, SebuDerm™, Lasercyn™ Gel and Lasercyn™ Dermal Spray during fiscal year 2017;
- Our animal health care net revenue increased by 134% from $501,000 in fiscal year 2016 to $1.17 million in fiscal year 2017; and
- We obtained three 510(k) clearances from the FDA during fiscal year 2017.

With the sale of certain assets of our Latin American business during the year ended March 31, 2017, our statement of comprehensive income (loss) and the balance sheet for fiscal year 2017 and 2016 have been classified as discontinued operations. All numbers in this annual report reflect the revised reclassified numbers. See the full discussion of our disposition of the Latin America Operations in Note 4.

We are focused on the development and commercialization of therapeutic solutions in medical dermatology to treat skin conditions, such as acne, atopic dermatitis and scarring. These diseases impact millions of patients worldwide and can have significant, multi-dimensional effects on patients' quality of life, including their physical, functional and emotional well-being.

Some of our key products in the United States are:

- **Celacyn®**, a prescription hypochlorous acid based scar management gel clinically proven to soften and flatten raised scars while reducing redness and discoloration.

- **Ceramax™ Skin Barrier Cream** helps manage dry itchy skin, minor skin irritations, rashes, and inflammation caused by various skin conditions.

- **Mondoxyne™**, a prescription oral tetracycline antibiotic used for the treatment of certain bacterial infections, including acne.

- **Alevicyn™**, a prescription hypochlorous acid based atopic dermatitis product line clinically proven to reduce pruritus (itch) and pain associated with various dermatoses.

- **SebuDerm™,** a prescription topical gel used as an alternative to corticosteroids for the management of the burning, itching and scaling experienced with seborrhea and seborrheic dermatitis.

- **Microcyn®** (sold under a variety of brand names), a line of products based on electrically charged oxychlorine small molecules designed to target a wide range of pathogens including viruses, fungi, spores and bacteria, including antibiotic-resistant strains.

Our key product outside the United States is:

- **Microcyn®** or **Microdacyn60®** (sold under a variety of brand names), a line of products based on electrically charged oxychlorine small molecules designed to target a wide range of pathogens including viruses, fungi, spores and bacteria, including antibiotic-resistant strains.

As of May 30, 2017, we have obtained 16 clearances from the U.S. Food and Drug Administration, or FDA, that permit us to sell our products as medical devices for Section 510(k) of the Federal Food, Drug and Cosmetic Act in the United States.

Outside the United Sates, we sell products for dermatological and advanced tissue care with a European Conformity marking (known as Conformité Européenne or CE) covering 25 of our products, and various approvals in China, Southeast Asia, South Korea, India, Australia, New Zealand, and the Middle East.

On October 27, 2016, we, along with our Mexican subsidiary and manufacturer Oculus Technologies of Mexico, S.A. de C.V., closed on an asset purchase agreement with Invekra, S.A.P.I de C.V., an affiliate of Laboratorios Sanfer S.A. de C.V., for the sale of certain of our Latin America assets. Specifically, we agreed to sell certain patents, patent applications, trademarks and territory rights for Mexico, the Caribbean and South America, excluding the sale of dermatology products in Brazil, as well as to build and deliver equipment that Invekra will use to produce its own product.

The aggregate purchase price that Invekra paid for the assets is $22,000,000, of which $18,000,000 was paid upon closing, $1,500,000 was held in escrow until completion of our obligation to deliver certain equipment and paid to us on March 16, 2017. $2,500,000 is to be paid in Mexican currency in quarterly installments over a period of ten years from closing as consideration for the provision of certain services and providing technical assistance, calculated as three per cent on net sales of certain products in Latin America, excluding Mexico. Since the $2,500,000 is to be paid in foreign currency, we may receive more or less than $2,500,000 due to currency fluctuations.

We believe that the sale of the Latin America assets is in line with our overall strategy to focus on our core dermatology business and generate cash from our non-core businesses to support the higher margin and higher-growth dermatology business. As a result of the sale of our Latin America assets, we expect our Latin America revenues will decrease and our total revenues will decrease in the short-term until our U.S. based dermatology revenues increase longer-term. We believe focusing on higher margin dermatology products, utilizing an internal sales force, allows us to better control and grow our future results rather than relying on external partners for marketing and sales. We intend to use the proceeds from the sale of the Latin America assets to increase our direct sales force and grow our product line and continue to expand our markets and Company.

Our Strategy

Our strategy is to in-license, acquire, develop and commercialize unique, affordable and differentiated therapies that we believe advance the standard of care for patients with dermatological diseases. The key components of our strategy are to:

- **Expand our Internal U.S. Sales Force:** We continue to hire additional experienced sales people who have established relationships with dermatologists in their territories and we currently have a sales force of 36 sales professionals.

- **Develop and Launch New Dermatology Products:** We currently sell nine prescription dermatology products in the United States, and have a strong product pipeline of new products, including an oral antibiotic for severe acne and Ceramax™, which utilizes a "state of the art" skin repair technology.

- **In-License and Acquire New Product Candidates:** Since beginning our turn-around strategy in 2013, we have executed multiple transactions resulting in adding new products and product candidates to our growing portfolio. In 2015, we acquired the U.S. marketing rights to Mondoxyne™, an oral antibiotic indicated for severe acne. In 2016, we in-licensed Ceramax™ indicated for various dermatoses, and Loyon indicated as a descaler of various dermatoses and psoriasis.

- **Create a Competitive Pricing Strategy:** We have and will continue to develop a unique product pricing strategy, which we believe solves many of the challenges associated with the prescription dermatology market's current pricing and rebate programs.

- **Develop a Pharmaceutical Line:** We plan to acquire or develop pharmaceutical products with affordable clinical trials to increase our market presence and create innovator patent protection.

Our plan is to evolve into a leading dermatology company, providing innovative and cost-effective solutions to patients, while generating strong, consistent revenue growth and maximizing long-term shareholder value.

Our Products

In the United States some of our key dermatology products are:

Celacyn® – Prescription Scar Management Gel

Celacyn®, is a prescription hypochlorous acid based scar management gel designed to soften and flatten raised scars while reducing redness and discoloration. In our studies, Celacyn® has been shown to reduce scar itch pain and performed better than the market-leading comparable gel brand. In the United States, topical prescription scar treatment products are usually sold over the counter. By contrast, we actively market Celacyn® to clinicians.

Scars are a natural part of the healing process and a reaction to skin injury. Scars form when the dermis, or the lower level of the skin, is damaged and then repaired by a process called granulation, where the body produces collagen fibers to repair the damage. Celacyn® works on keloid and hypertrophic scars. Keloid scars continue to grow after the skin has healed which causes the scars to grow beyond the originally damaged area. Hypertrophic scars are marked by excessive scar tissue in a local area and appear thick, red and lumpy.

Celacyn® scar gel is intended for the management of old and new scars resulting from burns, general surgical procedures and trauma wounds.

Ceramax™ – Skin Barrier Cream

Ceramax™ Skin Barrier Cream helps manage dry itchy skin, minor skin irritations, rashes, and inflammation caused by various skin conditions based on patented Lipogrid® Technology. Ceramax™ Skin Barrier Cream can be used to treat a variety of disease states with skin barrier disruption, including eczema and atopic dermatitis.

According to the National Eczema Association, eczema or atopic dermatitis affects over 10% of the children in the United States and one out of every three children with eczema or atopic dermatitis have moderate to severe symptoms. Additionally, 31.6 million people have some form of eczema with approximately 17.8 million of those having moderate to severe eczema or atopic dermatitis.

Ceramax™ Skin Barrier Cream is intended to be used as a topical skincare preparation to relieve and manage the burning and itching associated with various skin conditions, including atopic dermatitis, and other dry skin conditions, by maintaining a moist wound and skin environment. Lipogrid® Technology contains lipids that blend in with the skin's natural lipid building blocks to hydrate and restore the natural skin barrier and penetrate the skin.

Mondoxyne™ – Prescription Oral Antibiotic

Mondoxyne™ is a prescription oral tetracycline antibiotic that contains doxycycline, a broad spectrum antibacterial synthetically derived from oxytertracycline, used as a treatment for acne vulgaris.

According to the British Association of Dermatologists, acne vulgaris is estimated to affect 660 million people, or 9.4% of the global population, and it is the eighth most common disease worldwide. Acne is thought to have multiple contributing factors, including, among other things, excess sebum, or oil, production, which creates an optimal environment for the proliferation of the bacterium *Propionibacterium acnes.* The *Propionibacterium acnes* bacteria feed on the sebum and secrete enzymes and other byproducts that irritate the skin and result in the inflammation commonly known as acne.

Mondoxyne™ is an oral antibiotic that can be effective against acne because of its antimicrobial and anti-inflammatory activity. It is usually prescribed as adjunct therapy for severe inflammatory acne. Mondoxyne™ treats acne by targeting the bacterium *Propionibacterium acnes.* Patients have rated doxycycline, the active ingredient in Mondoxyne™, as effective or very effective in 85% of cases, as reported by a 1989 double-blind study published in the *Journal of Dermatological Treatment* comparing the effectiveness of doxycycline and minocycline in the treatment of moderate to moderately severe acne.

Alevicyn™ SG Antipruritic Spray Gel, Dermal Spray and Antipruritic Gel

Alevicyn™ is indicated to manage and relieve the burning, itching and pain experienced with various types of skin conditions, including radiation dermatitis and atopic dermatitis. It may be also used to relieve the pain of first- and second-degree burns, and helps to relieve dry waxy skin by maintaining a moist wound and skin environment, which is beneficial to the healing process. Alevicyn™ Antipruritic Gel is intended for management of itch and pain associated with dermal irritations and wounds, such as sores, injuries and ulcers of dermal tissue.

Alevicyn™ Antipruritic Spray gel's unique formulation is a "spray-on" that does not run or drip after application and no "rubbing-in" is required on sensitive or difficult-to-access areas of the body. Alevicyn™ dermal spray is intended for the cleansing, irrigation, moistening, debridement and removal of foreign material including microorganisms and debris from wounds, among others, first- and second-degree bums, abrasions, minor irritations of the skin, diabetic foot ulcers, and ingrown toe nails.

SebuDerm™ Topical Gel

SebuDerm™ Topical Gel is indicated to manage and relieve the burning, stinging, erythema, scaling and pain experienced with various types of dermatoses, including seborrhea and seborrheic dermatitis. Our studies have shown that SebuDerm™ improves skin appearance and relieves itching, burning and stinging significantly without adverse side effects.

SebuDerm™ is based on our own patented Microcyn® Technology, specifically for body areas where seborrheic dermatitis is present, such as the scalp, beard area, behind the ears, chest or nasal areas.

Seborrheic dermatitis is a chronic or relapsing form of eczema or dermatitis that mainly affects the sebu-rich areas of the scalp, trunk and face. It affects 1-3% of the general population and 34-83% in immune-compromised persons. It is more common in men and is typically more severe in cold and dry climates and during periods of increased stress.

Microcyn® -Advanced Tissue Care Management

Microcyn® is based on electrically charged oxychlorine small molecules designed to target a wide range of pathogens including viruses, fungi, spores and bacteria, including antibiotic-resistant strains. Several Microcyn® Technology advanced tissue care products are designed to treat infections and enhance healing while reducing the need for antibiotics. When a wound is slow to heal or becomes hard to heal, the costs to treat increase and the quality of life for the patient also suffers as infected, malodorous wounds prevent them from participating in daily life activities. As a result of our patented manufacturing process, Microcyn® is a proprietary solution of oxychlorine compounds that, among other things, interacts with and inactivates surface proteins on cell walls and membranes of microorganisms. The functions of these proteins are varied and play significant roles in cell communication, nutrient and waste transport and other required functions for cell viability.

Once Microcyn® surrounds single cell microorganisms, it damages these proteins, causing the cell membrane to rupture, leading to cell death, which we believe is caused by increased membrane permeability and induced osmotic pressure imbalance. This destruction of the cell appears to occur through a fundamentally different process than that which occurs as a result of contact with a bleach-based solution because experiments have demonstrated that Microcyn® kills bleach-resistant bacteria. However, we believe the solution remains non-irritating to human tissues because human cells have unique protective mechanisms, are interlocked, and prevent Microcyn® from targeting and surrounding single cells topically on the body. Laboratory tests suggest that our solution does not penetrate and kill multi-cellular organisms, and does not damage or affect human DNA.

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

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

Regulatory Approvals and Clearances

To date, we have obtained 16 clearances from the U.S. Food and Drug Administration, or FDA, that permit us to sell our products as medical devices for Section 510(k) of the Federal Food, Drug and Cosmetic Act in the United States.

Outside the United Sates, we sell products for dermatological and advanced tissue care with a European Conformity marking (known as Conformité Européenne or CE) covering 25 of our products, and various approvals in Central America, China, Southeast Asia, and the Middle East.

The following table summarizes our material current regulatory approvals and clearances by brand:

Brand	Approval Type	Year of Approval	Summary Indication
Loyon®	U.S. 510(k)	2017	Intended to manage skin scaling experienced with various types of dermatoses.
Lasercyn™	U.S. 510(k) EU CE Mark	2016 2016	Indicated for the management of post non ablative laser therapy procedures, post microdermabrasion therapy and following superficial chemical peels; and to relieve itch and pain from minor skin irritations, lacerations, abrasions and minor burns.
MucoClyns™	EU CE Mark	2016	Indicated for the use in emergencies, safe to use on mucous membranes, cuts, abrasions, burns and body surfaces for the treatment immediately after an unexpected exposure to infection risk, and professional medical attention.
Sinudox™	EU CE Mark	2016	Solution intended for nasal irrigation, including the moistening of cuts, abrasions and lacerations located in the nasal cavity.
SebDerm Gel	U.S. 510(k)	2015	Manages and relieves the burning, itching, erythema, scaling, and pain experienced with seborrhea and seborrheic dermatitis. It also helps to relieve dry, waxy skin by maintaining a moist wound and skin environment, which is beneficial to the healing process.
Celacyn®	U.S. 510(k)	2013	As hydrogel for the management of old and new hypertrophic and keloid scarring resulting from burns, general surgical procedures and trauma wounds.
Alevicyn™	U.S. 510(k) EU CE Mark	2011 2013	As a hydrogel, for management and relief of burning, itching and pain experienced with various types of dermatoses, including atopic dermatitis and radiation dermatitis.
Epicyn™	U.S. 510(k) EU CE Mark	2011 2013	Manages and relieves itching, burning and pain experienced with various types of dermatoses, including atopic dermatitis, first- and second-degree burns. Indicated as an adjuvant in the wound healing process with wounds that can only heal by secondary intention in maturation phase. Epicyn™ is effective for the management and reduction of new and existing hypertrophic and keloid scars.
Microcyn™ Skin and Wound Care or HydroGel	U.S. 510(k)	2010	As a solution or hydrogel, for debridement and moistening of acute and chronic wounds, ulcers, cuts, abrasions and burns, including those located in any human cavity such as the oral, nasal or ear.
Gramaderm®	EU CE Mark	2013	As a dermatological solution or hydrogel for the topical treatment of mild to moderate acne.
Microcyn™ Skin and Wound Cleanser	U.S. 510(k)	2009	Debridement of wounds, such as stage I-IV pressure ulcers, diabetic foot ulcers, post-surgical wounds, first- and second-degree burns, grafted and donor sites as preservative, which can kill listed bacteria such as MRSA & VRE and required as a prescription.
Microcyn™ Wound Gel	U.S. 510(k)	2009	Manages exuding wounds such as leg ulcers, pressure ulcers, diabetic ulcers and mechanical or surgical debridement of wounds in a gel form.
Alevicyn™ SG Antipruritic Gel			As a thin hydrogel, for the management and relief of burning, itching and pain experienced with various types of dermatoses, including atopic dermatitis and radiation dermatitis.
Ceramax™ Skin Barrier Cream			Management of dry itchy skin, minor skin irritations, rashes, and inflammation caused by various skin conditions based on patented Lipogrid® Technology.

Domestic Sales and Marketing

Dermatology

In the United States, we sell into dermatology markets through our division, IntraDerm™ Pharmaceuticals, staffed with a seasoned management and growing sales team. Our dermatology products are primarily purchased by distributors and wholesalers, pharmacies and dermatologist.

Although specific customer requirements can vary depending on applications, customers generally demand quality, innovation, affordability and clinically-supported efficacy. We have responded to these customer demands by introducing new products focused on these requirements in the markets we serve. Specifically, we believe that we introduce new products and applications that are innovative, address the specific dermatological procedures in demand, and supported by human clinical data. In addition, we provide attractive product line extensions and pricing to new product families. In the future, to increase market penetration in addition to marketing to our core dermatologists, we may also market our products to aesthetic dermatologists and plastic surgeons.

We seek to establish strong ongoing relationships with our customers through new products, sales of existing products, ongoing training and support, and distributing skincare products. We primarily target our marketing efforts to practitioners through office visits, workshops, trade shows, webinars and trade journals. We also market to potential patients through brochures, workshops and our website. In addition, we offer clinical forums with recognized expert panelists to promote advanced treatment

Advanced Tissue Care and Animal Health Care

We sell into the advanced tissue care markets with our dedicated in-house sales force and through our call center. We also enter into strategic partnerships with physicians and surgeons to promote our products. Our tissue care products are primarily purchased by hospitals, physicians, nurses, and other healthcare practitioners, who are the primary caregivers to patients, both human and animal, being treated for acute or chronic wounds or undergoing surgical procedures.

For our animal health care products we partner with Manna Pro Products, LLC which distributes products to all farm animal specialty stores, farm animal veterinarians in the United States and Canada, and distributors to farm animal specialty stores and farm animal veterinarians in the United States and Canada, and non-prescription animal care products to grocery stores and mass retailers in the United States and Canada. Our animal health care products are sold in national chain pet and retail stores. Internationally, we partner with distributors in Europe and Asia for the sale of our animal health care products. We primarily target our marketing efforts to veterinarians through trade shows, and to customers through social media. We also market to potential patients through brochures, workshops and our website.

International Sales and Marketing by Our Strategic Business Partners

We sell our products through a worldwide distributor network in over 40 countries. In the international markets, we work with a network of partners, ranging from country specific distributors to a large pharmaceutical company to a full services sales and marketing company. International sales are generally made through a worldwide distributor network in over 40 countries. Our international revenue as a percentage of total revenue represented 67% in FY 2016 and 73% in FY 2015.

Europe

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

Mexico

In Mexico, we partnered with Laboratorios Sanfer S.A. de C.V., one of the largest independent pharmaceutical companies in Mexico, operating in nine countries across Latin America. Laboratorios Sanfer manufactures, markets and sells prescription and over the counter branded medications across five therapeutic areas including gastroenterology, cardiology, anti-infective and dermatology. Pursuant to our agreement with Laboratorios Sanfer, we granted Laboratorios Sanfer an exclusive license, with the right to sublicense, under certain conditions and with our consent, to all of our proprietary rights related to certain of our pharmaceutical products for human application that utilize our Microcyn® technology within Mexico. We also agreed to appoint Laboratorios Sanfer as the exclusive distributor of certain of our products in Mexico for the term of the agreement, and an exclusive license to certain of our then-held trademarks.

On October 27, 2016, we, along with our Mexican subsidiary and manufacturer Oculus Technologies of Mexico, S.A. de C.V., closed on an asset purchase agreement with Invekra, S.A.P.I de C.V., an affiliate of Laboratorios Sanfer S.A. de C.V., for the sale of certain of our Latin America assets. Specifically, we agreed to sell certain patents, patent applications, trademarks and territory rights for Mexico, the Caribbean and South America, excluding the sale of dermatology products in Brazil, as well as to build and deliver equipment that Invekra will use to produce its own product.

The aggregate purchase price that Invekra paid for the assets is $22,000,000, of which $18,000,000 was paid upon closing, $1,500,000 was held in escrow until completion of our obligation to deliver certain equipment and paid to us on March 16, 2017. $2,500,000 is to be paid in Mexican currency in quarterly installments over a period of ten years from closing as consideration for the provision of certain services and providing technical assistance, calculated as three per cent on net sales of certain products in Latin America, excluding Mexico. Since the $2,500,000 is to be paid in foreign currency, we may receive more or less than $2,500,000 due to currency fluctuations.

As a result of the asset purchase agreement and arrangement, we expect our revenues in Latin America will decrease significantly. Pursuant to the arrangement, going forward we will receive a royalty of 3% on all Latin American net revenues (outside of Mexico), with a minimum payment of $250,000 per year for the next ten years, to be paid quarterly in Mexican pesos. Due to currency fluctuations, we may not receive the full $250,000 in U.S. dollars. Additionally, while Invekra sets up their manufacturing, we will continue to supply Invekra with product at a reduced price.

“Rest of the World”

Through our partner Laboratorios Sanfer, we market and sell certain of our products within the following countries: Antigua & Barbuda, Argentina, Aruba & Curacao, Bahamas, Barbados, Belize, Bolivia, Bonaire, Brazil, British Guyana, British Islands, Cayman Islands, Chile, Colombia, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, French Guyana, Grenada, Guadalupe, Guatemala, Haiti, Honduras, Jamaica, Martinique, Nicaragua, Panama, Paraguay, Peru, St. Bartolome, St. Vincent & Grenades, Surinam, Trinidad & Tobago, Turks & Caicos Islands, Uruguay, Venezuela and Virgin Islands.

Throughout the rest of the world, we use strategic partners and distributors for the sale of Microcyn®-based products, including Bangladesh, Pakistan, India, the People’s Republic of China, South Korea, United Arab Emirates, Saudi Arabia, Dubai, Kuwait, Iraq, New Zealand, Singapore, Indonesia and Malaysia.

Contract Testing

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

Manufacturing and Packaging

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

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

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

Intellectual Property

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

As of June 6, 2017, we own a total of 63 issued patents, consisting of 13 issued U.S. patents and 50 issued foreign patents. We also have 33 pending U.S. and foreign patent applications. All our patent applications as well as the issued patents are directed at our Microcyn® Technology. The issued U.S. and foreign patents expire in 2022-2029.

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

Although we work diligently to protect our technology, we can make no assurances that any patent will be issued from our currently pending patent applications or from future patent applications. The scope of any patent protection may not exclude competitors or provide competitive advantages to us, and any of our patents may not be held valid if subsequently challenged, and others may claim rights in or ownership of our patents and proprietary rights. Furthermore, others may develop products similar to our products and may duplicate any of our products or design around our patents.

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

Competition

Dermatology

The dermatology market is highly competitive. Our dermatology products face competition in the United States from several prescription products including Novartis' Elidel® Cream, a prescription medicine used topically on the skin to treat eczema, which is also called atopic dermatitis, and Astellas' Protopic®, a prescription ointment used to treat moderate to severe eczema. In addition, topical steroids are commonly used to treat inflammation and itch on atopic dermatitis patients as the standard of care. Many doctors and patients tend to use topical steroids for a limited time period to manage flare-ups due to their side effects.

Advanced Tissue Care Markets

Competition in the markets for advanced tissue care is intense. We compete with a number of large, well-established and well-funded companies that sell a broad range of wound and tissue care products, including topical anti-infectives and antibiotics, as well as some advanced wound technologies, such as skin substitutes, growth factors and sophisticated delayed release silver-based dressings.

Factors Affecting Our Competitive Position

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

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

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

Research and Development

Research and development expense consists primarily of personnel expenses, clinical and regulatory services and supplies. For the years ended March 31, 2017 and 2016, research and development expense amounted to $1,576,000 and $1,806,000, respectively. None of these expenses were borne by our customers.

Significant Customers

We rely on certain key customers for a significant portion of our revenues. At March 31, 2017, one customer represented 26%, one customer represented 22%, one customer represented 18%, and one customer represented 17% of the net accounts receivable balance. At March 31, 2017, one customer represented 12%, one customer represented 11%, and one customer represented 10% of net revenues. At March 31, 2016, one customer represented 33% of the net accounts receivable balance. At March 31, 2016, one customer represented 40%, one customer represented 15%, one customer represented 14% and two customers each represented 12% of net revenues.

Our Employees

As of March 31, 2017, we employed a total of 75 employees in the United States and the Netherlands. Additionally, we had 138 employees in Mexico, all of which were contracted through an employment agency. As of March 31, 2017, we had a U.S. direct sales force of 30 employees, 2 district managers, and 3 senior managers. We are not a party to any collective bargaining agreements. We believe our relations with our employees are good.

Government Regulation

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

Medical Device Regulation

To date, we have received sixteen 510(k) clearances for use of our Microcyn® technology products as medical devices in tissue care management, such as cleaning, debridement, lubricating, moistening and dressing, including for acute and chronic wounds, and in dermatology applications. Any future product candidates or new applications using Microcyn® that are classified as medical devices will require clearance by the FDA.

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

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

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

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

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

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

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

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

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

Other Regulation in the United States

The Physician Payments Sunshine Act

The Physician Payments Sunshine Act signed into law in 2010 as part of the Affordable Care Act requires manufacturers of medical devices, drugs, biologicals, and medical supplies to track and report certain payments made to and transfers of value provided to physicians and teaching hospitals as well as to report certain ownership and investment interests held by physicians and their immediate family members. These manufacturers must report annually to the Center for Medicare & Medicaid Services any direct or indirect payments and transfers of value of $10 or more, or annual aggregate of $100 or more, made to physicians or to a third party at the request of or on behalf of a physician, including dentists. Payment includes: consulting fees, compensation for services other than consulting, honoraria, gifts, entertainment, food, travel (including the specified destinations), education, research, charitable contribution, royalty or license, current or prospective ownership or investment interest, direct compensation for serving as faculty or as a speaker for a medical education program, grants, any other nature of the payment, or other transfer of value. Manufacturers face monetary penalties for non-compliance. Certain payments related to research must be reported separately. Product samples intended for patient use need not be reported.

Health Care Coverage and Reimbursement by Third-Party Payors

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

Fraud and Abuse Laws

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

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

Anti-Kickback Laws

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

False Claims Laws

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

HIPAA

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

Health Information Privacy and Security

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

Foreign Regulation

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

European Union Regulation

Medical Device Regulation

Our products are classified as medical devices in the European Union. In order to sell our medical device products within the European Union, we are required to comply with the requirements of the Medical Devices Directive, and its national implementations, including affixing CE markings on our products. The CE marking indicates a product's compliance with EU legislation and so enables the sale of products throughout the European Economic Area, or the EEA, comprising the 28 Member States of the EU and European Free Trade Association, or EFTA, countries Iceland, Norway, and Liechtenstein. In order to comply with the Medical Devices Directive, we must meet certain requirements relating to the safety and performance of our products and, prior to marketing our products, we must successfully undergo verification of our products' regulatory compliance, or conformity assessment.

On May 26, 2017, the new Medical Devices Directive became effective in the EEA, becoming fully applicable after a transition period of three years, on May 26, 2020. Under the new Medical Devices Directive, certain devices will be classified in higher classes, new devices will become classified, and certain new obligations are imposed on manufacturers and distributors. Manufacturers will be required to engage a medical device expert and carry insurance for possible liability claims. In addition, the pre-market approval and post-market surveillance requirements were enhanced. The European Database for Medical Devices, or Eudamed, will hold and publish information on medical devices collected from the European Commission and the national authorities.

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

We received a CE certificate for 25 of our Class IIB medical devices, which allows us to affix CE markings on these products and sell them in Europe. We may not be able to maintain the requirements established for CE markings for any or all of our products or be able to produce these products in a timely and profitable manner while complying with the requirements of the Medical Devices Directive and other regulatory requirements.

Marketing Authorizations for Drugs

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

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

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

European Good Manufacturing Process

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

Mexican Regulation

The Ministry of Health is the authority in charge of sanitary controls in Mexico. Sanitary controls are a group of practices related to the orientation, education, testing, verification and application of security measures and sanctions exercised by the Ministry of Health. The Ministry of Health is responsible for the issuance of Official Mexican Standards and specifications for drugs subject to the provisions of the General Health Law, which govern the process and specifications of drugs, including the obtaining, preparing, manufacturing, maintaining, mixing, conditioning, packaging, handling, transporting, distributing, storing and supplying of products to the public at large. In addition, a medical device is defined as a device that may contain antiseptics or germicides used in surgical practice or in the treatment of continuity solutions, skin injuries or its attachments.

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

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

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

Available Information

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

ITEM 1A. Risk Factors

Risks Related to Our Business

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

We reported a loss from continuing operations of $8,669,000 and $14,724,000 and for the year ended March 31, 2017 and 2016, respectively. At March 31, 2017 and 2016, our accumulated deficit amounted to $143,101,000 and $152,375,000, respectively. We had working capital of $19,355,000 and $9,337,000 as of March 31, 2017 and 2016, respectively. During the year ended March 31, 2017 and 2016, net cash used in operating activities amounted to $8,167,000 and $8,746,000, respectively. As of March 31, 2017, we had cash and cash equivalents of $17,461,000. We expect to continue incurring losses for the foreseeable future and may never achieve or sustain profitability.

Because our revenues from the Latin America assets sold to Invekra on October 27, 2016, represented a significant portion of our reported total consolidated revenues during the fiscal years ended March 31, 2017 and 2016, our business following the sale transaction may be substantially reduced and less diversified.

Our revenues from our Latin America business that we sold to Invekra on October 27, 2016, or the discontinued operations, were $3,105,000 and $5,715,000 for the years ended March 31, 2017 and 2016, respectively. The Latin America business related assets, liabilities, results of operations and cash flows for our Latin American business are classified as discontinued operations for all periods presented. We will continue to supply products at a reduced price from list prices to Invekra and Sanfer pursuant to our contractual obligations for a transition period of no more than two years while Invekra builds its own manufacturing lines. However, we expect that our future revenues from Latin America sales will be substantially reduced which may adversely affect our results of operations and financial condition. We intend to use the proceeds from the sale of the assets to grow our U.S. dermatology business. However, we may encounter unanticipated difficulties or challenges as we continue to develop our U.S. dermatology business and internal sales force. We may not be able to grow our dermatology business fast enough to offset the loss of revenue from Latin American sales, or at all. If we are unable to increase our dermatology revenues or international sales, our results of operations and financial condition may be adversely affected.

We will have broad discretion in how we use the proceeds from the Latin America asset sale to Invekra, and we may use the proceeds in ways in which our stockholders may disagree.

We received an aggregate purchase price that Invekra paid for the assets of $22,000,000, with $18,000,000 paid in cash upon closing, $1,500,000 was held in escrow until completion of our obligation to deliver certain equipment and paid to us on March 16, 2017, and future variable consideration representing 3% of net sales of certain products in Latin America, excluding Mexico (with a minimum guaranteed payment of $2,500,000) to be paid in Mexican currency in quarterly installments over a period of ten years from closing. Because the $2,500,000 is to be paid in foreign currency, we may receive more or less than $2,500,000 due to such exposures. We intend to use the proceeds from the sale to grow our U.S. dermatology business, such as among others, to increase our direct sales force, to develop and launch new products and for general working capital. Our management will have broad discretion in the application of the proceeds from the asset sale and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. We cannot guarantee that our efforts to grow our U.S. dermatology business will succeed and result in increased sales or revenues. The failure by management to apply the proceeds effectively could result in financial losses that could have a material adverse effect on our business or cause the price of our common stock to decline.

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

We currently use a direct sales force to sell our products in the dermatology markets. Expanding our sales force is expensive and time consuming, and the lack of qualified sales personnel could delay or limit the success of our product launch in the United States. Our domestic sales force competes with the sales operations of our competitors, which are better funded and more experienced. We may not be able to expand our domestic sales capacity on a timely basis, or in the markets that we desire, or at all.

Our Petaluma facility is vulnerable to natural disasters and other unexpected events, any of which could result in an interruption in our business and harm to our operating results.

A disruption or failure of our business and operations because of a major earthquake, weather event, cyber-attack, or other catastrophic event could disrupt or cause delays in performing critical functions of our business. Our corporate headquarters, a portion of our research and development activities, substantially all of our U.S. manufacturing, and other essential business operations are in Petaluma, California.

We suffered flooding of our Petaluma facility over 10 years ago, which led to a shutdown of our manufacturing facilities for 12 months. Also, in late 2016, heavy rain nearly caused flooding of our facility. A catastrophic event that results in the destruction or disruption of any of our critical business or manufacturing could harm our ability to conduct normal business operations. If any of these events result in damage to our facilities or systems, we may experience interruptions in our business until the damage is repaired, resulting in the potential loss of customers and revenues. Additionally, we may incur costs in repairing any damage beyond our applicable insurance coverage. While we have taken precautions against flooding, we cannot assure that heavy rain will not cause significant disruption to our business. We have also obtained flood and business interruption insurance, but such insurance may not cover all expenses associated with a natural disaster or the complete shut-down of our Petaluma facility. We are currently looking to move to new facilities after our lease ends, and are also considering expanding our manufacturing facilities in Mexico. Moving our manufacturing facility is a lengthy and expensive process due to getting all necessary FDA approvals.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business strategy and our short- and long-term operating results depend in part on our ability to execute on existing strategic collaborations and to license or partner with new strategic partners. We believe collaborations allow us to leverage our resources and technologies and to access markets that are compatible with our own core areas of expertise while avoiding the cost of establishing or maintaining a direct sales force in each market. We may incur significant costs in the use of third parties to identify and assist in establishing relationships with potential collaborators. We currently have a direct sales force, which sells our products in the tissue care, and dermatology markets, and we use distributors for sales in the animal health care markets. We intend to further expand the geographical coverage of our direct sales force and add more sales representatives.

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

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

Although we have a significant number of customers in each of the geographic markets that we operate in, we rely on certain key customers for a significant portion of our revenues. At March 31, 2017, one customer represented 12%,and two customers each represented 10% of net revenues. At March 31, 2016, one customer represented 40%, one customer represented 15%, one customer represented 14%, and two customers each represented 12% of net revenues. In the future, a small number of customers may continue to represent a significant portion of our total revenues in any given period. These customers may not consistently purchase our products at a particular rate over any subsequent period. The loss of any of these customers could adversely affect our revenues.

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

We grant credit to our business customers, which are primarily located in Mexico, Europe and the United States. Collateral is generally not required for trade receivables. We maintain allowances for potential credit losses. At March 31, 2017, one customer represented 26%, one customer represented 12%, and one customer represented 10% of the net accounts receivable balance. At March 31, 2016, one customer represented 33% of the net accounts receivable balance. While we believe we have a varied customer base and have experienced strong collections in the past, if current economic conditions disproportionately impact any one of our key customers, including reductions in their purchasing commitments to us or their ability to pay their obligations, it could have a material adverse effect on our revenues and liquidity. We have not purchased insurance on our accounts receivable balances.

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

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

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

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

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

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

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

Although we have filed several U.S. and foreign patent applications related to our Microcyn®-based products, the manufacturing technology for making the products, and their uses, only 13 U.S. patents have been issued from these applications to date.

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

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

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

The policies we use to protect our trade secrets may not be effective in preventing misappropriation of our trade secrets by others. In addition, confidentiality and invention assignment agreements executed by our employees, consultants and advisors may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosures.

We operate in the State of California. The laws of California prevent us from imposing a delay before an employee who may have access to trade secret and propriety know-how can commence employment with a competing company. Although we may be able to pursue legal action against competitive companies improperly using our proprietary information, we may not be aware of any use of our trade secrets and proprietary know-how until after significant damages has been done to our Company.

We cannot be certain that the steps we have taken will prevent the misappropriation and use of our intellectual property in the United States, or in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

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

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

Our ability to generate revenue will be diminished if we are unable to obtain acceptable prices or an adequate level of reimbursement from third-party payors of health care costs, or if the number of people with insurance were to drop significantly.

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

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

In both the United States and some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the health care system in ways that could affect our ability to sell our products profitably. In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also called the Medicare Modernization Act, or MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. As a result of this legislation and the expansion of federal coverage of drug products, we expect that there will be additional pressure to contain and reduce costs. These cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products and could seriously harm our business. While the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policies and payment limitations in setting their own reimbursement rates, and therefore any reduction in reimbursement that results from the MMA may result in a similar reduction in payments from private payors.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively, the PPACA, became law in the United States. The PPACA, among others, has mandated higher Medicaid rebates, expanded the rebate to Medicaid managed care utilization, established annual fees and tax fees for certain pharmaceutical companies, and increased the types of entities eligible for the federal drug discount program. The effects of recently proposed changes to the PPACA are difficult to predict and could adversely affect our business. However, if the number of insured people were to decrease significantly it could have a material adverse effect on our sales of products and our business operations.

Additionally, many states have proposed legislation that seeks to regulate pharmaceutical drug pricing by way of public disclosure or by placing price ceilings on products. If such legislation is passed, it may result in downward pressure on pharmaceutical reimbursement, which could negatively affect market acceptance of our Microcyn® products.

We expect to experience pricing pressures in connection with the sale of our pharmaceutical products, due to the trend toward managed health care, the increasing influence of health maintenance organizations and additional legislative proposals. If we fail to successfully secure and maintain reimbursement coverage for our products or are significantly delayed in doing so, we will have difficulty achieving market acceptance of our products and our business will be harmed.

Our dermatology sales may be subject to seasonal fluctuations.

Sales of our dermatological products depend in part on the type of insurance coverage of patients. With the decrease of managed care plans and the rise of high-deductible insurance plans, we have experienced slower sales for our dermatological products in the beginning of the year. This may be the result of insurance deductibles not yet being met and patients deciding to withhold purchases of our products. Fluctuations may negatively affect our business and results of operations.

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

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

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

We have material international operations in Mexico and Europe. During the year ended March 31, 2017 and 2016, approximately 45% and 67% of our total product related revenue (including product license fees and royalties), respectively, were generated from sales outside of the United States. Our business is highly regulated for the use, marketing and manufacturing of our Microcyn®-based products both domestically and internationally. Our international operations are subject to risks, including:

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

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

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

Our international operations are subject to trade policies and trade agreements and unfavorable changes could harm our business.

We have significant international operations in Mexico and Europe, and we manufacture products for export in Mexico. If trade policies or trade agreements, such as the North American Free Trade Agreement, or NAFTA, were to change unfavorably, or protectionist measures or tariffs were enacted, our business, financial condition and results of operations could be adversely affected.

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

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

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

Our success depends largely on the skills, experience and performance of key members of our executive management team, including Jim Schutz, our Chief Executive Officer, Robert Miller, our Chief Financial Officer, Robert Northey, our Executive Vice President of Research and Development, and Jeffrey Day, head of our IntraDerm™ Pharmaceuticals division. The efforts of these people will be critical to us as we continue to develop our products and attempt to commercialize products in the tissue and dermatology markets. If we were to lose one or more of these individuals, we might experience difficulties in competing effectively, developing our technologies and implementing our business strategies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Common Stock

The market price of our common stock may be volatile, and the value of your investment could decline significantly.

The trading price for our common stock has been, and we expect it to continue to be, volatile. The price at which our common stock trades depends upon a number of factors, including our historical and anticipated operating results, our financial situation, announcements of new products by us or our competitors, our ability or inability to raise the additional capital we may need and the terms on which we raise it, and general market and economic conditions. Some of these factors are beyond our control. Broad market fluctuations may lower the market price of our common stock and affect the volume of trading in our stock, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure you that the market price of our shares of common stock will not fall in the future.

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

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

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

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

Anti-takeover provisions in our certificate of incorporation and bylaws and under Delaware law may make it more difficult for stockholders to change our management and may also make a takeover difficult.

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

- the ability of our Board of Directors to issue and designate, without stockholder approval, the rights of up to 714,286 shares of convertible preferred stock, which rights could be senior to those of common stock;
- limitations on persons authorized to call a special meeting of stockholders; and
- advance notice procedures required for stockholders to make nominations of candidates for election as directors or to bring matters before meetings of stockholders.

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

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

We currently have significant "equity overhang" which could adversely affect the market price of our common stock and impair our ability to raise additional capital through the sale of equity securities in the future.

We currently have significant "equity overhang." The possibility that substantial amounts of our common stock may be issued to and then sold by investors, or the perception that such issuances and sales could occur, often called "equity overhang," could adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities in the future. The consummation of the exercise of warrants for common stock would significantly increase the number of issued and outstanding shares of our common stock.

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

Our Restated Certificate of Incorporation, as amended, allows us to issue up to 12,000,000 shares of our common stock and to issue and designate, without stockholder approval, the rights of up to 714,286 shares of preferred stock. In the event we issue additional shares of our capital stock, dilution to our stockholders could result. In addition, if we issue and designate a class of convertible preferred stock, these securities may provide for rights, preferences or privileges senior to those of holders of our common stock. Additionally, if we issue preferred stock, it may convert into common stock at a ratio of 1:1 or greater because our Restated Certificate of Incorporation, as amended, allows us to designate a conversion ratio without limitations.

Shares issuable upon the conversion of warrants or the exercise of outstanding options may substantially increase the number of shares available for sale in the public market and depress the price of our common stock.

As of March 31, 2017, we had outstanding warrants exercisable for an aggregate of 1,344,000 shares of our common stock at a weighted average exercise price of approximately $7.18 per share. In addition, as of March 31, 2017, options to purchase an aggregate of 899,000 shares of our common stock were outstanding at a weighted average exercise price of approximately $17.87 per share and a weighted average contractual term of 7.08 years. In addition, 1,170,000 shares of our common stock were available on March 31, 2017 for future option grants under our 2011 Stock Incentive Plan and 2016 Equity Incentive Plan. To the extent any of these warrants or options are exercised and any additional options are granted and exercised, there will be further dilution to stockholders and investors. Until the options and warrants expire, these holders will have an opportunity to profit from any increase in the market price of our common stock without assuming the risks of ownership. Holders of options and warrants may convert or exercise these securities at a time when we could obtain additional capital on terms more favorable than those provided by the options or warrants. The exercise of the options and warrants will dilute the voting interest of the owners of presently outstanding shares by adding a substantial number of additional shares of our common stock.

We have filed several registration statements with the SEC, so that substantially all of the shares of our common stock which are issuable upon the exercise of outstanding warrants and options may be sold in the public market. The sale of our common stock issued or issuable upon the exercise of the warrants and options described above, or the perception that such sales could occur, may adversely affect the market price of our common stock.

ITEM 2. Properties

We currently lease the following material properties:

Location	Rent per month	Purpose
1129 N. McDowell Blvd., Petaluma, CA 94954, USA	USD 11,072	Principal executive office, also used for research and manufacturing
324 Campus Lane, Suite A, Fairfield, CA 94534, USA	USD 4,103	Office
454 North 34th Street, Seattle, Wash. 98103, USA	USD 2,700	Shared office and laboratory space
Suite 130, First Floor, 2500 York Road, Jamison, PA 18929, USA	USD 2,369	Office
414 Creekstone Ridge, Woodstock, GA 30188, USA	USD 1,200	Office
Industria Vidriera 81, Zapopan Industrial Norte, Zapopan, Jalisco, 45132, Mexico	MXN 121,395	Office, manufacturing, storage
Industria Maderera 124 & 106 & 815 Zapopan Industrial Norte, Zapopan, Jalisco, 45132, Mexico	MXN 124,500	Storage
Boven de Wolfskuil 3, C30-C32 6049 LX Herten/Roermond The Netherlands	USD 1,700	Office

As we expand, we may need to establish manufacturing facilities in other countries. We believe that our properties will be adequate to meet our needs for at least the next 12 months.

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

Our common stock is traded on The NASDAQ Capital Market under the symbol "SNOA". Previously, it traded under the symbol "OCLS" until December 6, 2016. Our common stock has been trading since our initial public offering on January 25, 2007. The warrants we issued in connection with our January 2015 offering are traded on The NASDAQ Capital Market under the symbol "SNOAW" since January 21, 2015.

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

	Year Ended March 31, 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Stock price-high	$ 6.65	$ 4.98	$ 5.65	$ 8.25
Stock price-low	$ 3.62	$ 3.57	$ 3.91	$ 5.03

	Year Ended March 31, 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Stock price-high	$ 8.80	$ 9.15	$ 6.50	$ 6.85
Stock price-low	$ 3.50	$ 5.25	$ 5.50	$ 4.20

Holders

As of June 1, 2017, we had approximately 337 holders of record of our common stock. Holders of record include nominees who may hold shares on behalf of multiple owners.

Dividends

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for the operation of our business and we do not currently intend to pay any cash dividends on our common stock in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Recent Sales of Unregistered Securities

We did not issue unregistered securities during the quarter ended March 31, 2017.

Issuer Purchases of Equity Securities

There were no repurchases made by us or on our behalf, or by any "affiliated purchaser," of shares of our common stock during the quarter ended March 31, 2017.

ITEM 6. Selected Financial Data

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

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

Critical Accounting Policies

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

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

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

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

Reclassification due to Sale of Latin America business to Invekra

As of March 31, 2017, we determined that the sale of our Latin American operations to Invekra qualified as a sale of a component of our business and, as such, all such activity prior to consummation of the sale is required to be included in discontinued operations on our statement of operations. This includes the direct labor and materials for the product delivered to Invekra, the revenue on the sales to Invekra and the gain on the sale to Invekra, net of tax. As a result of the sale, certain prior period amounts have been reclassified for comparative purposes to conform to the fiscal 2017 presentation. These reclassifications have no impact on our previously reported net loss. See also Note 4.

The carrying value of the assets and liabilities of discontinued operations on our consolidated balance sheets as of March 31, 2017 and March 31, 2016 were as follows:

	March 31, 2017	March 31, 2016
Assets		
Accounts receivable (net)	$ –	$ 766,000
Inventories	–	45,000
Total current assets of discontinued operations	$ –	$ 811,000
Liabilities		
Deferred revenue	$ –	$ 300,000
Total current liabilities of discontinued operations	$ –	$ 300,000
Deferred revenue, less current portion	$ –	$ 112,000
Total long-term liabilities of discontinued operations	$ –	$ 112,000

The operations of our Latin American business included in discontinued operations is summarized as follows:

	Year Ended March 31,	
	2017	2016
Revenues	$ 3,105,000	$ 5,715,000
Cost of revenues	561,000	1,153,000
Income from discontinued operations before tax	2,544,000	4,562,000
Gain on disposal of discontinued operations before income taxes	19,679,000	–
Total income from discontinued operations, before tax	22,223,000	4,562,000
Income tax expense	(4,280,000)	–
Income from discontinued operations, net of tax	$ 17,943,000	$ 4,562,000

For a Summary of Critical Accounting Policies, please refer to Notes to Consolidated Financial Statements, Note 3.

Results of Operations

Comparison of the Year Ended March 31, 2017 and 2016

Results of Continuing Operations

Revenues

Total revenues for the year ended March 31, 2017 of $12,825,000 increased by $3,456,000 or 37%, as compared to $9,369,000 for the year ended March 31, 2016. Product revenues for the year ended March 31, 2017 of $11,957,000 increased by $3,880,000 or 48% when compared to the same period in the prior year. This increase was the result of strong growth in the United States, Europe, the Rest of the World and Latin America. Product licensing fees and royalties decreased $231,000 related to the loss of our former partner Exeltis.

Product revenues in the United States for the year ended March 31, 2017 of $6,580,000, increased by $2,209,000, or 51%, when compared to the same period in the prior year. This increase was mostly the result of higher sales of our dermatology products, because of new product launches, and growth in existing products during the period. Additionally, our animal health care products revenues increased by $673,000 from $501,000 to $1,174,000 during the period. This increase is primarily the result of higher sales of animal health care products by our partners.

Product revenue in Europe and the Rest of the World for the year ended March 31, 2017 of $4,078,000, increased by $372,000, or 10%, as compared to the same period in the prior year, with increases in Europe and Asia, partly offset by decreases in India and Middle East.

As a result of the asset purchase agreement and arrangement we entered into on October 27, 2016 with Invekra, going forward, we expect our revenues in Latin America will decrease significantly. Pursuant to the arrangement, going forward we will receive a royalty of 3% on all Latin American net revenues (outside of Mexico), with a minimum payment of $250,000 per year for the next ten years, to be paid quarterly in Mexican pesos. Additionally, while Invekra sets up their manufacturing, we will continue to supply Invekra with product at a reduced price. During the year ended March 31, 2017, we reported $1,299,000 of Latin America product revenue related to Invekra.

The following table shows our product revenues by geographic region:

	Year Ended March 31,			
	2017	2016	$ Change	% Change
United States	$ 6,580,000	$ 4,371,000	$ 2,209,000	51%
Latin America	1,299,000	–	1,299,000	100%
Europe and Rest of the World	4,078,000	3,706,000	372,000	10%
	11,957,000	8,077,000	3,880,000	48%
Product License Fees and Royalties	–	231,000	(231,000)	(100)%
Total	$ 11,957,000	$ 8,308,000	$ 3,649,000	44%

In connection with our sale of our Latin American business to Invekra, product revenues and cost of revenues were reclassified from continuing operations to discontinued operations as follows:

	Year Ended March 31,	
	2017	2016
Product revenues	$ 2,693,000	$ 4,965,000
Product license fees and royalties	412,000	750,000
Total product related revenues	3,105,000	5,715,000
Cost of revenues	561,000	1,153,000
Gross profit	$ 2,544,000	$ 4,562,000

In the year ended March 31, 2017, product license fees and royalties revenues declined primarily as a result of a decrease in revenue related to our former dermatology partner Exeltis.

Service revenues for the year ended March 31, 2017 of $868,000 decreased by $193,000 when compared to $1,061,000 in the prior period. This decrease was due to a decrease in the number of tests and services provided by our lab services business.

Gross Profit

For the year ended March 31, 2017, we reported total revenues of $12,825,000 and total cost of revenues of $7,157,000, resulting in total gross profit of $5,668,000 or 44% of total revenues, compared to a gross profit of $2,648,000 or 28% of total revenues, for the same period in the prior year. The increase in gross profit was primarily due to the reclassification, in the prior period, of Latin America product and license revenue and related variable cost of goods sold from continuing operations to discontinued operations. Additionally. As our stronger margin dermatology revenue increases we expect our margins to improve.

For the year ended March 31, 2017, we reported product revenues of $11,957,000 and cost of product revenues of $6,419,000, resulting in product gross profit of $5,538,000, or 46% of product revenues, compared to product gross profit of $2,237,000, or 28% of product revenues, for the same period in the prior year. The increase in gross profit was primarily due to the reclassification, in the prior period, of Latin America product and related variable cost of goods sold from continuing operations to discontinued operations. Additionally, as dermatology product revenues increased as an overall percentage of our product revenues, we expect our margins will improve due to higher gross margins associated with our dermatology products.

For the year ended March 31, 2017, we reported service revenues of $868,000 and cost of service revenues of $738,000, resulting in service gross profit of $130,000, or 15% of service revenues, compared to service gross profit of $180,000, or 17% of service revenues, for the same period in the prior year. The decrease in service gross profit was primarily related to lower service revenue in the current period and the mix of tests and services performed.

Research and Development Expense

We reported research and development expenses of $1,576,000 for the year ended March 31, 2017, a decrease of $230,000, or 13%, when compared to the same period in the prior year. The decrease is largely due to a decrease in development milestone payments and license fees related to a dermatology product from the prior period.

Selling, General and Administrative Expense

We reported selling, general and administrative expenses of $17,066,000 for the year ended March 31, 2017, an increase of $1,510,000, or 10%, when compared to the same period in the prior year. The increase for the year ended March 31, 2017 was primarily due to higher sales expenses related to our growing dermatology division.

We expect selling, general and administrative expenses to increase as we add territories and people to our direct sales force.

Interest Expense

Interest expense was negligible for the years ended March 31, 2017 and 2016.

Interest Income

Interest income was $22,000 and $2,000, respectively, for the years ended March 31, 2017 and 2016.

Gain due to Change in Fair Value of Derivative Liabilities

In connection with our December 9, 2013 and February 26, 2014 registered direct offerings we issued a series of common stock purchase warrants, which contained cash settlement provisions. During the year ended March 31, 2016, we recorded a gain due to a decrease in the fair value of our derivative liabilities of $11,000, primarily due to a decrease in our common stock price, offset by the expiration of warrants and the decreasing contractual term of outstanding warrants. During the year ended March 31, 2017, the remaining warrants outstanding at March 31, 2016 expired.

Other Income, net

Other income, net of $18,000 for the year ended March 31, 2017, increased $38,000, from $20,000 of other expense, net for the same period in the prior year. The increase in other income, net for the year ended March 31, 2017 was primarily related to foreign exchange gains during the period.

Net Loss from Continuing Operations

Net loss from continuing operations for the year ended March 31, 2017 was $8,669,000 compared to a net loss of $14,724,000, for the same period in the prior year. The decrease in net loss from continuing operations of $6,055,000 is primarily the result of a tax benefit recorded during the current period of $4,268,000 and the reclassification of Latin America to discontinued operations of $2,544,000 in the current period and $4,562,000 in the prior period.

Discontinued Operations, net of Tax

During the year ended March 31, 2017, we divested certain assets related to our Latin American business. On October 27, 2016, we closed on an asset purchase agreement with Invekra, S.A.P.I de C.V., an affiliate of Laboratorios Sanfer S.A. de C.V., for the sale of certain of our Latin America assets. We decided to divest our Latin American business, to focus on our U.S. dermatology business, resulting in a strategic shift that had a major effect on our operations and financial results. Therefore, the divested Latin American operations meet the criteria to be reported as discontinued operations.

The related assets, liabilities, results of operations and cash flows for our Latin American business are classified as discontinued operations for all periods presented.

Income from discontinued operations for the years ended March 31, 2017 and 2016 includes $2,544,000 and $4,562,000, respectively, of gross profit reclassified from continuing operations to discontinued operations during the periods.

Gain on disposal of discontinued operations for the year ended March 31, 2017, includes $19,679,000 of gain from the gain on the sale of intellectual property assets and equipment of our discontinued Latin American business.

Additionally, for the year ended March 31, 2017, we recorded income tax expense related to the transaction in the amount of $4,280,000. In addition, for the year ended March 31, 2017, we recorded a $4,268,000 tax benefit resulting in tax expense of $12,000.

The following summarizes operations of our Latin American business included in discontinued operations:

	Year Ended March 31,	
	2017	**2016**
Revenues	$ 3,105,000	$ 5,715,000
Cost of revenues	561,000	1,153,000
Income from discontinued operations before tax	2,544,000	4,562,000
Gain on disposal of discontinued operations before income taxes	19,679,000	–
Total income from discontinued operations, before tax	22,223,000	4,562,000
Income tax expense	(4,280,000)	–
Income from discontinued operations, net of tax	$ 17,943,000	$ 4,562,000

Liquidity and Capital Resources

We reported a net income of $9,274,000 for the year ended March 31, 2017, and for the year ended March 31, 2016, a net loss of $10,162,000. At March 31, 2017 and March 31, 2016, our accumulated deficit amounted to $143,101,000 and $152,375,000, respectively. At March 31, 2017 and March 31, 2016, our working capital amounted to $19,355,000 and $9,337,000, respectively.

We currently anticipate that our cash and cash equivalents, including the proceeds from the sale to Invekra, will be sufficient to meet our working capital requirements to continue our sales and marketing and research and development efforts for at least 12 months from the date of filing this annual report.

Sources of Liquidity

As of March 31, 2017, we had cash and cash equivalents of $17,461,000. 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 and the sale of certain Latin American assets to Invekra.

Since April 1, 2015, substantially all of our operations have been financed through the following transactions:

- proceeds of $112,000 received from the exercise of common stock purchase warrants and options;
- net proceeds of $4,538,000 received from the sale of Ruthigen common stock;
- net proceeds of $2,994,000 received from an underwritten public offering on March 18, 2016;
- net proceeds of $3,150,000 received from the sale of common stock through our At the Market Issuance Sales Agreement as of March 31, 2017; and
- net proceeds of $18,639,000 received from the sale of certain Latin America assets to Invekra on October 27, 2016.

On October 27, 2016, we, along with our Mexican subsidiary and manufacturer Oculus Technologies of Mexico, S.A. de C.V., closed on an asset purchase agreement with Invekra, S.A.P.I de C.V., an affiliate of Laboratorios Sanfer S.A. de C.V., for the sale of certain of our Latin America assets for an aggregate purchase price of $22,000,000, with $18,000,000 paid in cash upon closing, $1,500,000 paid on March 16, 2017 upon delivery of certain equipment and technology, and $2,500,000 to be paid in Mexican currency in quarterly installments over a period of ten years from closing as consideration for the provision of certain services and providing technical assistance, calculated as three per cent on net sales of certain products in Latin America, excluding Mexico. Since the $2,500,000 is paid in foreign currency, we may receive more or less than $2,500,000 due to currency fluctuations.

Cash Flows

As of March 31, 2017, we had cash and cash equivalents of $17,461,000, compared to $7,469,000 as of March 31, 2016.

Net cash used in operating activities during the year ended March 31, 2017 was $8,167,000, primarily due to our net income in the period of $9,274,000 which was offset by adjustments to net income related to our gain on sale of our Latin American assets, net of tax, of $15,399,000 and the income tax benefit realized of $4,268,000. Additionally, we recorded stock compensation related expenses of $2,243,000.

Net cash used in operating activities during the year ended March 31, 2016 was $8,746,000, primarily due to our net loss of $10,162,000, offset by non-cash transactions during the year ended March 31, 2016, including $2,341,000 of stock-based compensation expenses.

Net cash provided by investing activities was $18,224,000 for the year ended March 31, 2017, consisting of primarily proceeds from the sale of our Latin American assets, net of costs, of $18,639,000, offset by $394,000 related to equipment purchases and $21,000 related to changes in long-term deposits.

Net cash provided by investing activities was $4,191,000 for the year ended March 31, 2016, consisting of $345,000 related to equipment purchases offset by $4,538,000 received from the sale of 1,650,000 of our shares of Ruthigen common stock.

Net cash used in financing activities was $32,000 for the year ended March 31, 2017, primarily related to $130,000 principal payments on debt offset by cash received from the exercise of stock options and stock purchase warrants of $98,000.

Net cash provided by financing activities was $6,039,000 for the year ended March 31, 2016. During the period ended March 31, 2016, we received net proceeds from the March 18, 2016 underwritten offering of common stock and common stock purchase warrants of $2,994,000 and net proceeds of $3,150,000 from an At the Market Issuance of common stock. The offering proceeds were offset by principal payments on the debt in the amount of $119,000.

Contractual Obligations

As of March 31, 2017, we had contractual obligations as follows (long-term debt and capital lease amounts include principal payments only):

	Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	After 3 Years
Long-term debt	$ 168,000	$ 123,000	$ 45,000	$ –
Capital leases	242,000	74,000	168,000	
Operating leases	713,000	371,000	342,000	–
Total	$ 1,123,000	$ 568,000	$ 555,000	$ –

Operating Capital and Capital Expenditure Requirements

We reported a net income of $9,274,000 for the year ended March 31, 2017. At March 31, 2017 and March 31, 2016, our accumulated deficit amounted to $143,101,000 and $152,375,000, respectively. At March 31, 2017 and March 31, 2016, our working capital amounted to $19,355,000 and $9,337,000, respectively.

On October 27, 2016, we, along with our Mexican subsidiary and manufacturer Oculus Technologies of Mexico, S.A. de C.V., closed on an asset purchase agreement with Invekra, S.A.P.I de C.V., an affiliate of Laboratorios Sanfer S.A. de C.V., for the sale of certain of our Latin America assets for an aggregate purchase price of $22,000,000, with $18,000,000 paid in cash upon closing, $1,500,000 paid on March 16, 2017 upon delivery of certain equipment and technology, and $2,500,000 to be paid in Mexican currency in quarterly installments over a period of ten years from closing as consideration for the provision of certain services and providing technical assistance, calculated as three per cent on net sales of certain products in Latin America, excluding Mexico. Since the $2,500,000 is to be paid in foreign currency, we may receive more or less than $2,500,000 due to currency fluctuations.

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

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

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

Off-Balance Sheet Transactions

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

ITEM 8. Consolidated Financial Statements and Supplementary Data

Sonoma Pharmaceuticals, Inc.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Shareholders
of Sonoma Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Sonoma Pharmaceuticals, Inc. and Subsidiaries, formerly known as Oculus Innovative Sciences, Inc. (the "Company") as of March 31, 2017 and 2016, and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sonoma Pharmaceuticals, Inc. and Subsidiaries, formerly known as Oculus Innovative Sciences, Inc., as of March 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum LLP

Marcum LLP
New York, NY
June 28, 2017

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	March 31	
	2017	**2016**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,461	$ 7,469
Accounts receivable, net	2,108	1,508
Inventories, net	2,221	1,595
Prepaid expenses and other current assets	616	1,505
Current portion of deferred consideration, net of discount	237	–
Current assets of discontinued operations (Note 4)	–	811
Total current assets	22,643	12,888
Property and equipment, net	1,239	850
Deferred consideration, net of discount, less current portion	1,497	–
Other assets	80	65
Total assets	$ 25,459	$ 13,803
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,255	$ 1,337
Accrued expenses and other current liabilities	1,302	1,526
Deferred revenue	345	274
Deferred revenue Invekra (Note 4)	176	–
Current portion of long-term debt	123	114
Current portion of capital leases	74	–
Taxes payable	13	–
Current liabilities of discontinued operations (Note 4)	–	300
Total current liabilities	3,288	3,551
Long-term deferred revenue Invekra (Note 4)	527	–
Long-term debt, less current portion	45	–
Long-term capital leases, less current portion	168	–
Long-term liabilities of discontinued operations (Note 4)	–	112
Total liabilities	4,028	3,663
Commitments and Contingencies (Note 12)		
Stockholders' Equity		
Convertible preferred stock, $0.0001 par value; 714,286 shares authorized, none issued and outstanding at March 31, 2017 and March 31, 2016, respectively	–	–
Common stock, $0.0001 par value; 12,000,000 shares authorized at March 31, 2017 and March 31, 2016, 4,289,322 and 4,196,873 shares issued and outstanding at March 31, 2017 and March 31, 2016, respectively (Note 13)	1	1
Additional paid-in capital	168,709	166,368
Accumulated deficit	(143,101)	(152,375)
Accumulated other comprehensive loss	(4,178)	(3,854)
Total stockholders' equity	21,431	10,140
Total liabilities and stockholders' equity	$ 25,459	$ 13,803

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

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share amounts)

	Year Ended March 31,	
	2017	**2016**
Revenues		
Product	$ 11,957	$ 8,077
Product licensing fees and royalties	–	231
Service	868	1,061
Total revenues	12,825	9,369
Cost of revenues		
Product	6,419	5,840
Service	738	881
Total cost of revenues	7,157	6,721
Gross profit	5,668	2,648
Operating expenses		
Research and development	1,576	1,806
Selling, general and administrative	17,066	15,556
Total operating expenses	18,642	17,362
Loss from operations	(12,974)	(14,714)
Interest expense	(3)	(3)
Interest income	22	2
Gain due to change in fair value of derivative liabilities	–	11
Other income (expense), net	18	(20)
Loss from continuing operations before income taxes	(12,937)	(14,724)
Income tax benefit	4,268	–
Loss from continuing operations	(8,669)	(14,724)
Income from discontinued operations (net of tax) (Note 4)	17,943	4,562
Net income (loss)	$ 9,274	$ (10,162)
Net income (loss) per share: basic and diluted		
Continuing operations	$ (2.05)	$ (4.48)
Discontinued operations	4.25	1.39
	$ 2.20	$ (3.09)
Weighted-average number of shares used in per share calculations: basic and diluted	4,224	3,289
Other comprehensive income (loss)		
Net income (loss)	$ 9,274	$ (10,162)
Foreign currency translation adjustments	(324)	(347)
Comprehensive income (loss)	$ 8,950	$ (10,509)

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

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended March 31, 2017 and 2016
(In thousands, except share amounts)

	Common Stock ($0.0001 par Value)		Additional Paid in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Loss	Total
Balance, March 31, 2015	3,009,017	1	157,773	(142,213)	(3,507)	12,054
Issuance of common stock in connection with At-the-Market issuances of common stock, net of commissions, expenses and other offering costs	450,919	–	3,150	–	–	3,150
Issuance of common stock and common stock purchase warrants in connection with March 23, 2016 closing of offering, net of commissions, expenses and other offering costs	680,000	–	2,994	–	–	2,994
Issuance of common stock upon exercise of common stock purchase warrants	2,220	–	14	–	–	14
Issuance of common stock for settlement of service fees	41,704	–	286	–	–	286
Issuance of common stock purchase warrants for payment of service fees	–	–	128	–	–	128
Stock based compensation related to issuance of common stock restricted stock grants	13,013	–	64	–	–	64
Stock based compensation, net of forfeitures	–	–	1,959	–	–	1,959
Foreign currency translation adjustment	–	–	–	–	(347)	(347)
Net loss	–	–	–	(10,162)	–	(10,162)
Balance, March 31, 2016	4,196,873	$ 1	$ 166,368	$ (152,375)	$ (3,854)	$ 10,140
Adjustment due to 5:1 reverse stock-split on June 24, 2016	(214)	–	–	–	–	–
Issuance of common stock upon exercise of common stock purchase warrants	18,232	–	91	–	–	91
Issuance of common stock upon exercise of common stock options	1,250	–	7	–	–	7
Issuance of common stock for settlement of service fees	20,801	–	98	–	–	98
Stock based compensation related to issuance of common stock restricted stock grants	52,380	–	302	–	–	302
Stock based compensation, net of forfeitures	–	–	1,843	–		1,843
Foreign currency translation adjustment	–	–	–	–	(324)	(324)
Net income	–	–	–	9,274	–	9,274
Balance, March 31, 2017	4,289,322	$ 1	$ 168,709	$ (143,101)	$ (4,178)	$ 21,431

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

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended March 31,	
	2017	**2016**
Cash flows from operating activities		
Net loss from continuing operations	$ (8,669)	$ (14,724)
Net income from discontinued operations, net of tax	17,943	4,562
Net income (loss)	9,274	(10,162)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	248	244
Change in provision for doubtful accounts	(1)	(5)
Change in provision for discounts, rebates, distributor fees and returns	19	470
Change in provision for obsolete inventory	–	77
Gain on sale of Latin American assets, net of tax	(15,399)	–
Income tax benefit	(4,268)	–
Stock-based compensation	2,145	2,151
Service provider expenses settled with common stock	98	190
Gain due to change in fair value of derivative liabilities	–	(11)
Foreign currency transaction gains	(36)	(38)
Loss on disposal of property and equipment	10	–
Changes in operating assets and liabilities:		
Accounts receivable	34	(1,282)
Inventories	(675)	(382)
Prepaid expenses and other current assets	979	(751)
Accounts payable	(58)	429
Accrued expenses and other current liabilities	(298)	919
Deferred revenue	(239)	(595)
Net cash used in operating activities	(8,167)	(8,746)
Cash flows from investing activities:		
Purchases of property and equipment	(394)	(345)
Proceeds from sale of long-term investment	–	4,538
Proceeds from sale of Latin American assets, net of costs	18,639	–
Deposits	(21)	(2)
Net cash provided by investing activities	18,224	4,191
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	–	6,144
Proceeds from exercise of common stock options	7	–
Proceeds from exercise of common stock purchase warrants	91	14
Principal payments on long-term debt	(130)	(119)
Net cash (used in) provided by financing activities	(32)	6,039
Effect of exchange rate on cash and cash equivalents	(33)	(151)
Net increase in cash and cash equivalents	9,992	1,333
Cash and cash equivalents, beginning of year	7,469	6,136
Cash and cash equivalents, end of year	$ 17,461	$ 7,469
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3	$ 3
Non-cash operating and financing activities:		
Service provider expenses settled with common stock	$ 98	$ 96
Insurance premiums financed	120	146
Automobiles financed using long-term debt	64	–
Automobiles financed using capital leases	242	–
Sale of Latin American assets to Invekra:		
Assets sold and liabilities transferred:		
Deferred consideration – current, net	$ 237	–
Deferred consideration – long-term, net	1,497	–
Taxes payable	(13)	–
Deferred revenue – current	(176)	–
Deferred revenue – long-term	(527)	–
	$ 1,018	$ –

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

SONOMA PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – Organization and Recent Developments

Organization

Sonoma Pharmaceuticals, Inc., formerly known as Oculus Innovative Sciences, Inc., (the "Company") was incorporated under the laws of the State of California in April 1999 and was reincorporated under the laws of the State of Delaware in December 2006. The Company's principal office is located in Petaluma, California. The Company is a specialty pharmaceutical company that develops and markets solutions for the treatment of dermatological conditions and advanced tissue care. The Company's products, which are sold throughout the United States and 39 countries around the world, have improved patient outcomes for more than five million patients globally by reducing infections, itch, pain, scarring, odor and harmful inflammatory responses.

Effective December 6, 2016, the Company changed its name from Oculus Innovative Sciences, Inc. to Sonoma Pharmaceuticals, Inc.

Reverse Stock Split

Effective June 24, 2016, the Company effected a reverse stock split of its common stock, par value $0.0001 per share. Every 5 shares of common stock were reclassified and combined into one share of common stock. No fractional shares were issued as a result of the reverse stock split. Instead, stockholders entitled to receive fractional shares received cash in the amount equal to the closing price per share of the Company's common stock as reported on the NASDAQ Capital Market as of 5:00 p.m. Eastern Time on June 24, 2016, multiplied by the fraction of one share owned by the stockholder. The reverse stock split reduced the number of shares of the Company's common stock outstanding from 21,004,857 to 4,200,756. The total number of authorized shares of common stock was also proportionally decreased by a ratio of 1:5 and the par value per share of the common stock continued to be $0.0001.

All common shares and per share amounts contained in the consolidated financial statements have been retroactively adjusted to reflect a 1 for 5 reverse stock split.

NOTE 2 – Liquidity and Financial Condition

The Company reported a net income of $9,274,000 for the year ended March 31, 2017. At March 31, 2017 and March 31, 2016, the Company's accumulated deficit amounted to $143,101,000 and $152,375,000, respectively. The Company had working capital of $19,355,000 and $9,337,000 as of March 31, 2017 and March 31, 2016, respectively. The Company expects to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue its product development initiatives, penetrate markets for the sale of its products.

On October 27, 2016, the Company, along with its Mexican subsidiary and manufacturer Oculus Technologies of Mexico, S.A. de C.V., closed on an asset purchase agreement with Invekra, S.A.P.I de C.V., an affiliate of Laboratorios Sanfer S.A. de C.V., for the sale of certain of its Latin America assets for an aggregate purchase price of $22,000,000, with $18,000,000 paid in cash upon closing, $1,500,000 paid on March 16, 2017 upon delivery of certain equipment and technology, and $2,500,000 to be paid in Mexican currency in quarterly installments over a period of ten years from closing as consideration for the provision of certain services and providing technical assistance, calculated as three per cent on net sales of certain products in Latin America, excluding Mexico. Since the $2,500,000 will be paid in foreign currency, the Company may receive more or less than $2,500,000 due to currency fluctuations.

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 efforts for at least 12 months from the date of filing this annual report.

NOTE 3 – Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Reclassifications

Certain prior period amounts have been reclassified for comparative purposes to conform to the fiscal 2017 presentation. These reclassifications have no impact on the Company's previously reported net loss.

Revenue Recognition and Accounts Receivable

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

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

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

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

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

The selling prices of all goods are fixed, and agreed to with the customer, prior to shipment. Selling prices are generally based on established list prices. The right to return product is customarily based on the terms of the agreement with the customer. The Company estimates and accrues for potential returns and records this as a reduction of revenue in the same period the related revenue is recognized. Additionally, distribution fees are paid to certain wholesale distributors based on contractually determined rates. The Company estimates and accrues the fee on shipment to the respective wholesale distributors and recognizes the fee as a reduction of revenue in the same period the related revenue is recognized. The Company also offers cash discounts to certain customers, generally 2% of the sales price, as an incentive for prompt payment. The Company accounts for cash discounts by reducing accounts receivable by the prompt pay discount amount and recognizes the discount as a reduction of revenue in the same period the related revenue is recognized. Additionally, the Company participates in certain rebate programs which provide discounted prescriptions to qualified patients. The Company contracts with a third-party to administer the program. The Company estimates and accrues for future rebates based on historical data for rebate redemption rates and the historical value of redemptions. Rebates are recognized as a reduction of revenue in the same period the related revenue is recognized.

The Company evaluates the creditworthiness of new customers and monitors the creditworthiness of its existing customers to determine whether an event or changes in their financial circumstances would raise doubt as to the collectability of a sale at the time in which a sale is made. Payment terms on sales made in the United States are generally 30 days and are extended up to 90 days for initial product launches, payment terms internationally generally range from prepaid prior to shipment to 90 days.

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

In the event a sale is made to a customer under circumstances in which returns cannot be estimated, the Company defers recognition of the revenue until sell-through is confirmed.

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

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

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

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

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

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

Sales Tax and Value Added Taxes

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

Cash and Cash Equivalents

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

Concentration of Credit Risk and Major Customers

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

The Company grants credit to its business customers, which are primarily located in Mexico, Europe and the United States. Collateral is generally not required for trade receivables. The Company maintains allowances for potential credit losses. At March 31, 2017, one customer represented 26%, one customer represented 12%, and one customer represented 10% of the net accounts receivable balance. At March 31, 2017, one customer represented 12% and two customers each represented 10% of net revenues. At March 31, 2016, one customer represented 33% of the net accounts receivable balance. At March 31, 2016, one customer represented 40%, one customer represented 15%, one customer represented 14% and two customers each represented 12% of net revenues.

Accounts Receivable

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

The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Other factors that the Company considers include its existing contractual obligations, historical payment patterns of its customers and individual customer circumstances, an analysis of days sales outstanding by customer and geographic region, and a review of the local economic environment and its potential impact on government funding and reimbursement practices. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts represents probable credit losses at March 31, 2017 and 2016 in the amounts of $14,000 and $15,000, respectively. Additionally at March 31, 2017 and 2016 the Company has allowances of $672,000 and $653,000, respectively, related to potential discounts, returns, distributor fees and rebates. The allowances are included in Accounts Receivable, net in the accompanying consolidated balance sheets.

Inventories

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

Due to changing market conditions, estimated future requirements, age of the inventories on hand and production of new products, the Company regularly reviews inventory quantities on hand and records a provision to write down excess and obsolete inventory to its estimated net realizable value. The Company recorded reserves to reduce the carrying amounts of inventories to their net realizable value in the amounts of $61,000 and $164,000 at March 31, 2017 and 2016, respectively, which is included in cost of product revenues on the Company's accompanying consolidated statements of comprehensive income (loss).

Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other 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; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

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

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

As of March 31, 2017 and 2016, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

Property and Equipment

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

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

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

Impairment of Long-Lived Assets

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

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

When circumstances indicate that an impairment may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. In estimating these future cash flows, assets and liabilities are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other such groups. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, will be recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable.

During the years ended March 31, 2017 and 2016, the Company had noted no indicators of impairment.

Research and Development

Research and development expense is charged to operations as incurred and consists primarily of personnel expenses, clinical and regulatory services and supplies. For the years ended March 31, 2017 and 2016, research and development expense amounted to $1,576,000 and $1,806,000, respectively.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs amounted to $149,000 and $175,000, for the years ended March 31, 2017 and 2016 respectively. Advertising costs are included in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income (loss).

Shipping and Handling Costs

The Company classifies amounts billed to customers related to shipping and handling in sale transactions as product revenues. Shipping and handling costs incurred are recorded in cost of product revenues. For the years ended March 31, 2017 and 2016, the Company recorded revenue related to shipping and handling costs of $49,000 and $59,000, respectively.

Foreign Currency Reporting

The Company's subsidiary, OTM, uses the local currency (Mexican Pesos) as its functional currency and its subsidiary, SP 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 amounted to $324,000 and $347,000 for the years ended March 31, 2017 and 2016, respectively, and were recorded in other comprehensive income (loss) in the accompanying consolidated statements of comprehensive income (loss).

Foreign currency transaction gains (losses) relate primarily to trade payables and receivables between subsidiaries OTM and SP Europe. These transactions are expected to be settled in the foreseeable future. The Company recorded foreign currency transaction gains of $36,000 and $38,000 for the years ended March 31, 2017 and 2016, respectively. The related were recorded in other income (expense), net, in the accompanying consolidated statements of comprehensive income (loss).

Stock-Based Compensation

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

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

Income Taxes

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

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

Comprehensive Income (Loss)

Other comprehensive income (loss) includes all changes in stockholders' equity during a period from non-owner sources and is reported in the consolidated statement of changes in stockholders' equity. To date, other comprehensive loss consists of changes in accumulated foreign currency translation adjustments. Accumulated other comprehensive losses at March 31, 2017 and 2016 were $4,178,000 and $3,854,000, respectively.

Net Income (Loss) per Share

The Company computes basic net income (loss) per share by dividing net income (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 income (loss) per share for the years ended March 31, 2017 and 2016 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	March 31,	
	2017	**2016**
Restricted stock units	34,000	–
Options to purchase common stock	899,000	753,000
Warrants to purchase common stock	1,344,000	1,485,000
	2,277,000	2,238,000

Common Stock Purchase Warrants and Other Derivative Financial Instruments

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

Preferred Stock

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

Subsequent Events

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition* and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. Accordingly, this guidance is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted for interim and annual periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08 *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* , which finalizes its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued ASU 2016-1 0 *Identifying Performance Obligations and Licensing*, which finalizes its amendments to the guidance in the new revenue standard regarding the identification of performance obligations and accounting for the license of intellectual property. In May 2016, the FASB issued ASU 2016-12 *Narrow-Scope Improvements and Practical Expedients,* which finalizes its amendments to the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,* which continues the FASB's ongoing project to issue technical corrections and improvements to clarify the codification or correct unintended applications of guidance. The amendments are intended to make the guidance more operable and lead to more consistent application. The amendments have the same effective date and transition requirements as the new revenue recognition standard. The Company will adopt the new standard on April 1, 2018 and currently plans to use the modified retrospective method. The majority of the Company's business is ship and bill and, on that primary revenue stream, the Company does not expect significant differences. However, the Company's analysis is preliminary and subject to change. The Company has not completed its assessment of multiple element arrangements and certain discount and trade promotion programs.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments-Overall, which address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Earlier application is permitted under specific circumstances. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). This amendment will provide guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18") that changes the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, but early adoption is permissible. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This ASU clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public companies, this ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718) – Scope of Modification Accounting*. This ASU clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. For public companies, this ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

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

NOTE 4 - Disposition of Latin American Operations

Description of Sale to Invekra

On October 27, 2016, the Company, along with its Mexican subsidiary and manufacturer Oculus Technologies of Mexico, S.A. de C.V. ("OTM"), closed on an asset purchase agreement with Invekra, S.A.P.I de C.V. ("Invekra"), an affiliate of Laboratorios Sanfer S.A. de C.V., for the sale of certain of its Latin America assets. Specifically, the Company agreed to sell certain patents, patent applications, trademarks and territory rights for Mexico, the Caribbean and South America, excluding the sale of dermatology products in Brazil, as well as to build and deliver equipment that Invekra will use to produce its own product.

The aggregate purchase price that Invekra will pay for the assets is $22,000,000, of which $18,000,000 was paid upon closing, $1,500,000 was paid on March 16, 2017 upon the delivery of certain equipment, and $2,500,000 is to be paid in Mexican currency in quarterly installments over a period of ten years from closing as consideration for the provision of certain services and providing technical assistance, calculated as three percent on net sales of certain products in Latin America, excluding Mexico. Because the $2,500,000 is to be paid in foreign currency, the Company may receive more or less than $2,500,000 due to currency fluctuations.

In connection with the asset purchase agreement, the Company agreed to provide the technology, know-how and assistance to Invekra to enable Invekra to manufacture on its own the products as currently produced by the Company ("Technical Services Arrangement"), and continue to supply product to Invekra for a two year transition period from the Sale Date, subject to mutual extension ("Supply Agreement"). During the year ended March 31, 2017, the Company reported $1,299,000 of Latin America product revenue related to the Supply Agreement with Invekra.

The Company will provide product under the Supply Agreement at a reduced price from its current price list, while Invekra builds its own manufacturing line. At the conclusion of the transition period, the Company will cease to be a supplier of product to Invekra. The Company is uncertain as to the duration of the transition period or when Invekra will complete the build out of its manufacturing line. Pursuant to the Supply Agreement, the Company is subject to a potential penalty for failure to supply the products for a consecutive period of six months. The penalty, if triggered, will require the Company to make a one-time payment of $2,000,000 to Invekra. The penalty decreases by 12.5% each quarter of the term of the supply period. The Company does not expect to incur this penalty.

Accounting for the disposition

For accounting purposes, the Company determined that there were three discrete components of the sale to Invekra. These components were the intellectual property and territory rights, the services to be provided under the Technical Services Arrangement and the production equipment to be manufactured for Invekra.

The Company determined an arm's length selling price for each component of the sale and then allocated the net proceeds received to the components on a relative selling price basis. The Company estimated the selling prices of each component as described below:

Component of Sale	Methodology to Estimate Selling Price
Services under the Technical Services Arrangement	Based upon revenues expected from a market participant to provide technical services at expected service levels
Production equipment manufactured	Based upon an expected selling price derived from costs marked up to selling price at market participant margins
Intellectual property and territory rights	Based upon a discounted cash flow analysis of the benefit to Invekra of producing rather than purchasing its product and operating royalty free

The Company determined proceeds, net of estimated transaction costs and net of the discount to adjust for consideration to be received in the future. The total proceeds were as follows:

Cash received on October 27, 2016	$	18,000,000
Cash received on March 16, 2017		1,500,000
Face value of variable consideration ($250,000 per year for ten years)		2,500,000
Total proceeds from sale		22,000,000
Equipment costs		(305,000)
Transaction costs		(556,000)
Total proceeds, net of transaction costs		21,139,000
Discount on variable consideration (using a 7.5% discount rate)		(752,000)
Total proceeds, net of discount	$	20,387,000

Proceeds were allocated to the components of the sale based upon their relative selling prices are as follows:

Services under the Technical Services Arrangement	$	708,000
Production equipment manufactured, net		192,000
Intellectual property and territory rights		19,487,000
Total proceeds	$	20,387,000

The proceeds related to the intellectual property and territory rights were included in gain on sale on the date of the sale. The proceeds allocated to the services under the Technical Services Agreement were recorded in deferred revenue as of the date of the sale and will be recognized as technical services are provided. The proceeds related to the production equipment to be manufactured were included in deferred gain and will be recognized upon delivery of the equipment.

Discontinued operations

As of March 31, 2017, the Company determined that the sale of its Latin American operations to Invekra qualified as a sale of a component of its business and, as such, all such activity prior to consummation of the sale is required to be included in discontinued operations on the Company's statement of operations. This includes the direct labor and materials for the product delivered to Invekra, the revenue on the sales to Invekra and the gain on the sale to Invekra, net of tax.

The carrying value of the assets and liabilities of discontinued operations on the consolidated balance sheets as of March 31, 2017 and March 31, 2016 were as follows:

	March 31, 2017	March 31, 2016
Assets		
Accounts receivable (net)	$ –	$ 766,000
Inventories	–	45,000
Total current assets of discontinued operations	$ –	$ 811,000
Liabilities		
Deferred revenue	$ –	$ 300,000
Total current liabilities of discontinued operations	$ –	$ 300,000
Deferred revenue, less current portion	$ –	$ 112,000
Total long-term liabilities of discontinued operations	$ –	$ 112,000

The operations of its Latin American business included in discontinued operations is summarized as follows:

	Year Ended March 31,	
	2017	2016
Revenues	$ 3,105,000	$ 5,715,000
Cost of revenues	561,000	1,153,000
Income from discontinued operations before tax	2,544,000	4,562,000
Gain on disposal of discontinued operations before income taxes	19,679,000	–
Total income from discontinued operations, before tax	22,223,000	4,562,000
Income tax expense	(4,280,000)	–
Income from discontinued operations, net of tax	$ 17,943,000	$ 4,562,000

NOTE 5 – Accounts Receivable

Accounts receivable, net consists of the following:

	March 31,	
	2017	2016
Accounts receivable	$ 2,794,000	$ 2,176,000
Less: allowance for doubtful accounts	(14,000)	(15,000)
Less: discounts, rebates, distributor fees and returns	(672,000)	(653,000)
	$ 2,108,000	$ 1,508,000

NOTE 6 – Inventories

Inventories, net consist of the following:

	March 31,	
	2017	2016
Raw materials	$ 1,480,000	$ 1,059,000
Finished goods	741,000	536,000
	$ 2,221,000	$ 1,595,000

NOTE 7 – Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	March 31,	
	2017	2016
Prepaid insurance	$ 587,000	$ 405,000
Prepaid rebates	–	378,000
Other prepaid expenses and other current assets	29,000	722,000
	$ 616,000	$ 1,505,000

NOTE 8 – Property and Equipment

Property and equipment consists of the following:

	March 31,	
	2017	2016
Manufacturing, lab, and other equipment	$ 3,319,000	$ 3,075,000
Office equipment	324,000	298,000
Furniture and fixtures	91,000	83,000
Leasehold improvements	536,000	307,000
	4,270,000	3,763,000
Less: accumulated depreciation and amortization	(3,031,000)	(2,913,000)
	$ 1,239,000	$ 850,000

Depreciation and amortization expense amounted to $248,000 and $244,000 for the years ended March 31, 2017 and 2016, respectively.

During the year ended March 31, 2017 and 2016, the Company realized a loss of $10,000 on the disposal of property and equipment. This amount was recorded within operating expenses in the accompanying consolidated statements of comprehensive income (loss).

NOTE 9 – Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	March 31,	
	2017	2016
Salaries and related costs	$ 681,000	$ 693,000
Professional fees	79,000	557,000
Other	542,000	276,000
	$ 1,302,000	$ 1,526,000

NOTE 10 – Long-Term Debt

Financing of Insurance Premiums

On January 25, 2016, the Company entered into a note agreement for $146,000 with an interest rate of 6.25% per annum. This instrument was issued in connection with financing insurance premiums. The note was payable in monthly installments of $17,000. During the year ended March 31, 2016, the Company made principal and interest payments of $32,000 and $1,000, respectively. During the year ended March 31, 2017, the Company made principal and interest payments in the amounts of 114,000 and $1,000, respectively.

On February 1, 2017, the Company entered into a note agreement for $84,000 with an interest rate of 5.60% per annum with final payment on December 1, 2017. This instrument was issued in connection with financing insurance premiums. The note is payable in monthly installments of $8,600. During the year ended March 31, 2017, the Company made principal and interest payments in the amounts of $8,000 and $340, respectively. The remaining balance of $76,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

On March 10, 2017, the Company entered into a note agreement for $36,000 with an interest rate of 5.60% per annum with final payment on December 1, 2017. This instrument was issued in connection with financing insurance premiums. The note is payable in monthly installments of $4,100. During the year ended March 31, 2017, the Company did not pay principal or interest on this note. The remaining balance of $36,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

Financing of Automobiles

On August 10, 2016, the Company entered into a note agreement for $26,000 with an interest rate of 2.49% per year, and a monthly payment of $432. This instrument was issued in connection with the financing of an automobile. During the year ended March 31, 2017, the Company made principal and interest payments related to this note in the amounts of $4,000 (includes a first installment payment of $2,000) and $336, respectively. The remaining balance of this note amounted to $22,000 at March 31, 2017, of which $5,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

On September 27, 2016, the Company entered into a note agreement for $38,000 with an interest rate of 0%, and monthly payment of $630. This instrument was issued in connection with the financing of an automobile. During the year ended March 31, 2017, the Company made principal payments related to this note in the amount of $4,000. The remaining balance of this note amounted to $34,000 at March 31, 2017, of which $6,000 is included in the current portion of long-term debt in the accompanying consolidated balance sheet.

Minimum note payments due in years subsequent to March 31, 2017 are as follows:

For Years Ending March 31,		
2018	$	127,000
2019		13,000
2020		13,000
2021		13,000
2022		6,000
Total minimum payments	$	172,000
Less: amounts representing interest		(4,000)
Present value of payments		168,000
Less: current portion		(123,000)
Long-term portion	$	45,000

NOTE 11 – Capital Leases

During March 2017, the Company entered into a fleet capital lease under which the aggregate present value of the minimum lease payments amounted to $280,000. The present value of the minimum lease payments was calculated using discount rates of ranging from 9.7% to 10.6%. Lease payments, including amounts representing interest, amounted to $750 for the year ended March 31, 2017. The remaining principal balance on these obligations amounted to $242,000 at March 31, 2007, including $74,000 included in the current portion of capital lease obligations in the accompanying consolidated balance sheet.

The Company recorded interest expense in connection with these lease agreements in the amount of $115 for the years ended March 31, 2017.

Minimum capital lease payments due in years subsequent to March 31, 2017 are as follows:

For Years Ending March 31,		
2018	$	102,000
2019		98,000
2020		80,000
Total minimum lease payments	$	280,000
Less: amounts representing interest		(38,000)
Present value of minimum lease payments		242,000
Less: current portion		(74,000)
Long-term portion	$	168,000

NOTE 12 – Commitments and Contingencies

Lease Commitments

On June 23, 2016, the Company entered into Amendment No. 8 to its property lease agreement, extending the lease on its Petaluma, California facility to September 30, 2024. The lease contains an early termination right for the Company effective October 31, 2019, if the landlord is unable to accommodate the Company's growth. Pursuant to the amendment, the Company agreed to increase the lease payment from $11,072 to $11,764 per month, commencing on October 1, 2017, with annual increases thereafter through the lease term.

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

The Company currently rents approximately 800 square feet of sales office space in Herten, the Netherlands. The office space is rented on a month to month basis at $1,700 per month and requires a sixty-day notice for cancellation.

On May 12, 2016, the Company entered into its property lease agreement, on its Woodstock, Georgia sales office space. The initial term of the agreement was from June 1, 2016 expiring on May 31, 2017, with an option to extend for a one year period. The Company gave notice to extend the lease to May 31, 2018. The payment is $1,200 per month.

On August 1, 2016, the Company entered into Amendment No. 1 to its property lease agreement in Jamison, Pennsylvania. Pursuant to the amendment, the Company extended the term of the lease to July 31, 2019. Additionally, the Company agreed to lease payments of $2,369 per month for year one, $2,431 per month for year two and $2,493 per month for year three.

Minimum lease payments for non-cancelable operating leases are as follows:

For Years Ending March 31,		
2018	$	371,000
2019		253,000
2020		89,000
Total minimum lease payments	$	713,000

Rental expense amounted to $429,000 and $442,000 for the years ended March 31, 2017 and 2016, respectively and is recorded in the accompanying consolidated statement of comprehensive income (loss).

Legal Matters

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

Employment Agreements

On July 26, 2016, the Company entered into a new employment agreement with Jim Schutz, its President and Chief Executive Officer to update his agreements and responsibilities. The terms of the new employment agreement provide for a continued annual base salary of $250,000 or such other amount as the Board of Directors may set. In addition, Mr. Schutz is eligible to receive an annual bonus, the payment, type and amount of which is in the sole discretion of the Compensation Committee. Mr. Schutz also receives certain benefits, such as participation in our health and welfare plans, vacation and reimbursement of expenses.

As of March 31, 2017, the Company had employment agreements in place with five of its key executives. The agreements provide, among other things, for the payment of nine to twenty-four months of severance compensation for terminations under certain circumstances. With respect to these agreements, at March 31, 2017, aggregated annual salaries would be $1,167,000 and potential severance payments to these key executives would be $1,417,000 if triggered.

NOTE 13 – Stockholders' Equity

Authorized Capital

The Company is authorized to issue up to 12,000,000 shares of common stock with a par value of $0.0001 per share and 714,286 shares of convertible preferred stock with a par value of $0.0001 per share.

Description of Common Stock

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

Reverse Stock Split

Effective June 24, 2016, the Company effected a reverse stock split of its common stock, par value $0.0001 per share. Every 5 shares of common stock were reclassified and combined into one share of common stock. No fractional shares were issued as a result of the reverse stock split. Instead, stockholders entitled to receive fractional shares received cash in the amount equal to the closing price per share of the Company's common stock as reported on the NASDAQ Capital Market as of 5:00 p.m. Eastern Time on June 24, 2016, multiplied by the fraction of one share owned by the stockholder. The reverse stock split reduced the number of shares of the Company's common stock outstanding from 21,004,857 to 4,200,756. The total number of authorized shares of common stock was also proportionally decreased by a ratio of 1:5 and the par value per share of the common stock continued to be $0.0001.

All common shares and per share amounts contained in the consolidated financial statements have been retroactively adjusted to reflect a 1 for 5 reverse stock split.

Description of Series B Preferred Stock

On October 18, 2016, the Company's board of directors approved, and the Company entered into, a Section 382 rights agreement, or the Rights Agreement, with Computershare Inc., or the Rights Agent. The Rights Agreement provides for a dividend of one preferred stock purchase right, or a Right, for each share of common stock, par value $0.0001 per share, of the Company outstanding on November 1, 2016, or the Record Date. Each Right entitles the holder to purchase from the Company one one-thousandth of a share of Series B Preferred Stock, par value $0.0001 per share, or the Preferred Stock, for a purchase price of $10.00, subject to adjustment as provided in the Rights Agreement. The description and terms of the rights are set forth in the Rights Agreement.

In connection with the adoption of the Rights Agreement, the Company's board of directors adopted a Certificate of Designation of Series B Preferred Stock. The Certificate of Designation was filed with the Secretary of State of the State of Delaware and became effective on October 18, 2016.

The Company's board of directors adopted the Rights Agreement to protect shareholder value by guarding against a potential limitation on the Company's ability to use its net operating loss carryforwards, or NOLs, and other tax benefits, which may be used to reduce potential future income tax obligations. The Company has experienced and continue to experience substantial operating losses, and under the Internal Revenue Code of 1986, as amended, and rules promulgated thereunder, the Company may "carry forward" these NOLs and other tax benefits in certain circumstances to offset any current and future earnings and thus reduce our income tax liability, subject to certain requirements and restrictions. To the extent that the NOLs and other tax benefits do not otherwise become limited, the Company believes that it will be able to carry forward a significant amount of NOLs and other tax benefits, and therefore these NOLs and other tax benefits could be a substantial asset to the Company. However, if the Company experiences an "ownership change," as defined in Section 382 of the Code, its ability to use its NOLs and other tax benefits will be substantially limited. Generally, an ownership change would occur if our shareholders who own, or are deemed to own, 5% or more of the Company's common stock increase their collective ownership in the Company by more than 50% over a rolling three-year period.

To date no Series B Preferred Stock has been issued.

April 2014 At-the-Market Offering

On April 2, 2014, the Company entered into an At-the-Market Issuance Sales Agreement with MLV & Co. LLC under which the Company can issue and sell shares of its common stock having an aggregate offering price of up to $9,159,000 from time to time through MLV acting as its sales agent. To date, the Company has raised an aggregate $4,706,000 in connection with this agreement. The Company will pay MLV a commission rate equal to 3.0% of the gross proceeds from the sale of any shares of common stock sold through MLV as agent under the Sales Agreement. For the year ended March 31, 2016, the Company sold 450,919 shares for gross proceeds of $3,263,000 and net proceeds of $3,150,000 after deducting commissions and other offering expenses. No shares were sold during the year ended March 31, 2017.

March 2016 Underwritten Public Offering

On March 18, 2016, the Company entered into an underwriting agreement with Dawson James Securities, Inc. with respect to the issuance and sale of an aggregate of 680,000 units, each unit consisting of one share of common stock, par value $0.0001 per share, together with one quarter (0.25) of one warrant to purchase one share of common stock at an exercise price equal to $5.00 per share, in an underwritten public offering. The public offering price for each unit, consisting of one share of common stock together with one quarter (0.25) of one warrant, was $5.00. Because the Company is prohibited from issuing fractional shares, the warrants can only be exercised in lots of four, which means that each holder must exercise four March 2016 Warrants to receive one share of common stock, or a total of 170,000 shares. The warrants have an initial exercise price of $5.00 per share and have a term of three years. Pursuant to the underwriting agreement, the Company paid Dawson James Securities, Inc. a cash fee equal to 8% of the aggregate gross proceeds raised in this offering and also paid $50,000 in legal fees and expenses of the underwriter's legal counsel. The gross proceeds from the sale of the shares of common stock and the warrants was $3,400,000, and net proceeds of $2,994,000 after deducting underwriting commissions and other estimated offering expenses.

Common Stock Issued to Services Providers

On April 24, 2009, the Company entered into an agreement with Advocos LLC, a contract sales organization that served as part of the Company's sales force, for the sale of the Company's wound care products in the United States. Pursuant to the agreement, the Company agreed to pay the contract sales organization a monthly fee and potential bonuses that was based on achievement of certain levels of sales. The Company agreed to issue the contract sales organization cash or shares of common stock to settle fees for its services. During the year ended March 31, 2016, the Company issued 41,704 shares of common stock, with a fair market value of $203,000, in connection with this agreement. The Company has determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. During the year ended March 31, 2016, the Company recorded $107,000 of expense related to stock issued pursuant to this agreement and settled $96,000 of fees accrued in prior periods. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statement of comprehensive income (loss) for the year ended March 31, 2016. This agreement was terminated on September 28, 2016. Pursuant to the termination agreement the Company paid outstanding fees of $111,000, issued 14,390 shares of common stock with a fair value of $69,000, and transferred certain assets valued at $62,000 related to a product line the Company deemed to be non-core and immaterial to its operations. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statement of comprehensive income (loss) for the year ended March 31, 2017.

On August 1, 2016, the Company entered into an agreement with CorProminence, LLC. for financial advisory services. Pursuant to the agreement, the Company agreed to pay CorProminence, LLC. common stock as compensation for services provided. The Company determined that the fair value of the common stock was more readily determinable than the fair value of the services rendered. Accordingly, the Company recorded the fair market value of the stock as expense. During the year ended March 31, 2017, the Company issued 6,411 shares of common stock in connection with this agreement. During the year ended March 31, 2017, the Company recorded $29,000 of expense related to this agreement. The expense was recorded as selling, general and administrative expense in the accompanying consolidated statements of comprehensive income (loss).

Common Stock Purchase Warrants

On March 31, 2016, the Company issued Dawson James Securities, Inc. a warrant to purchase 50,000 shares of the Company's common stock at an exercise price of $5.00 per share in connection with a service agreement. The warrants were non-forfeitable at date of issuance. The warrants were valued using the Black-Scholes option pricing model. Assumptions used were as follows: Fair value of the underlying stock $4.75; risk-free interest rate 0.01%; contractual life of 3 years; dividend yield of 0%; and volatility of 87%. The fair value of the warrants amounted to $128,000 and was recorded as selling, general and administrative expense in the accompanying consolidated statement of comprehensive income (loss) for the year ended March 31, 2017.

NOTE 14 – Stock-Based Compensation

2006 Stock Plan

The board initially adopted the 2006 Stock Incentive Plan on August 25, 2006. On December 14, 2006, the stockholders approved the 2006 Stock Incentive Plan which became effective at the close of the Company's initial public offering. The 2006 Stock Incentive Plan was later amended and restated by a unanimous board resolution on April 26, 2007, and such amendments were subsequently approved by the stockholders. On September 10, 2009, the Company's shareholders approved a subsequent amendment to the 2006 Stock Incentive Plan. The 2006 Stock Incentive Plan, as amended and restated, is hereafter referred to as the "2006 Plan."

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

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

Options issued under the 2006 Plan generally have a ten-year term.

During the year ended March 31, 2017, the 2006 Plan expired. No additional equity will be granted from the 2006 Plan. All outstanding options will remain outstanding until exercised or expired.

2011 Stock Plan

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

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

The board has initially authorized 85,572 of the Company's common stock for issuance under the 2011 Plan, in addition to automatic increases provided for in the 2011 Plan through April 1, 2021. The number of shares of the Company's common stock reserved for issuance under the 2011 Plan will automatically increase, with no further action by the stockholders, at the beginning of each fiscal year by an amount equal to the lesser of (i) 15% of the outstanding shares of the Company's common stock on the last day of the immediately preceding year, or (ii) an amount approved by the Company's board of directors.

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

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

Shares subject to awards that expire unexercised or are forfeited or terminated for any other reason will again become available for issuance under the 2011 Plan. No participant in the 2011 Plan can receive option grants, stock appreciation rights, restricted shares, or stock units for more than 21,428 shares in the aggregate in any calendar year. As provided under the 2011 Plan, the aggregate number of shares authorized for issuance as awards under the 2011 Plan automatically increases on April 1 of each year by in an amount equal to the lesser of (i) 15% of the outstanding shares on the last day of the immediately preceding year, or (ii) an amount determined by the board. During the year ended March 31, 2016, the board of directors approved an increase of 451,352 shares authorized for issuance. During the year ended March 31, 2017, the board of directors approved an increase of 629,504 shares authorized for issuance.

2016 Stock Plan

On September 2, 2016, upon recommendation of the board, the stockholders approved the Company's 2016 Equity Incentive Plan (the "2016 Plan"). The 2016 Plan is effective as of September 2, 2016.

The 2016 Plan provides for the grant of options, including incentive stock options as defined in Section 422 of the Internal Revenue Code to employees, stock appreciation rights, restricted awards, performance share awards and performance compensation awards to employees, non-employee directors, advisors and consultants.

The board has authorized 400,000 of the Company's common stock for issuance under the 2016 Plan, in addition to automatic increases provided for in the 2016 Plan through April 1, 2026. The number of shares of the Company's common stock reserved for issuance under the 2016 Plan will automatically increase, with no further action by the stockholders, at the beginning of each fiscal year by an amount equal to the lesser of (i) 8% of the outstanding shares of the Company's common stock on the last day of the immediately preceding year, or (ii) an amount determined by the Company's board of directors.

Options issued under the 2016 Plan will generally have a ten-year term.

In accordance with the 2016 Plan, the stated exercise price of an employee incentive stock option or a non-statutory stock option shall not be less than 100% of the estimated fair market value of a share of common stock on the date of grant,. An employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company shall not be eligible for the grant of an employee incentive stock option unless such grant satisfies the requirements of Section 422(c)(5) of the Internal Revenue Code.

Shares subject to awards that expire unexercised or are forfeited or terminated for any other reason will again become available for issuance under the 2016 Plan. No participant in the 2016 Plan can receive more than 100,000 option grants, or other awards with respect to more than 120,000 shares in the aggregate in any calendar year.

Performance Based Awards Program

The Company's Compensation Committee approved a short-term performance based bonus program for fiscal year 2016 with predetermined objectives related to revenue and expense targets. In the event the fiscal year 2016 objectives were met, eighty-percent of the options would have vested on June 30, 2016. On August 21, 2015, certain executives and senior managers were granted an aggregate of 75,500 stock options in connection with this program. The stock options have an exercise price of $5.80 and expire ten years from the date of grant. At March 31, 2016, it was determined targets were met related to 50,400 stock options which vested on June 30, 2016. At March 31, 2016, 10,000 stock options expired due to targets that were not met. The vesting of the remaining 15,100 stock options was at the discretion of the Company's Compensation Committee. The Company's Compensation Committee determined 14,772 of the 15,100 discretionary stock options vested at June 30, 2016 and 228 of the discretionary stock options expired unvested.

The Company also approved a long-term market-based stock option bonus program for senior managers. Vesting of the stock options granted as part of this program is contingent upon the achievement of four separate target stock prices. The market-based options vest based on the 30 trading day trailing average of the stock price of the Company's common stock with options vesting in 25% increments at each of the target stock prices. On the last day of each quarter, the chief executive officer and/or chief financial officer will determine if any of the target stock prices have been met by evaluating the period between the quarter end date and the grant date of the option. In the event that a target stock price has been met, the senior manager will be notified that such options have vested. At the end of five years from the date of the grant, if the stock target prices have not been met, then the unvested portion of the option will expire. On August 21, 2015, certain senior managers were granted an aggregate of 23,750 stock options in connection with this program. The stock options have an exercise price of $5.80 and if they vest will expire ten years from the date of grant. None of these options vested as of March 31, 2017.

Stock-Based Compensation

The Company issues service, performance and market-based stock options to employees and non-employees. The Company estimates the fair value of service and performance stock option awards using the Black-Scholes option pricing model. The Company estimates the fair value of market-based stock option awards using a Monte-Carlo simulation. Compensation expense for stock option awards is amortized on a straight-line basis over the awards' vesting period. Compensation expense includes the impact of an estimate for forfeitures for all stock options.

The expected term of the stock options represents the average period the stock options are expected to remain outstanding and is based on the expected term calculated using the approach prescribed by the Securities and Exchange Commission's Staff Accounting Bulletin No. 110 for “plain vanilla” options. The expected stock price volatility for the Company’s stock options was determined by using an average of the historical volatilities of the Company and its industry peers. The Company will continue to analyze the stock price volatility and expected term assumptions as more data for the Company’s common stock and exercise patterns become available. The risk-free interest rate assumption is based on the U.S. Treasury instruments whose term was consistent with the expected term of the Company’s stock options. The expected dividend assumption is based on the Company’s history and expectation of dividend payouts. The Company estimates forfeitures based on historical experience and reduces compensation expense accordingly. The estimated forfeiture rates used during the year ended March 31, 2017 ranged from 5.24% to 8.17%. The estimated forfeiture rates used during the year ended March 31, 2016 ranged from 1.18% to 4.71%.

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

	Year Ended March 31,	
	2017	2016
Fair value of the Company’s common stock on date of grant	$ 4.87	$ 5.90
Expected term	5.73 yrs	6.39 yrs
Risk-free interest rate	1.91%	1.63%
Dividend yield	0.00%	0.00%
Volatility	126.0%	93.0%
Fair value of options granted	$ 4.12	$ 4.45

Share-based awards compensation expense is as follows:

	Stock-based Compensation for the Year Ended March 31, 2017	Stock-based Compensation for the Year Ended March 31, 2016
Cost of revenues	$ 248,000	$ 364,000
Research and development	245,000	339,000
Selling, general and administrative	1,652,000	1,320,000
Total stock-based compensation	$ 2,145,000	$ 2,023,000

At March 31, 2017, there were unrecognized compensation costs of $624,000 related to stock options which is expected to be recognized over a weighted-average amortization period of 2.03 years.

At March 31, 2017, there were unrecognized compensation costs of $219,000 related to restricted stock which is expected to be recognized over a weighted-average amortization period of 1.59 years.

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

Stock-Based Award Activity

Stock-based awards outstanding at March 31, 2017 under the various plans are as follows:

Plan	Stock Options	Restricted Stock	Total
2006 Plan	170,000	–	170,000
2011 Plan	573,000	34,000	607,000
2016 Plan	156,000	–	156,000
	899,000	34,000	933,000
Stock-based awards available for grant as of March 31, 2017			1,170,000

Stock options award activity is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value
Outstanding at April 1, 2016	753,000	$ 20.91		
Options granted	190,000	4.87		
Options exercised	(1,000)	5.80		
Options forfeited	(19,000)	7.10		
Options expired	(24,000)	19.85		
Outstanding at March 31, 2017	899,000	$ 17.87	7.46	$ 459,000
Exercisable at March 31, 2017	711,000	$ 21.05	7.08	$ 459,000

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock, or $7.17 per share at March 31, 2017.

Restricted stock award activity is as follows:

	Number of Shares	Weighted Average Award Date Fair Value per Share
Unvested restricted stock awards outstanding at April 1, 2016	–	$ –
Restricted stock awards granted	86,000	6.05
Restricted stock awards vested	(52,000)	5.27
Restricted stock awards forfeited	–	–
Unvested restricted stock awards outstanding at March 31, 2017	34,000	$ 7.27

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 or release of restricted stock awards.

NOTE 15 – Income Taxes

The Company has the following net deferred tax assets:

	March 31,	
	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	$ 33,394,000	$ 36,454,000
Research and development tax credit carryforwards	1,746,000	1,710,000
Stock-based compensation	5,439,000	5,083,000
Reserves and accruals	1,232,000	1,111,000
Other deferred tax assets	240,000	241,000
State income taxes	4,000	(1,000)
Basis difference in assets	1,000	8,000
Total deferred tax assets	$ 42,056,000	$ 44,606,000
Net deferred tax asset	42,056,000	44,606,000
Valuation allowance	(42,056,000)	(44,606,000)
Net deferred tax asset	$ –	$ –

The Company's income tax expense/(benefits) consist of the following:

	Years Ended March 31,	
	2017	2016
Current:		
State	$ 6,000	$ 2,000
Deferred:		
Federal	(3,272,000)	–
State	(158,000)	–
Foreign	(844,000)	–
	$ (4,268,000)	$ 2,000

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

	Years Ended March 31,	
	2017	2016
Expected federal statutory rate	34.0%	34.0%
State income taxes, net of federal benefit	1.2%	1.8%
Research and development credit	0.3%	0.4%
Foreign earnings taxed at different rates	(1.0%)	(0.7%)
Effect of state net operating loss expiration	(2.3%)	(5.5%)
Effect of permanent differences	0.0%	3.3%
Impact of foreign exchange rate fluctuations on foreign deferred income taxes	0.0%	(8.5%)
Impact of change in foreign net operating loss	0.0%	(6.3%)
Cancellation of stock options and other true-ups	0.0%	0.0%
True-up of state deferred assets	(7.4%)	(11.4%)
	24.8%	7.1%
Change in valuation allowance	8.2%	(7.1%)
Totals	33.0%	0.0%

As of March 31, 2017, the Company had net operating loss carryforwards for Federal, California and Foreign income tax purposes of approximately $87,000,000, $31,000,000 and $4,000,000, respectively, which will begin to expire in the years 2020, 2018 and 2017, respectively, if not utilized. The state and foreign net operating loss carryforwards will expire at various dates, if not utilized, beginning in the fiscal year ending March 31, 2018. The Company also had, at March 31, 2017, federal and state research credit carryforwards of approximately $905,000 and $790,000, respectively. The federal credits will expire, if not utilized at various dates, beginning in the fiscal year ending March 31, 2024, and the state credits do not expire. The Company also had, at March 31, 2017 foreign tax credits carryforwards of approximately $50,000. The foreign credits will expire, if not utilized at various dates, beginning in the fiscal year ending March 31, 2023.

The Company has completed a study to assess whether a change in control has occurred or whether there have been multiple changes of control since the Company's formation through March 31, 2017. 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 income for both financial reporting and income tax purposes for the year ended March 31, 2017, solely as a result of the gain on disposal of discontinued operations. Without such disposal, the Company has incurred losses for both financial reporting and income tax purposes. Accordingly, the Company is continuing to fully reserve for its deferred tax assets. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's deferred income tax assets satisfy the realization standards, the valuation allowance will be reduced accordingly.

As a result of certain realization requirements of Accounting Standards Codification Topic 718, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets at March 31, 2017 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting purposes. Equity will be increased by approximately $533,000 if and when such deferred tax assets are ultimately realized.

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

The Company has identified its federal tax return and its state tax return in California as major tax jurisdictions. The Company also filed tax returns in foreign jurisdictions, principally Mexico and the Netherlands. The Company's evaluation of uncertain tax matters was performed for tax years ended through March 31, 2017. Generally, the Company is subject to audit for the years ended March 31, 2016, 2015 and 2014, and may be subject to audit for amounts relating to net operating loss carryforwards generated in periods prior to March 31, 2015. 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.

The Company does not have any tax positions for which it is reasonably possible the total amount of gross unrecognized tax benefits will increase or decrease within 12 months of March 31, 2017. The unrecognized tax benefits may increase or change during the next year for items that arise in the ordinary course of business.

NOTE 16 – Employee Benefit Plan

The Company has a program to contribute and administer a qualified 401(k) plan. Under the 401(k) plan, the Company matches employee contributions to the plan up to 4% of the employee's salary. Company contributions to the plan amounted to an aggregate of $196,000 and $158,000 for the years ended March 31, 2017 and 2016, respectively.

NOTE 17 – Geographic Information

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

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

	Year Ended March 31,			
	2017	2016	$ Change	% Change
United States	$ 6,580,000	$ 4,371,000	$ 2,209,000	51%
Latin America	1,299,000	–	1,299,000	100%
Europe and Rest of the World	4,078,000	3,706,000	372,000	10%
	11,957,000	8,077,000	3,880,000	48%
Product License Fees and Royalties	–	231,000	(231,000)	(100)%
Total	$ 11,957,000	$ 8,308,000	$ 3,649,000	44%

In connection with the Company's sale of its Latin American business to Invekra, product revenues were reclassified from continuing operations to discontinued operations as follows:

	Year Ended March 31,	
	2017	2016
Product revenues	$ 2,693,000	$ 4,965,000
Product license fees and royalties	412,000	750,000
Total product related revenues	$ 3,105,000	$ 5,715,000

The Company's service revenues amounted to $868,000 and $1,061,000 for the years ended March 31, 2017 and 2016, respectively.

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

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of our most recent fiscal year. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2017.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *2013 Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of March 31, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to the definitive proxy statement for our 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended March 31, 2017 (the "2017 Proxy Statement").

Item 405 of Regulation S-K requires the disclosure of, based upon our review of the forms submitted to us during and with respect to our most recent fiscal year, any known failure by any director, officer, or beneficial owner of more than ten percent of any class of our securities, or any other person subject to Section 16 of the Exchange Act ("reporting person") to file timely a report required by Section 16(a) of the Exchange Act. This disclosure is contained in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2017 Proxy Statement.

Code of Business Conduct

We have adopted a Code of Business Conduct that applies to all of our officers, directors, and employees, including our Chief Executive Officer, Chief Financial Officer, and other employees who perform financial or accounting functions. The Code of Business Conduct sets forth the basic principles that guide the business conduct of our employees. On January 17, 2017, our board of directors adopted changes to our Code of Business Conduct. The changes to the Code of Business Conduct were made to update the code to current best practices. In addition to some clerical changes, the Code of Business Conduct now explicitly requires employees, directors and officers to act honestly and ethically in dealing with customers, business partners and others. Furthermore, the Code of Business Conduct now explicitly extends the confidentiality and conflicts of interest requirements to directors and prohibits company loans. The Code of Business Conduct also updated the disclosure, reporting and enforcement provisions. We filed our Code of Business Conduct with the Securities and Exchange Commission as exhibit 14.1 to the current report on Form 8-K on January 23, 2017, and it is also available on our website at http://www.ir.sonomapharma.com/governance-documents. We will provide any person, without charge, copies of our Code of Business Conduct and Ethics upon request. Such requests should be in writing and addressed to: Sonoma Pharmaceuticals, Inc., Attention: Chief Financial Officer, 1129 N. McDowell Blvd., Petaluma, California 94954.

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

Procedures for Nominating Directors

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

ITEM 11. Executive Compensation

The information required by this Item is incorporated by reference to the 2017 Proxy Statement.

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

The information required by this Item is incorporated by reference to the 2017 Proxy Statement.

The information required to be disclosed by Item 201(d) of Regulation S-K, "Securities Authorized for Issuance Under Equity Compensation Plans," appears under the caption "Equity Compensation Plan Information" in the 2017 Proxy Statement and such information is incorporated by reference into this report.

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

The information required by this Item is incorporated by reference to the 2017 Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to the 2017 Proxy Statement.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report

(1) ***Financial Statements***

Reference is made to the Index to Consolidated Financial Statements of Sonoma Pharmaceuticals, Inc. under Item 8 of Part II hereof.

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

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

(b) Exhibits

Exhibit Index

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., effective January 30, 2006 (included as Exhibit 3.1 of the Company's Annual Report on Form 10-K filed June 20, 2007, and incorporated herein by reference).
3.2	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., effective October 22, 2008 (included as Exhibit A in the Company's Definitive Proxy Statement on Schedule 14A filed July 21, 2008, and incorporated herein by reference).
3.4	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended, effective March 29, 2013 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed March 22, 2013, and incorporated herein by reference).
3.5	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended, effective December 4, 2014 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed December 8, 2014, and incorporated herein by reference).
3.6	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended, effective October 22, 2015 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed October 27, 2015, and incorporated herein by reference).
3.7	Certificate of Amendment of Restated Certificate of Incorporation of Oculus Innovative Sciences, Inc., as amended, effective June 24, 2016 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 28, 2016, and incorporated herein by reference).
3.8	Certificate of Amendment of Restated Certificate of Incorporation of Sonoma Pharmaceuticals, Inc., as amended, effective December 6, 2016 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed December 7, 2016, and incorporated herein by reference).
3.9	Amended and Restated Bylaws, as amended, of Sonoma Pharmaceuticals, Inc., effective December 6, 2016 (included as Exhibit 3.2 to the Company's Current Report on Form 8-K filed December 7, 2016, and incorporated herein by reference).
3.10	Certificate of Designation of Preferences, Rights and Limitations of Series A 0% Convertible Preferred Stock, filed with the Delaware Secretary of State on April 24, 2012 (included as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed April 25, 2012, and incorporated herein by reference).
3.11	Certificate of Designation of Series B Preferred Stock, effective October 18, 2016 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed October 21, 2016, and incorporated herein by references).
4.1*	Specimen Common Stock Certificate.
4.2	Form of Underwriters Warrant to be issued to the Underwriters in connection with the March 2013 Offering (included as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 7, 2013, and incorporated herein by reference).
4.3	Warrant issued to Dawson James Securities, Inc., dated December 9, 2013 (included as exhibit 4.14 to the Company's 10-Q filed February 14, 2014 and incorporated herein by reference).
4.4	Form of Series A Common Stock Purchase Warrant for February 2014 offering (included as exhibit 4.1 to the Company's Current Report on Form 8-K filed February 26, 2014 and incorporated herein by reference).
4.5	Form of Series B Common Stock Purchase Warrant for February 2014 offering (included as exhibit 4.2 to the Company's Current Report on Form 8-K filed February 26, 2014 and incorporated herein by reference).
4.6	Warrant issued to Dawson James Securities, Inc., dated February 26, 2014 (included as exhibit 4.3 to the Company's Current Report on Form 8-K filed February 26, 2014 and incorporated herein by reference).
4.7	Warrant Agreement, including Form of Warrant entered into by and between Oculus Innovative Sciences, Inc. and Computershare, Inc. and Computershare Trust Company, N.A., dated January 20, 2015 (included as exhibit 4.1 to the Company's Current Report on Form 8-K filed January 26, 2015 and incorporated herein by reference).
4.8	Underwriters Warrant issued to Maxim Partners LLC on January 26, 2015 (included as exhibit 4.2 to the Company's Current Report on Form 8-K filed January 26, 2015 and incorporated herein by reference).
4.9	Underwriters Warrant issued to Robert D. Keyser, Jr. on January 26, 2015 (included as exhibit 4.3 to the Company's Current Report on Form 8-K filed January 26, 2015 and incorporated herein by reference).
4.10	Underwriters Warrant issued to R. Douglas Armstrong on January 26, 2015 (included as exhibit 4.4 to the Company's Current Report on Form 8-K filed January 26, 2015 and incorporated herein by reference).
4.11	Underwriters Warrant issued to Dawson James Securities, Inc. on January 26, 2015 (included as exhibit 4.5 to the Company's Current Report on Form 8-K filed January 26, 2015 and incorporated herein by reference).

4.12	Underwriters Warrant issued to Dawson James Securities, Inc. on January 26, 2015 (included as exhibit 4.6 to the Company's Current Report on Form 8-K filed January 26, 2015 and incorporated herein by reference).
4.13	Warrant Agreement, including Form of Warrant entered into by and between Oculus Innovative Sciences, Inc. and Computershare, Inc. and Computershare Trust Company, N.A., dated March 18, 2016 (included as exhibit 4.1 to the Company's Current Report on Form 8-K filed March 18, 2016 and incorporated herein by reference).
4.14	Form of Warrant issued to Dawson James Securities, Inc. on March 31, 2016 (included as exhibit 4.25 to the Company's Annual Report on Form 10-K filed June 21, 2016, and incorporated herein by reference).
4.15	Section 382 Rights Agreement, dated as of October 18, 2016, between Oculus Innovative Sciences, Inc. and Computershare Inc., which includes the Form of Certificate of Designation of Series B Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (included as exhibit 4.1 to the Company's Current Report on Form 8-K filed October 21, 2016, and incorporated herein by reference).
10.1	Form of Indemnification Agreement between Oculus Innovative Sciences, Inc. and its officers and directors (included as exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.2	Office Lease Agreement, dated October 26, 1999, between Oculus Innovative Sciences, Inc. and RNM Lakeville, L.P. (included as exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.3	Amendment No. 1 to Office Lease Agreement, dated September 15, 2000, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.4	Amendment No. 2 to Office Lease Agreement, dated July 29, 2005, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.5	Amendment No. 3 to Office Lease Agreement, dated August 23, 2006, between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.6	Office Lease Agreement, dated May 18, 2006, between Oculus Technologies of Mexico, S.A. de C.V. and Antonio Sergio Arturo Fernandez Valenzuela (translated from Spanish) (included as exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-135584), as amended, declared effective on January 24, 2007, and incorporated herein by reference).
10.7	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).
10.8	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).
10.9	Amended and Restated Oculus Innovative Sciences, Inc. 2006 Stock Incentive Plan and related form stock option plan agreements (included as exhibit 10.2 to the Company's Current Report on Form 8-K filed May 2, 2007, and incorporated herein by reference).
10.10	Amendment No. 4 to Office Lease Agreement, dated September 13, 2007, by and between Oculus Innovative Sciences, Inc. and RNM Lakeville L.P. (included as exhibit 10.43 to the Company's Annual Report on Form 10-K filed June 13, 2008, and incorporated herein by reference).
10.11	Amendment to Office Lease Agreement, effective February 15, 2008, by and between Oculus Innovative Sciences Netherlands B.V. and Artikona Holding B.V. (translated from Dutch) (included as exhibit 10.44 to the Company's Annual Report on Form 10-K filed June 13, 2008, and incorporated herein by reference).
10.12	Amendment No. 5 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and RNM Lakeville, LLC, dated May 18, 2009 (included as exhibit 10.54 to the Company's Annual Report on Form 10-K filed June 11, 2009, and incorporated herein by reference).
10.13	Amendment No. 6 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and RNM Lakeville, L.P., dated April 26, 2011 (included as exhibit 10.52 to the Company's Annual Report on Form 10-K filed June 3, 2011, and incorporated herein by reference).
10.14†	Oculus Innovative Sciences, Inc. 2011 Stock Incentive Plan (included as exhibit A in the Company's Definitive Proxy Statement on Schedule 14A filed July 29, 2011, and incorporated herein by reference).

10.15	Amendment No. 7 to Office Lease Agreement by and between Oculus Innovative Sciences, Inc. and 1125-1137 North McDowell, LLC, dated October 10, 2012 (included as exhibit 10.58 to the Company's Quarterly Report on Form 10-Q filed November 8, 2012, and incorporated herein by reference).
10.16	Form of Securities Purchase Agreement by and between Oculus Innovative Sciences, Inc. and the Purchasers, dated February 21, 2014 (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed February 26, 2014 and incorporated herein by reference).
10.17	At-the-Market Issuance Sales Agreement, dated April 2, 2014, by and between Oculus Innovative Sciences, Inc. and MLV & Co. LLC (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed April 2, 2014 and incorporated herein by reference).
10.18	Lease Agreement by and between Oculus Innovative Sciences, Inc. and 2500 York, L.P., dated July 9, 2014 (included as exhibit 10.82 to the Company's Current Report on Form 10-Q filed August 12, 2014, and incorporated herein by reference).
10.19	Underwriting Agreement entered into by and between Oculus Innovative Sciences, Inc. and Maxim Group LLC as representative of the underwriters named on Schedule A thereto, dated January 20, 2015 (included as exhibit 1.1 to the Company's Current Report on Form 8-K filed January 26, 2015 and incorporated herein by reference).
10.20†	Sales Representation Contract, dated February 1, 2015, by and between Oculus Innovative Sciences, Inc. and SLA Brands, Inc. (included as exhibit 10.1 to the Company's Current Report on Form 8-K filed March 2, 2015 and incorporated herein by reference).
10.21†	Amendment No. 1 to Sales Representation Contract, dated November 6, 2015, by and between Oculus Innovative Sciences, Inc. and SLA Brands, Inc. (included as exhibit 10.88 to the Company's 10-Q filed February 16, 2016 and incorporated herein by reference).
10.22	Underwriting Agreement entered into by and between Oculus Innovative Sciences, Inc. and Dawson James Securities, Inc. as representative of the underwriters named on Schedule 1 thereto, dated March 18, 2016 (included as exhibit 1.1 to the Company's Current Report on Form 8-K filed March 18, 2016 and incorporated herein by reference).
10.23†	Exclusive Sales and Distribution Agreement, dated November 6, 2015, by and between Oculus Innovative Sciences, Inc. and Manna Pro Products, LLC (included as exhibit 10.1 to the Company's 8-K filed March 23, 2016 and incorporated herein by reference).
10.24	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Jim Schutz, dated July 26, 2016 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 29, 2016, and incorporated herein by reference).
10.25†	Asset Purchase Agreement dated October 27, 2016, between Oculus Innovative Sciences, Inc. and Invekra, S.A.P.I de C.V. (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 31, 2016, and incorporated herein by reference).
10.26†	Amendment Agreement to Acquisition Option dated October 27, 2016, by and between More Pharma Corporation S. de R.L. de C.V. and Oculus Technologies of Mexico, S.A. de C.V. (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed October 31, 2016, and incorporated herein by reference).
10.27	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Robert Miller, dated November 30, 2016 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 1, 2016, and incorporated herein by reference).
10.28	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Bruce Thornton, dated November 30, 2016 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed December 1, 2016, and incorporated herein by reference).
10.29	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Robert Northey, dated November 30, 2016 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed December 1, 2016, and incorporated herein by reference).
10.30	Employment Agreement by and between Oculus Innovative Sciences, Inc. and Jeffrey Day, dated November 30, 2016 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed December 1, 2016, and incorporated herein by reference).
10.31	Employment Agreement by and between Sonoma Pharmaceuticals, Inc. and Marc Umscheid, dated December 31, 2016 (included as Exhibit 10.97 to the Company's quarterly report on Form 10-Q filed February 17, 2017, and incorporated herein by reference).
10.32*	Master Vendor Agreement by and between Sonoma Pharmaceuticals, Inc. and PetSmart Home Office, Inc., dated November 21, 2016.
10.33*#	Distribution Agreement by and between Sonoma Pharmaceuticals, Inc. and G. Pohl-Boskamp GmbH & Co. KG, dated April 13, 2016.
10.34*	Amendment No. 8 to Office Lease Agreement by the between Oculus Innovative Sciences, Inc. and SSCOP Properties LLC, dated June 23, 2016.

21.1*	List of Subsidiaries.
23.1*	Consent of Marcum LLP, independent registered public accounting firm.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.

* Filed herewith.
† Confidential treatment has been granted with respect to certain portions of this agreement.
# Confidential treatment is being sought for portions of this agreement.

Copies of above exhibits not contained herein are available to any stockholder, upon payment of a reasonable per page fee, upon written request to: Chief Financial Officer, Sonoma Pharmaceuticals, Inc., 1129 N. McDowell Blvd., Petaluma, California 94954.

(c) Financial Statements and Schedules

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

SIGNATURES

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

SONOMA PHARMACEUTICALS, INC.

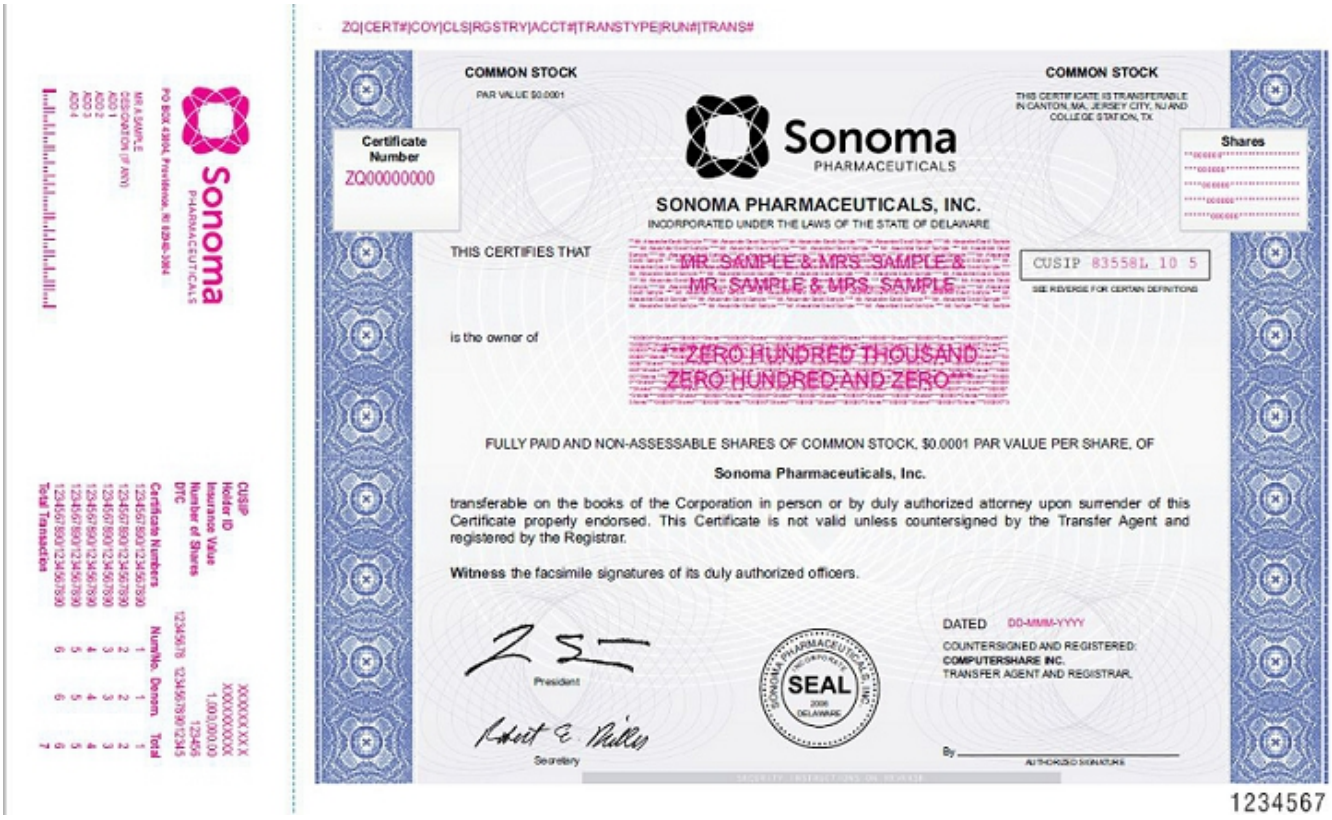
Date: June 28, 2017

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

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

Signature	Title	Date
/s/ Jim Schutz Jim Schutz	President, Chief Executive Officer and Director (Principal Executive Officer)	June 28, 2017
/s/ Robert E. Miller Robert E. Miller	Chief Financial Officer (Principal Financial Officer, and Principal Accounting Officer)	June 28, 2017
/s/ Sharon Barbari Sharon Barbari	Director	June 28, 2017
/s/ Jay Edward Birnbaum Jay Edward Birnbaum	Director	June 28, 2017
/s/ Russell Harrison Russell Harrison	Director	June 28, 2017
/s/ Jerry McLaughlin Jerry McLaughlin	Director	June 28, 2017

Exhibit 4.1


ZQ|CERT#|COY|CLS|RGSTRY|ACCT#|TRANSTYPE|RUN#|TRANS#
COMMON STOCK
PAR VALUE $0.0001
COMMON STOCK
THIS CERTIFICATE IS TRANSFERABLE IN CANTON, MA; JERSEY CITY, NJ AND COLLEGE STATION, TX
Certificate Number
ZQ00000000
Shares
Sonoma
PHARMACEUTICALS
SONOMA PHARMACEUTICALS, INC.
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE
THIS CERTIFIES THAT
MR. SAMPLE & MRS. SAMPLE & MR. SAMPLE & MRS. SAMPLE
CUSIP 83558L 10 5
SEE REVERSE FOR CERTAIN DEFINITIONS
is the owner of
ZERO HUNDRED THOUSAND ZERO HUNDRED AND ZERO
FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK, $0.0001 PAR VALUE PER SHARE, OF
Sonoma Pharmaceuticals, Inc.
transferable on the books of the Corporation in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.
Witness the facsimile signatures of its duly authorized officers.
President
Secretary
SEAL
DATED DD-MMM-YYYY
COUNTERSIGNED AND REGISTERED:
COMPUTERSHARE INC.
TRANSFER AGENT AND REGISTRAR,
By
AUTHORIZED SIGNATURE
1234567
Sonoma
PHARMACEUTICALS
PO BOX 43004, Providence, RI 02940-3004
MR & SAMPLE
DESIGNATION (IF ANY)
CUSIP
Holder ID
Insurance Value
Number of Shares
DTC
Certificate Numbers
Num
No.
Denom.
Total
Total Transaction

SONOMA PHARMACEUTICALS, INC.

THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS, THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS. SUCH REQUEST SHALL BE MADE TO THE CORPORATION'S SECRETARY AT THE PRINCIPAL OFFICE OF THE CORPORATION.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common	UNIF GIFT MIN ACT	-.....(Cust).....Custodian.....(Minor).....
TEN ENT - as tenants by the entireties		under Uniform Gifts to Minors Act.....(State).....
JT TEN - as joint tenants with right of survivorship and not as tenants in common	UNIF TRF MIN ACT	-.....(Cust).....Custodian (until age .....)
		.....(Minor).....under Uniform Transfers to Minors Act .....(State).....

Additional abbreviations may also be used though not in the above list.

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

For value received, _____ hereby sell, assign and transfer(s) unto

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE)

_____

_____

_____ Shares

of the Common Stock represented by the within Certificate, and do(es) hereby irrevocably constitute and appoint

_____ Attorney

to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated: _____ 20_____

Signature: _____

Signature: _____

Notice: The signature(s) to this assignment must correspond with the name(s) as written upon the face of the Certificate, in every particular, without alteration or enlargement, or any change whatever.

Signature(s) Guaranteed: Medallion Guarantee Stamp

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15.

Exhibit 10.32

MASTER VENDOR AGREEMENT (goods for resale)

THIS MASTER VENDOR AGREEMENT ("Agreement") is effective as of the ___ day of 20__ ("Effective Date"), by and between PetSmart Home Office, Inc., a Delaware corporation, located at 19601 North 27th Avenue, Phoenix, Arizona 85027 ("PetSmart") and Oculus Innovative Sciences, Inc., a California company/corporation, located at 1129 N. McDowell Blvd, Petaluma, CA, and its affiliates, agents and subcontractors, (collectively, "Vendor"). PetSmart and Vendor are sometimes collectively referred to in this Agreement as the "Parties"' and individually as a "Party."

WHEREAS, Vendor is in the business of sourcing and selling Products (as defined below), and PetSmart may desire to purchase Products from Vendor for sale to consumers from time to time; and

WHEREAS, Vendor is ready willing and able to furnish the Products to PetSmart; and

WHEREAS, PetSmart and Vendor desire to enter into this Agreement to establish the terms and conditions under which PetSmart may place one or more "Purchase Orders" or "'P.O." (as defined herein) with Vendor for the procurement of Products.

NOW, THEREFORE, in consideration of the premises, promises and covenants set forth below and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Terms of Purchase. Vendor shall supply and sell to PetSmart the Products in accordance with (i) this Agreement, (ii) the P.O., (iii) the P.O. Terms and Conditions set forth on Exhibit B (the "P.O. Terms"), (iv) all Applicable Laws, and (v) PetSmart' s requirements and standards related to the Products and their production (e.g., social compliance requirements, supplier code of conduct, quality standards, FDA/FSMA and food related requirements, etc.) as may be communicated by PetSmart to Vendor from time to time (collectively the "'PetSmart Standards"), which include without limitation the documents listed on the attached Exhibit A, PetSmart Standards, and the documents available at www.petsmart.com/compliance, or such other website or portal that is communicate by PetSmart to Vendor from time to time. Vendor acknowledges it has received and reviewed the current versions of the PetSmart Standards. The terms, conditions and requirements set forth in this Agreement, the P.O., the P.O. Terms, the PetSmart Standards, and Applicable Laws are collectively referred to as the "PetSmart Requirements." Vendor acknowledges that it will be subject to penalties or chargebacks, as specified in the PetSmart Requirements, if it fails to comply with the PetSmart Requirements. In the event of any inconsistency between this Agreement and the PetSmart Requirements (other than Applicable Laws), this Agreement shall govern. Any additional or different terms or conditions proposed by Vendor in any quotation, acknowledgment or other document are hereby deemed to be material alterations of this Agreement and notice of objection is hereby given, and any such proposed terms or conditions shall be void *ab initio.*

2. Services. Vendor acknowledges that certain actions and services are inherent and required in supplying and selling the Products to PetSmart, and Vendor will provide all such services, including without limitation the testing, packaging, maintenance, warehousing and transportation as necessary to deliver the Products in accordance with the PetSmart Requirements (collectively referred to as the "Services"). If any of Vendor's employees, agents, representatives or other third parties are present in any of PetSmart's retail stores, distribution centers, or offices, Vendor shall ensure that such employee, agent, representative or third party complies with all of PetSmart's scheduling, login, tracking, and similar requirements.

3. ORDERS. The term "'Purchase Order" or "P.O." means a purchase order or purchase form and all related communications regarding the procurement of Products (e.g., order characteristics such as amount, size, costs, fees, specifications and country of delivery) provided by PetSmart to Vendor through any means agreed to between PetSmart and Vendor, such as e-mail, EDI or other electronic exchanges. Each P.O. is subject to certain commercial terms as agreed to in writing by the Parties and set forth on a "Commercial Terms of Purchase" (an example of which is attached hereto as Exhibit C) or similar document, which may be amended from time to time by the written agreement of the Parties. PetSmart has no obligation whatsoever to place any P.0. with Vendor or purchase Products from Vendor. If any forecasts or projections are provided by PetSmart to Vendor or otherwise discussed between the Parties, they are purely for Vendor's convenience and shall not be binding on either Party. No proposal by Vendor shall be accepted or deemed accepted by PetSmart unless and until PetSmart accepts the proposal in a written P.O., which PetSmart is not obligated to accept. The P.O. shall be deemed placed with Vendor upon being confirmed by PetSmart in writing in the manner P.O.s are typically communicated between PetSmart and Vendor in their normal course of dealings. The P.O. shall be deemed accepted by Vendor when approved or otherwise accepted by Vendor, including via email, EDI or other electronic exchange. PetSmart may amend or cancel a P.O. by written or electronic notice to Vendor. If PetSmart amends or cancels a P.O., Vendor shall use reasonable endeavors to mitigate any loss it may suffer in connection with such cancellation or amendment, but in compliance with this Agreement.

4. DELIVERY. Vendor shall deliver the Products purchased under each P.O. by the delivery date set out in the P.O., but such Products shall not be delivered more than five (5) business days (or such shorter period of time as set forth in the PetSmart Requirements) in advance of the delivery date without the prior written consent of PetSmart. Vendor shall deliver all Products covered by a single P.O. in a single delivery unless PetSmart requests delivery in installments, or as otherwise required under the PetSmart Requirements. PetSmart's acceptance of a delivery containing less than the required quantity shall not relieve Vendor of its obligation to deliver the balance of the ordered Products.

If the Products are not delivered by Vendor as specified in the P.O. or they are Non-Conforming Products (as defined in Section 5 below), then, without limiting any other right or remedy PetSmart may have, PetSmart may: (i) refuse to take any attempted delivery of Products under the P.O.; (ii) require Vendor to air freight the Products covered by the P.O. at Vendor's sole cost and expense; (iii) obtain substitute products from another vendor and recover from Vendor any costs and expenses reasonably incurred by PetSmart in obtaining such substitute products, which Vendor shall reimburse within thirty (30) days; and (iv) claim damages for any other costs, expenses or losses directly or indirectly resulting from Vendor's failure to deliver the Product pursuant to the P.O. or the PetSmart Requirements.

Vendor shall deliver testing samples of the Products in accordance with PetSmart's instructions, or the instructions of a third party designated by PetSmart.

5. ACCEPTANCE AND NON-CONFORMING PRODUCTS. A "Non-Conforming Product" means any Product that (i) fails to conform with any PetSmart Requirement in any respect whatsoever, including without limitation quantities, styles, sizes, quality, materials, components, fit, colors, workmanship, stitching (or adhesion or other joinery method), odor, design, product quality standards or requirements, or any other requirement, term or condition; (ii) fails to pass any third- party test assessing conformity with the PetSmart Requirements; (iii) fails to conform to the confirmation sample approved by PetSmart; (iv) is not as represented, warranted, or presented to and approved by PetSmart; (v) is shipped or delivered to PetSmart in violation of Section 4; or (vi) is the subject of a Recall (as defined in Section 9).

PetSmart may, at Vendor's sole risk and expense, hold or return to Vendor any Non-Confirming Product, and may charge Vendor for the cost of shipping, unpacking, examining, re-packing, warehousing, reshipping, duties, fees and other internal and external related expenses (including but not limited to the internal cost of labor) in relation to the Non- Conforming Product. If PetSmart does not offset such charges against amounts owed to Vendor, Vendor shall pay to PetSmart the entire amount of such charges within ten (10) business days after being notified by PetSmart as to the amount of such charges. If the Non-Conforming Products are to be returned to Vendor, Vendor shall take full title and risk of loss for such Non-Conforming Products as designated by PetSmart (and if not designated by PetSmart then FOB PetSmart's distribution center or retail store from which Products are being shipped). Vendor shall not dispose of such Non-Conforming Products other than as permitted under this Agreement or any other directions provided by PetSmart in writing. Unless the P.O. or Commercial Terms of Purchase specify otherwise, a damage allowance (deduction) of one and one-half percent (1.5%) for Products classified by PetSmart as "consumables", two percent (2.0%) for Products classified by PetSmart as "hard-goods" and two and one-half percent (2.5%) for Products classified by PetSmart as "specialty" shall be applied to each P.O., and Vendor shall be responsible for reimbursing PetSmart for Products that are unsalable (as determined by PetSmart) or have a damage rate in excess of these default damage allowance rates.

For purposes of establishing Non-Conformity, PetSmart shall not be deemed to have accepted any Products unless and until it has had a reasonable time after the Products have been made available to it to inspect for Non-Conformity. Such inspection period shall be extended if, in PetSmart's judgment, the complexity of the Products, the quantity received, or any other circumstances makes such extension reasonable to afford PetSmart an adequate opportunity to inspect the Products. Any unpacking or handling of the Products incident to PetSmart's inspection shall not indicate PetSmart's acceptance of the Products. PetSmart's inspection of the Products shall not relieve Vendor of its obligations hereunder or of any liability for any latent or other defects in the Products. At PetSmart's discretion, such inspection may include preliminary, final, and/or random inspections. PetSmart reserves the right to revoke acceptance of the Products whenever it discovers an instance of Non-Conformity, even if the time for inspection of the Products has passed. In no event will payment of the Product Fee or any other amount by PetSmart to Vendor constitute acceptance of a Non-Conforming Product.

PetSmart reserves the right to cancel without cost or penalty all or any part of the undelivered portion of a P.O., or to refuse to accept delivery of the Products if Vendor breaches any of the PetSmart Requirements. PetSmart also reserves the right to cancel without cost or penalty any P.O. that is delayed as a result of a Force Majeure Event. If PetSmart cancels a P.O. or any portion of a P.O. for any reason, or returns Products covered by a P.O. to Vendor pursuant to rejection or refusal to accept, Vendor shall not sell Products that have been labeled, packaged or tagged with PetSmart's or its affiliate's Intellectual Property without first obtaining PetSmart's written permission. Vendor shall also comply with any instructions provided by PetSmart regarding the disposal of such Products. In any event, Vendor shall not sell such Products (including any related packaging) until it removes or obliterates any mark, tag, Intellectual Property, or label identifying it with PetSmart or its affiliates to PetSmart's satisfaction.

6. TITLE AND RISK OF LOSS. Except as otherwise specified by PetSmart in the P.O., title and risk of loss for the Products shall pass to PetSmart as follows:

a. Products for which PetSmart is the importer of record, (i) risk of loss shall pass from Vendor to PetSmart F.O.B. vessel port of export, and (ii) title to the Products shall pass from Vendor to PetSmart upon customs clearance of the Products at the port of entry in the country of final destination ("Customs Clearance"). For Products that are customs cleared prior to arrival at their port of entry, Customs Clearance shall be deemed to be the time that such Products are unloaded from the carrying vessel at the port of entry.

b. Products for which PetSmart is not the importer of record, title and risk of loss shall transfer to PetSmart Delivered Duty Paid (D.D.P. - Incoterms 2010) to a destination specified in the P.O. and, if the destination is not specified in the P.O., such destination shall be deemed to be the PetSmart distribution center or retail store where such Products are to be delivered.

c. If Vendor is shipping Products directly to consumers (e.g., fulfilling website or mobile sales), then title and risk of loss shall not transfer to PetSmart and the same shall be between Vendor and the consumer.

For certain orders, PetSmart may direct that title to the Products shall pass from Vendor to PetSmart at a specific transfer point rather than at Customs Clearance, and in such cases PetSmart will specify in the applicable P.O. that the designated Products shall be delivered "F.O.B. transfer point." The terms for transfer of title set forth herein shall be irrevocable in all instances, and in no event will Vendor retain or assert any security interest, lien or other claim in or against the Products or the title thereto, regardless of whether the invoice for such Products has been paid or not, and whether arising under common law, statute or under any agreement, financing statement, or other document containing any terms inconsistent with or in addition to the terms and conditions set forth in this Agreement.

7. PRODUCT FEE. The P.O. shall list the price Vendor is charging PetSmart for the Products (the "Product Fee"). The Product Fee may be modified by the Parties' mutual written agreement, but in no event may the Product Fee be increased after the commercial documents associated with any particular Product have been tendered to the consolidator designated by PetSmart. Unless otherwise specified in the P.O., the Product Fee will include all costs for packaging, transportation, and all applicable taxes and other governmental charges (including, without limitation, value-added taxes, customs duties, customs brokerage fees, and similar charges).

Vendor represents and warrants that (i) the terms of each P.O. will be equal to or more favorable than the terms of purchase between Vendor and its other customers for similar quantities of like Products and (ii) the Product Fee is not in excess of the price charged to Vendor's other customers for similar quantities of like Products. If Vendor sells any product that is identical or substantially similar either in appearance, functionality or quality to the Products for less than the Product Fee charged to PetSmart, Vendor shall reduce the Product Fee to match the lower price for so long as the lower price is available and shall refund PetSmart the difference between the Product Fee and the lower price it charged for such identical or similar products after Vendor began charging the lower price.

8. TERMS OF PAYMENT. Vendor shall submit invoices to PetSmart as required in the PetSmart Requirements. PetSmart will pay Vendor according to the terms set forth in the P.O., which will be subject to discounts and other adjustments in accordance with the PetSmart Requirements or the Commercial Terms of Purchase. If the P.O. does not specify the due date for payment, the invoice shall be payable within forty (40) days from the later of (i) the date the Products ordered under the P.O. are delivered to destination set for in the P.O. (and if no destination is set forth in the P.O., PetSmart distribution center or retail store), or (ii) the date on which PetSmart receives a properly submitted invoice from Vendor.

If PetSmart disputes any portion of an invoice, PetSmart will notify Vendor in writing and if the Parties are not able to resolve the dispute within ninety (90) days the dispute shall be resolved in accordance with Section 24 below. Vendor must notify PetSmart of any invoice or payment disputes within thirty (30) days of payment. If Vendor does not notify PetSmart of a dispute within such thirty (30) days it shall have waived its right to dispute such invoice or payment. Vendor's obligations to supply the Products shall not be affected by any payment disputes. PetSmart shall be entitled to set off any amounts owed from Vendor to PetSmart against any amounts owed from PetSmart to under this Agreement or any other agreement between the Parties. Any payments owing from Vendor to PetSmart that are not timely paid shall be subject to interest at a rate of five percent (5.0%) A.P.R. (or, if lower, the maximum amount permitted by law).

9. PRODUCT RECALL. PetSmart will have the sole right to negotiate and enter into a settlement(s) with any governmental agency or official with respect to any potential fine, penalty, issue, or liability related to a Non-Conforming Product or any allegation that the Product fails to comply with Applicable Laws or industry standards. Vendor may request that any Non-Conforming Products be returned to Vendor for examination at Vendor's sole cost and expense. Such return by PetSmart will not be deemed a waiver of any right or remedy that PetSmart may have as a result of or in connection with such Non-Conforming Products. Vendor shall not sell or otherwise dispose of the any such Non- Conforming Products or parts and components without the written consent of PetSmart.

Vendor shall immediately give PetSmart written notice of (i) all quality control test results and data for any Product that do not satisfy the PetSmart Requirements; (ii) any known or suspected deviation in standard manufacturing processes that results in a Non-Conforming Product; (iii) any Product that fails or is alleged to have failed to comply with any consumer product safety requirement contained in the specifications, industry standards, or standards promulgated by a governmental agency or Applicable Laws; or (iv) any defect, issue or design regarding a Product that could create a risk of injury to an individual or animal. If Vendor receives notice of a recall, harmful ingredients, or defects in the Product, Vendor shall notify PetSmart immediately.

Vendor shall promptly furnish to PetSmart all documentation, information and data regarding the Product necessary or helpful to PetSmart, as determined in PetSmart's sole discretion, to aid PetSmart to comply with its legal obligations or to mitigate any safety hazard posed by a Product.

If PetSmart is required or chooses, in its sole discretion, to recall, give public notice of hazard or defect associated with, withdraw from its proposed chain of resale, remove from its shelves, return to Vendor, or otherwise dispose of or render unusable (a "Recall") any Product purchased from Vendor for any reason, and whether or not such Product otherwise complies with the PetSmart Requirements, Vendor will reimburse PetSmart for all amounts paid or incurred by it in connection with such Recall within thirty (30) Business Days after receipt of PetSmart's invoice.

In addition to any other right provided in this Agreement or by law, PetSmart may, at its sole discretion, immediately cancel any or all P.O.s, suspend all deliveries of Products, or terminate this Agreement if: (i) Vendor fails to promptly begin remedying an alleged non-compliance, risk or defect of the types referred to above; (ii) a governmental agency concludes that any Product fails to comply with any consumer product safety laws, requirements, rules, specifications, or standards in any jurisdiction where the Products are sold; or (iii) Vendor fails to promptly and fully cooperate with PetSmart in the investigation of any product safety hazard or Non-Conforming Product.

10. WARRANTIES AND REPRESENTATIONS. Vendor represents and warrants to PetSmart that the Products, components, parts, designs, and/or concepts designed, developed or manufactured by Vendor, its employees, agents, and any process for the manufacturing of the Products, together with packaging, labeling, documentation, transportation, and/or anything else furnished by Vendor, shall: (i) be free from defects in design, workmanship, materials, and hazards to life, animal, or property; (ii) be merchantable, suitable, and fit for their intended purposes and conform to any warranty, description, or sample provided to PetSmart; (iii) be in conformance with the PetSmart Requirements, and any data, drawings, representations, specifications, and documentation relating to the Product; (iv) do not violate, use or infringe any existing or pending third-party intellectual property rights; (v) do not breach any agreement between Vendor and any third-party; (vi) be supported by proper evidence and documentation (which shall be supplied to PetSmart upon request), such as test results, for any efficacy, performance or similar claims made on or about the Product or its packaging or labeling; and (vii) be in compliance with Applicable Laws.

In addition, Vendor represents and warrants that: (i) this Agreement has been validly executed and delivered and constitutes a legal, valid, and binding obligation enforceable against Vendor; (ii) the person executing the Agreement on behalf of Vendor has the requisite capacity and authority to enter into this Agreement; (iii) Vendor has the legal right to sell the Product; (iv) no consent of any other person, political body, board of directors, or entity is necessary for Vendor to enter into and fully perform this Agreement; (v) all information, invoices, and documents provided to PetSmart by Vendor are true, complete, and accurate; (vi) Vendor shall, upon request, promptly provide any and all records and/or documentation, and provide other reasonable assistance as may be necessary or desirable for purposes of PetSmart's compliance with Applicable Laws; (vii) Vendor shall perform its obligations under this Agreement in compliance with all Applicable Laws; (viii) Vendor or its staff, employees, agents, sub-contractors and/or representatives did not and will not offer, solicit, accept or provide any commissions, payments, gifts, advantages, kickbacks, lavish or extensive entertainment or other things of value, directly or indirectly, to any employees, members of any employee's family, or any agent of PetSmart or any governmental authorities where such payments would constitute a bribe or any illegal payment under Applicable Laws or the PetSmart Requirements; (ix) Vendor will cooperate with PetSmart in any and all governmental agency or department inquiries or investigations related to the Product, or third-party litigation related to the Product; (x) Vendor shall ensure that all personnel hired and working for Vendor on this Agreement are authorized to work in the United States; and (xi) if the Products bear any third-party Intellectual Property Vendor hereby grants and sublicenses to PetSmart all rights necessary for PetSmart to distribute, market, advertise and sell the Products at retail.

The foregoing warranties are in addition to all warranties implied by law and shall survive delivery, inspection, acceptance, and payment. All warranties will survive delivery of the Product and will not be deemed waived, terminated, or merged by PetSmart upon acceptance of or payment for the Product. Vendor is not relying on any warranties, representations, assurances, or inducements that are not expressly set forth in this Agreement (and PetSmart hereby expressly disclaims the same).

"Applicable Laws" means all United States, state, Canadian, international, provincial, and local laws, enactments, orders, ordinances, directives, rules, regulations and regulatory requirements, including without limitation those listed below and/or relating to: (i) the manufacture, packing, packaging, marking, storage, handling and delivery of the Product; (ii) testing specifications for the Products or warnings with respect to the Product, its labeling, or its contents; (ii) product safety, environment protection, human health, labor, industry, disposal, restriction and sale of the Product; (iii) the handling, storage, data privacy and security of personal information; (iv) advertising claims substantiation; (iv) country of origin, import and export laws; and (v) including without limitation, the Foreign Corrupt Practices Act, the Bribery Act 2010, Anti-Unfair Competition Law of PRC, the Criminal Law of PRC, the Prevention of Bribery Ordinance (POBO) of Hong Kong, the Federal Trade Commission Act, the Robinson-Patman Act, the Hazardous Substances Act, the Food, Drug, and Cosmetic Act, The Food Safety Modernization Act, the Consumer Products Safety Act, the Fair Packaging and Labeling Act, the Toxic Substances Control Act, the Fair Labor Standards Act, the Flammable Fabrics Act, the Fur Products Labeling Act, the Textile Fiber Labeling Act, the United States Department of Transportation regulations, the Insecticide, Fungicide and Rodenticide Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the California Safe Drinking Water and Toxic Enforcement Act of 1986 (commonly referred to as Proposition 65), the Canada Stuffed Article Act, the United States Environmental Protection Agency regulations, the California Air Resources Board (CARB) regulations and measures, and OSHA regulations.

To the extent Vendor provides any equipment or fixtures in connection with the Products ("Vendor Equipment") or to the extent Vendor's delivery, stocking, maintenance, promotion or removal of the Products require Vendor to enter an of PetSmart's premises, the following additional terms and provisions shall apply: (i) Vendor agrees that the warranties set forth herein apply to all Vendor Equipment and related Services and the same will be provided in a good and workmanlike manner; (ii) Vendor shall, at its expense, obtain all licenses and permits and shall pay all inspection fees necessary in connection with the maintenance or installation of Vendor Equipment and performance of any related Services; (iii) Vendor agrees that the indemnification and defense provisions set forth in this Agreement shall apply to any claim that any person or entity may make against PetSmart or any of its subsidiaries or affiliates arising out of or otherwise relating to the Vendor Equipment or related Services; (iv) the insurance required to be obtained and maintained by Vendor under this Agreement shall provide coverage with respect to the Vendor Equipment and related Services; and (v) PetSmart has no obligation to maintain any Vendor Equipment or to provide notice to Vendor of any failure of or damage to any Vendor Equipment.

11. AUDIT RIGHT. PetSmart shall have the right to inspect and audit the manufacture, quality, transport, handling, and storage of Products both before and after shipment. PetSmart and/or its agents or representatives may enter Vendor's premises, factories or facilities during Vendor's customary business hours to inspect, audit and test any Products, Vendor's processes, and any materials, components, or work-in-progress to be used in the manufacture of any Products, whether such entrance is announced or unannounced. Vendor shall co-operate with, and provide reasonable assistance to PetSmart or its authorized representative(s) in the conduct of any such audit and ensure that such persons shall have access to the premises at which the Products are being manufactured.

12. INTELLECTUAL PROPERTY. "Intellectual Property" means any patents, utility models, rights to inventions, copyright and neighboring and related rights, trademarks, service marks, business names and domain names, rights in get- up and trade dress, unique or distinctive elements of the Product or Product designs, goodwill and the right to sue for passing off or unfair competition, rights in designs, database rights, rights to use, and protect the confidentiality of, Confidential Information, and all other intellectual property rights, in each case whether registered or unregistered and including all applications and rights to apply for and be granted, renewals or extensions of, and rights to claim priority from, such rights and all similar or equivalent rights or forms of protection which subsist or will subsist now or in the future in any part of the world. If the Products bear any Intellectual Property that are owned or authorized by PetSmart, Vendor shall (a) only affix the Intellectual Property to the Products strictly in accordance with PetSmart's instructions, (b) not alter the Intellectual Property in any way whatsoever, (c) not affix the Intellectual Property or similar marks to any other products made by Vendor, and (d) not use any Intellectual Property in any manner or in connection with any products or the publication of any materials (including in connection with any third-party's products, trade mark, trade name, symbol or copyright material) other than in accordance with this Agreement and the PetSmart Requirements. PetSmart shall at all times own and have exclusive right, title and interest in and to all of its Confidential Information and Intellectual Property, and PetSmart shall retain the exclusive right to license, sell, transfer and otherwise use and dispose of the same.

Vendor shall not (a) acquire any interest or claim in any of PetSmart's Intellectual Property on account of or related to this Agreement or the manufacture of the Products, or (b) apply for any patent or other Intellectual Property rights right therefore. Vendor hereby acknowledges that the ownership of all Intellectual Property is and shall at all times remain PetSmart's sole property, and that any use thereof or goodwill associated thereto in relation to the Products shall inure to the exclusive benefit of PetSmart and its affiliates, and that nothing in this Agreement will confer on Vendor any right, title or interest in, to or under any of PetSmart's Intellectual Property. Vendor, its employees and agents shall not contest or assist a third-party in contesting the validity of PetSmart's Intellectual Property worldwide. In the event Vendor at any time obtains or claims any rights in or to the Intellectual Property, Vendor shall promptly notify PetSmart of such event and immediately transfer such rights to PetSmart or its affiliates, as directed by PetSmart, and provide all required assistance and documentation related to such transfer. For such purposes, Vendor hereby appoints PetSmart as its attorney-in-fact for the transfer of such rights.

Vendor agrees that any new invention, enhancement, specification, drawing, formula, improvement, or other data or information of a secret, proprietary, or confidential nature that is developed or acquired by Vendor or any of its employees or agents in connection with the manufacture of any Products bearing a PetSmart Intellectual Property or utilizing and PetSmart Intellectual Property shall be fully and immediately disclosed, and shall belong exclusively to PetSmart. The Parties acknowledge that all work performed by Vendor for PetSmart or any affiliate related to such Products shall be deemed a "work made for hire." Vendor hereby assigns to PetSmart any right, title, and interest in and to all creations and Inventions that Vendor may have without additional consideration. Vendor agrees to execute and deliver any documents and do all other things (including the giving of testimony) requested by PetSmart in order to vest more fully in PetSmart or any affiliate all ownership rights in the creations and inventions (including obtaining patent, copyright or trademark protection therefore in the United States and/or foreign countries).

13. INSURANCE. During the Term and for a period of five (5) years afterwards, Vendor shall maintain in force the following insurance policies with reputable insurance companies authorized by law to conduct business in the United States and Canada with the financial rating of at least A-VII status, as rated in the most recent edition of Best's Insurance Reports: (i) a commercial general liability insurance policy with full limits, achieved either by primary or excess/umbrella insurance, for bodily injury and property damage for not less than Two Million Dollars ($2,000,000.00 USD) per occurrence, with an aggregate limit of Four Million Dollars ($4,000,000.00 USD), such policies to include products liability and contractual liability; (ii) automobile liability insurance policy with limits not less than Three Million Dollars ($3,000,000.00 USD) combined single limit; (iii) workers' compensation in compliance with local legislation and employer's liability with a One Million Dollars ($1,000,000.00 USD) limit per, and (iv) if services are provided under the P.O. or in connection with Products sold under a P.O., a professional liability or errors and omissions policy with limits not less than Two Million Dollars ($2,000,000 USD) per occurrence and Five Million Dollars ($5,000,000 USD) aggregate; provided, however, PetSmart retains the right to require Vendor to provide increased levels of commercial general liability insurance if it provides certain types of Products, such as Products with electronic components, glass, etc.

Vendor's insurance policies shall name "PetSmart Home Office, Inc.," and "PetSmart, Inc." (including their parents, subsidiaries, affiliates, officers, directors, employees, agents, and other representatives) as additional insureds. Vendor's insurance policy must also include: (i) separation of insureds (otherwise known as a cross-liability clause); (ii) a waiver of subrogation in the favor of PetSmart, Inc., and PetSmart Home Office, Inc. (including their parents, subsidiaries, affiliates, officers, directors, employees, agents, and other representatives); and (iii) for general liability policy, cover for PetSmart's property that is in the care, custody or control of Vendor.

Vendor shall: (i) not do anything to invalidate any insurance policy or to prejudice PetSmart's entitlement under it; and (ii) notify PetSmart if any policy is (or will be) cancelled or its terms are (or will be) subject to any material change. On taking out and on renewing each policy, Vendor shall promptly send a copy of the receipt reflecting payment of the premium to PetSmart. On PetSmart's written request, Vendor shall, within ten (10) days of said request, provide PetSmart with copies of the insurance policy certificates and details of the cover provided, in a form and manner acceptable to PetSmart. Vendor's liabilities under this Agreement shall not be deemed to be released or limited by Vendor taking out the insurance policies referred to in this Section 13.

14. INDEMNITY. Vendor shall defend, indemnify and hold PetSmart (including its parents, subsidiaries, affiliates, officers, directors, employees, agents, and other representatives) harmless from and against any and all liabilities, costs, expenses, damages and losses (including, without limitation, any direct, indirect, special, or consequential losses, loss of reputation and all interest, penalties and legal and other professional costs and expenses, including, without limitation, the cost of internal resources) suffered or incurred by PetSmart arising out of or in connection with: (i) any breach by Vendor of any representations or warranties contained in this Agreement; (ii) any actual or alleged defect in any Product (latent or patent) including without limitation Non-Conforming Products; (iii) breach of any PetSmart Requirement, or any provision of this Agreement; (iv) violation of any Applicable Laws (including costs, additional expenses, customs duties, or assessments, fines, citations, penalties, or Vendor's failure to comply with any request by PetSmart for any import or export documentation); (v) any claim made against PetSmart for actual or alleged infringement of a third-party's Intellectual Property rights arising out of, or in connection with, the manufacturing, supply, sale or use of the Products; (vi) any claim made against PetSmart by a third-party arising out of, or in connection with, the manufacturing, sale or supply of the Products, to the extent that such claim arises out of the breach, negligent performance or failure or delay in performance of this Agreement by Vendor, its employees, agents or subcontractors; and (vii) any claim made against PetSmart by a third-party for death, personal injury or damage to property arising out of, or in connection with the Products.

15. LIMITATION OF LIABILITY. Nothing in this Agreement shall limit or exclude Vendor's liability for: (i) death or personal injury resulting from negligence; (ii) fraud or fraudulent misrepresentation; (iii) breach of any express or implied terms of this Agreement; (iv) its indemnification obligations under this Agreement; or (v) the willful default or willful misconduct of Vendor, its employees, agents or Sub-Contractors. PetSmart shall not be liable to Vendor, whether in contract, tort (including negligence) or restitution, or for breach of statutory duty or misrepresentation, or otherwise, for any: (i) loss of profit; (ii) loss of business; or (iii) indirect, special, punitive, or consequential damages suffered by Vendor that arises under or in connection with this Agreement, and PetSmart's total liability arising under or in connection with this Agreement shall be limited to the amount of an unpaid invoice in the case of payment disputes, and to amounts covered by PetSmart's insurance in all other matters.

16. CONFIDENTIALITY AND DATA PROTECTION. Vendor agrees that it shall not at any time during the Term and for a period of five (5) years thereafter disclose to any person any confidential information not known or available to the public, concerning the business, affairs, customer, clients or vendors of PetSmart, including information relating to the operations, processes, plans, pricing, product information, know-how, designs, trade secrets, Intellectual Property, software, market opportunities, customers, P.O.s, and the PetSmart Requirements (the "Confidential Information"), except as permitted by this Section 16. Confidential Information does not include: (i) publicly available information or materials (obtained through no wrongful act of the receiving Party), (ii) information already known or independently developed by the receiving Party, or (iii) information received by receiving Party from a third party who was free to disclose it.

Each Party may disclose the other Party's Confidential Information (i) to its employees, officers, agents, consultants or subcontractors ("Representatives") who need to know such information for the purposes of carrying out the Party's obligations under this Agreement, provided that the disclosing Party takes all reasonable steps to ensure that its Representatives comply with the confidentiality obligations contained herein, and the disclosing Party shall be responsible for its Representatives' compliance with the confidentiality obligations set out in this section, and (ii) as may be required by law, a court of competent jurisdiction or any governmental or regulatory authority or by a recognized stock exchange having authority over it or a substantial part of its assets.

Vendor shall establish and maintain data security procedures and other safeguards against the destruction, corruption, loss or alteration of PetSmart's Confidential Information, and to prevent access, intrusion, alteration or other interference by any unauthorized third parties of the same, that are no less rigorous than (i) those maintained by Vendor for its own information or the information of its customers of a similar nature, or, if more rigorous, and (ii) accepted industry practices, and that are in compliance with all Applicable Laws. If PetSmart, in its sole discretion, requests or requires Vendor to access any electronic database or online portal system owned and/or operated by PetSmart, Vendor hereby agrees it shall submit to, and successfully complete PetSmart's screening and/or testing requirements regarding the protection of online or electronic data.

17. CUSTOMS-TRADE PARTNERSHIP AGAINST TERRORISM. Vendor acknowledges that United States Customs and Border Protection has established an initiative called the Customs Trade Partnership Against Terrorism (C-TPAT), and PetSmart participates in C-TPAT. Vendor hereby agrees to use its best efforts to support PetSmart's support of C-TPAT, and agrees to (i) fully comply with any reasonable request of PetSmart to ensure that all Products sold to PetSmart are as safe from terroristic acts as possible; (ii) comply with all United States Customs and Border Protection Agency security recommendations; (iii) use commercially reasonable efforts to become a certified and validated member of C-TPAT, if available to Vendor; (iv) immediately notify PetSmart if Vendor becomes suspicious or aware of any attempt, potential attempt, or commission of any act of terrorism with respect to the Products; and (v) promptly notify PetSmart of any breach or suspected breach in the security and safeguard of the Products while within Vendor's custody or control, or in the event it otherwise has information regarding any suspected or known breach of security pertaining to the Products. Further, upon request of PetSmart, Vendor will promptly provide written certification that it is compliant with C-TPAT. If Vendor at any time becomes aware that it is not compliant with C-TPAT, it will immediately notify PetSmart.

If Vendor will be physically present at any of PetSmart's facility or has access to PetSmart's systems, it will conduct a background check on each such employee or subcontractor that includes a criminal background check covering the past seven (7) years for all locations in which the individual has resided (both at the state/provincial and country/federal level), job history and employment verification. Vendor will only place or allow access to those individuals who have no criminal convictions and whose background checks otherwise comport with information provided by the individual.

Vendor warrants and represents, on behalf of itself and its affiliates, that it is not acting, directly or indirectly, for or on behalf of any individual or entity that: (i) appears on the Specially Designated Nationals and Blocked Person List, as maintained by the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury, or (ii) is otherwise subject to OFAC sanctions.

18. TERM AND TERMINATION. This Agreement shall commence on the Effective Date and continue for a period of one (1) year thereafter (the "Initial Term") and will automatically renew for successive one (1) year periods (each a "Renewal Term") unless a Party provides at least ninety (90) days notice prior to the end of the Initial Term or Renewal Term of its desire to terminate this Agreement. The Initial Term and Renewal are referred to as the "Term." Without affecting any other right or remedy available to it, PetSmart may terminate this Agreement and any P.O. for undelivered Products (whether manufactured or not) with immediate effect by giving written notice to Vendor if:

a. Vendor commits a material breach of any term of this Agreement or the PetSmart Requirements, including without limitation the misuse of PetSmart's Intellectual Property;
b. Vendor commits a non-material breach of this Agreement or the PetSmart Requirements that is not capable of being remedied or, if such breach is capable of being remedied, fails to remedy the breach within a period of thirty (30) days after being notified in writing of it existence;
c. Vendor repeatedly breaches any of the terms of this Agreement or the PetSmart Requirements;
d. Vendor suspends, or threatens to suspend, payment of its debts or is unable to pay its debts as they fall due or admits inability to pay its debts or is deemed unable to pay its debts;
e. Vendor ceases or threatens to cease to carry on business, enters into administration or liquidation, or files for winding up or bankruptcy; or
f. any Force Majeure Event prevents Vendor from performing its obligations under this Agreement for any continuous period of ninety (90) days.

Upon termination or expiry of this Agreement, each Party shall promptly: (i) return to the other Party all equipment, materials and property belonging to the other Party; (ii) return to the other Party all documents and materials (and any copies) containing the other Party's Confidential Information; and (iii) on request, certify in writing to the other Party that it has complied with the requirements of this Section. Upon termination of this Agreement, PetSmart shall have the right in its sole discretion to terminate any P.O. or portion thereof that has not been delivered to PetSmart or its designated representative set forth in the applicable P.O., regardless of the production status of such Products and whether Vendor procured materials for the manufacture of such Products. The terms and conditions of this Agreement shall continue in full force and effect until all P.O.s have been fulfilled by Vendor or cancelled by PetSmart. Vendor shall, in good faith, undertake reasonable measures to mitigate the costs of termination. Vendor shall provide such assistance to PetSmart as PetSmart may reasonably request in writing in connection with the transition of production of the Products and related matters.

Notwithstanding the termination or expiration of this Agreement, certain sections are intended to survive termination and expiration, including without limitation the following sections, and remain in full force and effect until barred by Applicable Law: Section 9 (Product Recall), 10 (Warranties and Representations), Section 11 (Audit Rights), Section 12 (Intellectual Property), Section 13 (Insurance), Section 14 (Indemnity), Section 15 (Limitation of Liability), Section 16 (Confidentiality and Data Protection), Section 18 (Term and Termination), Section 23 (Governing Law and Venue), and Section 24 (Dispute Resolution).

Termination of this Agreement shall not affect any rights, remedies, obligations or liabilities of the Parties that have accrued up to the date of termination or expiry, including the right to claim damages in respect of any breach of the Agreement which existed at or before the date of termination.

19. NO AGENCY. The Parties are independent contractors, and nothing in this Agreement (nor the performance of any of the provisions hereof) will create any partnership, joint venture, agency, franchise, sales representative, or employment relationship between them. Neither Party is the agent or legal representative of the other and neither Party will have the power to obligate or bind the other Party. Personnel supplied by each Party will work exclusively for that Party, and will not, for any purpose, be considered employees or agents of the other Party. Each Party assumes full responsibility for the acts of personnel supplied by it while performing services hereunder and is solely responsible for their supervision, direction and control, compensation, benefits, and taxes. Vendor agrees to conduct itself in a manner that shall support and positively enhance PetSmart's goodwill, image, reputation, and contribute to a positive impact overall in the specialty pet retail market.

20. FORCE MAJEURE. For purpose of this Agreement, a "Force Majeure Event" means any circumstance not within a Party's reasonable control including, without limitation: (i) acts of God, such as flood, drought, earthquake or other natural disaster; (ii) terrorist attack, civil war, war, armed conflict, imposition of sanctions, or embargo; and (iii) strikes or lockouts (other than those involving the employees of the Party affected by such event, or its agents, subcontractors or employees). If a Party is prevented from or delayed in performing any of its obligations under this Agreement due to a Force Majeure Event ("Affected Party"), the Affected Party shall, as soon as reasonably practicable after the start of the Force Majeure Event but no later than five (5) Business Days from its start, notify the other Party in writing of the Force Majeure Event, the date on which it started, its likely or potential duration, and the effect of the Force Majeure Event on its ability to perform any of its obligations under the Agreement. The Affected Party shall use all reasonable endeavors to mitigate the effect of the Force Majeure Event.

21. WAIVER. A waiver of any right or remedy under this Agreement or by law is only effective if given in writing and shall not be deemed a waiver of any subsequent breach or default. A failure or delay by a Party to exercise any right or remedy provided under this Agreement or by law shall not constitute a waiver of that or any other right or remedy, nor shall it prevent or restrict any further exercise of that or any other right or remedy. No single or partial exercise of any right or remedy provided under this Agreement or by law shall prevent or restrict the further exercise of that or any other right or remedy.

22. NOTICES. Any notice or request given under this Agreement shall be in writing addressed to the other Party at (i) for Vendor, at the address listed on the first page of this Agreement and (ii) for PetSmart Attn: General Counsel, 19601 N. 27th Avenue, Phoenix, Arizona U.S.A. 85027. Any notice shall be deemed to have been received (i) if sent by certified or registered mail, postage prepaid, return receipt requested, the fifth (5th) business day after posting; (ii) if sent by a major US or international document courier, the second (2nd) business day after posting or at the delivery time recorded by the courier service, whichever is later; or (iii) if sent by electronic mail or by a facsimile machine, the next business day after receipt of confirmation following transmission.

23. GOVERNING LAW AND VENUE. This Agreement will be governed and construed in accordance with the laws of the State of Arizona as such laws apply to contracts between Arizona residents performed entirely within Arizona without giving effect to principles of conflicts of laws. Vendor hereby agrees that any action or proceeding arising out of or related to this Agreement shall be brought solely in a court of competent jurisdiction in Maricopa County, State of Arizona. Vendor hereby irrevocably consents to the jurisdiction of any such court in Marciopa County, State of Arizona. The Parties hereby specifically exclude the application of the United Nations Convention on Contracts for the International Sale.

24. DISPUTE RESOLUTION. PetSmart and Vendor shall work together to amicably resolve any dispute, controversy or claim, whether based on contract, tort or otherwise, arising out of or relating to this Agreement or the relationship of the Parties, including without limitation, any dispute as to the existence, validity, construction, interpretation, negotiation, performance, breach, termination or enforceability of this Agreement (each a "Dispute"). If the Parties cannot agree to a resolution to the Dispute within thirty (30) days after one Party notifies the other Party of the Dispute, it shall be settled through final and binding arbitration to be conducted in Phoenix, Arizona (USA) in accordance with the rules of the American Arbitration Association. The arbitration shall be conducted and finally settled by three arbitrators, with each Party selecting one arbitrator and the two arbitrators selected by the Parties selecting a third arbitrator. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction over the matter or the Parties. All costs, attorney and other professional fees, and expenses relating to the arbitration will be allocated among the Parties in accordance with the determination made by the arbitrator.

Nothing in this Section prevents either Party from seeking preliminary or interim injunctive relief or measures from any court of competent jurisdiction, and any such request will not be incompatible with the agreement to arbitrate under this Section or a waiver of the right to arbitrate. The arbitral tribunal will have the authority and power to grant interim measures, including injunctive relief, whether in the form of an award or in another form. In addition to the rights and remedies provided in this Agreement, each Party has all of the rights and remedies available to it under the Uniform Commercial Code as adopted in the State of Arizona. The exercise of any right or remedy provided for in this Agreement will be without prejudice to the right of PetSmart to exercise any other right or remedy provided in this Agreement or at law or in equity.

25. OTHER MATTERS. This Agreement constitutes the entire agreement between the Parties in relation to its subject matter. It replaces and extinguishes all prior agreements, draft agreements, arrangements, collateral warranties, statements, assurances, representations and undertakings of any nature made by or on behalf of the Parties, whether oral or written, in relation to the subject matter hereof. No variation or amendment of this Agreement shall be effective unless it is in writing and signed by both Parties. Except as expressly provided in this Agreement, a person who is not a party to this Agreement shall not have any rights to enforce any term of this Agreement. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall constitute a duplicate original, but all the counterparts shall together constitute the one agreement. Vendor shall not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of PetSmart. PetSmart may assign or transfer any or all of its rights and obligations under this Agreement to any of its affiliates.

If any provision of this Agreement is or becomes invalid, illegal or unenforceable, it shall be deemed modified to the minimum extent necessary to make it valid, legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision or part-provision under this section shall not affect the validity and enforceability of the rest of this Agreement. At its own expense, each Party shall, and shall use all reasonable endeavors to procure that any necessary third-party shall, promptly execute and deliver such documents and perform such acts as may reasonably be required for the purpose of giving full effect to this Agreement. If required by Applicable Law or requested by PetSmart, Vendor shall complete and submit to PetSmart IRS form W-9 (or other IRS forms that may be required from time to time).

IN WITNESS WHEREOF, the Parties have executed this Agreement through their duly authorized representatives as of the date stated at the beginning of it:

PetSmart Home Office, Inc.

By: _____
Its: _____
Print Name: _____
Date: _____

Vendor's Legal Name: Oculus Innovative Science, Inc.

By: /s/ Dan McFadden
Its: VP of Animal Wellness
Print Name: Dan McFadden
Date: Nov. 4, 2016

Address: 1129 N. McDowell Blvd.
Petaluma, CA 94954

EXHIBIT A
PETSMART STANDARDS

PetSmart Supplier Code of Conduct

PetSmart Summary Supplier Code of Conduct

PetSmart Vendor Performance Standards

PetSmart Product Integrity Manual

PetSmart Restricted Substances List

PetSmart Social Responsibility Manual

PetSmart Defect Classification List

EXHIBIT B
P.O. TERMS AND CONDITIONS

1. Definitions. "Agreement" means a written agreement, if any, signed by PetSmart and Vendor regarding the purchase of Products. "Business Terms" means the Agreement and the PO, collectively and individually, as the context requires. "PetSmart" means PetSmart, Inc. or its affiliates or wholly owned subsidiaries. "PetSmart Documents" means the Business Terms and any related policies or documentation that PetSmart provides Vendor from time to time or that is available to Vendor on PetSmart's website. "PO" means a purchase order for Products, which includes these Terms and Conditions for Purchase Orders and any schedules attached to such PO. "Product(s)" means the goods or services, collectively and individually, as the context requires, provided by Vendor under a PO, together with related packaging, labeling, documentation, transportation and anything else furnished by Vendor with respect to such goods, and any and all deliverables provided by Vendor under a PO with respect to such services. "Vendor" means the person or entity to which the PO has been issued, and its related entities, affiliates, agents, representatives and subcontractors.

2. Agreement for Purchase of Products. All purchases of Products by PetSmart will be governed by the Business Terms. In the event of a conflict between the PO and an Agreement, the Agreement will control. (For clarity, if the PO does not conflict with the Agreement but does contain additional or more specific terms or provisions than the Agreement, such additional or more specific terms and provisions will continue to apply to Vendor.) If the parties have not executed an Agreement, the PO will control. The Business Terms constitute the complete and final written agreement between PetSmart and Vendor with respect to the Products and supersede all other agreements and understandings between the parties regarding the Products. No waiver, modification, or amendment of the Business Terms will be valid unless in writing and signed by authorized representatives of both parties, subject to Section 9. All terms of any purchase order or similar document provided by Vendor, including, but not limited to, any pre- printed terms thereon or any terms that appear on or are accessible through Vendor's websites or apps, that are inconsistent, add to, or conflict with the Business Terms, will be null and void and of no legal force or effect. In addition, neither acceptance by nor delivery to PetSmart of all or part of the Products ordered, nor payment therefor, will constitute acceptance by PetSmart of any such different or additional terms and conditions that may be contained in Vendor's acknowledgment, acceptance, confirmation, invoice, or other writing, regardless of whether Vendor's acceptance of the PO is conditioned upon PetSmart's assent to such terms and conditions. Any written indication of acceptance of the Business Terms, commencement of any work or the performance or shipment of conforming or non-conforming Products under a PO will constitute acceptance by Vendor of the PO and all the Business Terms.

3. No Purchase Requirement. Except as may be set forth in the description of Products purchased on the PO, PetSmart does not commit or guaranty the purchase of any Products from Vendor, including any minimum quantity or volume.

4. Delivery and Force Majeure; Inspection; Title and Risk of Loss. Vendor will deliver the Product in accordance with the PetSmart Documents. For Products for which PetSmart is the importer of record, (i) risk of loss shall pass from Vendor to PetSmart F.O.B. vessel port of export, and (ii) title to the Products shall pass from Vendor to PetSmart upon customs clearance of the Products at the port of entry in the country of final destination ("Customs Clearance"). For Product for which PetSmart is not the importer of record, title and risk of loss shall transfer to PetSmart Delivered Duty Paid (D.D.P. - Incoterms 2010) to a destination specified in the P.O. and, if the destination is not specified in the P.O., such destination shall be deemed to be the PetSmart distribution centre or retail store where such Products are to be delivered. Notwithstanding the foregoing, PetSmart may at its own option take delivery of all or any part of the Products at Vendor's facility. Time of delivery or performance is of the essence, and PetSmart's stated delivery or performance date cannot be extended for any reason, including delays in manufacture or shipment that Vendor cannot control. Vendor will not, however, be liable for any non-performance or delay in performance caused solely by a strike, lockout, riot, war, insurrection, act of God or public enemy, if Vendor immediately notifies PetSmart of the event and gives PetSmart a detailed description of the non-performance or delay that will be caused by such event. PetSmart will then have the right to terminate the Business Terms, without liability to Vendor. PetSmart will have the right to inspect the Product upon receipt, notwithstanding any payments or acceptance of previously shipped Products, and will, within a reasonable time, notify Vendor of any claim relating to condition, quality, shortages, non-conformance or grade of the Product. PetSmart's inspection or failure to inspect the Product will not relieve Vendor of any claim related thereto. Unless otherwise agreed in writing, title and risk of loss of all Products will pass to PetSmart only upon delivery to the specified destination. Vendor will reimburse PetSmart for any costs, damage or expense incurred by PetSmart arising or relating from the sale by PetSmart of any Product that does not conform to Vendor's warranties and the PetSmart Documents.

5. Price and Payments. Unless otherwise expressly stated in the Business Terms, the price specified in the PO includes (i) all taxes and duties of any kind that Vendor is required to pay with respect to the Products (including applicable customs duties), and (ii) all charges for packaging, transportation, storage and insurance. Vendor will submit an invoice to PetSmart for Products delivered to PetSmart upon delivery or otherwise in accordance with the PetSmart Documents. Such invoice will reference the applicable PO. Vendor warrants that the prices set forth in the PO are not higher than the lowest prices charged by Vendor to any other customer for the Products. Except as provided in an applicable PO, PetSmart will not be required to pay any late charge, interest, finance charge or similar charge. PetSmart's payment of the purchase price does not indicate its acceptance of the Products. Unless otherwise agreed to in writing by PetSmart payment terms, including discount periods, will be 40 days from the latest of (i) the scheduled date for delivery or performance; (ii) the actual date of performance or delivery of conforming Products; and (iii) the date of Vendor's invoice. Vendor waives all invoices not delivered to PetSmart within 180 days of such date. Unless the P.O. specifies otherwise, a damage allowance (deduction) of two percent (2.0%) for Products classified by PetSmart as "hard-goods," two and one-half percent (2.5%) for Products classified by PetSmart as "specialty," and one and one-half percent (1.5%) for Products classified by PetSmart as "Consumables" shall be applied to each P.O.

6. Excess, Installment, and Early Deliveries. If Vendor delivers more Products than PetSmart ordered, then, unless PetSmart agrees otherwise in writing, PetSmart will not have to pay for the excess. Unless PetSmart agrees otherwise in writing, Vendor will deliver all of the Products in a single delivery and not in installments. PetSmart's acceptance of a delivery containing less than the required quantity of Products will not relieve Vendor of its obligation to deliver the balance of the ordered Products at the price and on the other terms specified in the PO. If Vendor delivers the Products before the scheduled delivery date, PetSmart may, at Vendor's expense and risk, either store them or return them to Vendor. PetSmart's acceptance of an early delivery will not change the payment terms.

7. Representations and Warranties about Vendor. Vendor represents and warrants to PetSmart that (i) Vendor has all necessary experience, personnel, qualifications, expertise, authority, licenses and permits to enable it to perform its obligations under the Business Terms, (ii) the Business Terms are the valid and binding obligations of Vendor, enforceable against Vendor in accordance with their terms, (iii) Vendor is a solvent, going concern, and (iv) Vendor has not offered or given, will not offer or give, and will not solicit or accept, any gratuity or thing of value to or from any PetSmart employee, agent or representative.

8. Representations and Warranties about the Products. Vendor represents and warrants that the Products will: (a) comply with all applicable federal, state, provincial and local laws, rules and regulations or judicial or administrative orders, judgments or decrees governing the Products, including without limitation, their manufacture, packaging, pricing, labeling, sale, use, transportation, importation or exportation, including, without limitation, California's Proposition 65 and other similar laws, rules, regulations, standards, orders and directives, and the Fair Labor Standards Act of 1938 and the Occupational Safety and Health Act of 1970, as amended; (b) be free from defects in design, workmanship, materials and hazards to life, animal or property; (c) conform to any warranty, description, sample, data, drawing, representation, specification or documentation provided to PetSmart or set forth in the PetSmart Documents; (d) be suitable and fit for their intended purpose; (e) not infringe or encroach upon any other party's personal, contractual or property rights, including without limitation, patents, trademarks, trade names, copyrights, rights of privacy, trade secrets and/or other intellectual property rights. Further, Vendor represents and warrants that it is not subject to or bound by any agreement that will or may be violated by the provision of the Products as provided in the applicable PO. In addition to the representations and warranties herein, Vendor assigns to PetSmart any manufacturer's indemnities and warranties (both express and implied). Upon PetSmart's request, Vendor will give PetSmart certificates of compliance with applicable laws, rules, regulations, standards, orders or directives. Vendor's warranties extend to future performance under a PO with respect to the Products and will survive inspection, tests, acceptance, and payment. Vendor will adhere to PetSmart's Supplier Code of Conduct in connection with Product delivery or performance under a PO, which Supplier Code of Conduct is available at www.petsmart.com/compliance.

9. Changes. Notwithstanding Section 2 herein, PetSmart may at any time, by written notice to Vendor, change the PO as to (i) designs or drawings of, or specifications for, the Products, (ii) time or place of delivery or performance, (iii) method of packing or shipment, or (iv) the quantity or extent of the Products. If this causes a change in Vendor's cost or time of performance, PetSmart will consider an equitable adjustment in the price or time for delivery or performance, or both, if Vendor gives PetSmart a written request justifying an adjustment within 20 days after PetSmart notifies Vendor of the change. If an adjustment is not agreed upon, PetSmart may withdraw the change to the PO or Vendor may decline to provide the Products subject to the change.

10. PetSmart's Rights. Without limiting other rights and remedies available to it, PetSmart may, at its option, (i) return nonconforming Products to Vendor, at Vendor's risk and expense, and require Vendor either to give PetSmart full credit against the price, or promptly to repair or replace the Products at Vendor's risk and expense; (ii) retain the Products and set off losses against any amount due Vendor; or (iii) repair or replace the Products and charge Vendor with the expense. In addition to PetSmart's rights set out in the Business Terms, PetSmart has all of the other rights and remedies that the law gives to buyers, including the right to recover incidental and consequential damages resulting from any breach by Vendor. PetSmart will not lose any right just because it does not exercise it. PetSmart will have the full statutory period of limitations to bring any action arising out of PetSmart's agreement with Vendor. A reasonable time for PetSmart to notify Vendor of any breach is not less than two years from when PetSmart discovers the breach.

11. Work on Premises. If the PO includes the performance of services or delivery or installation of Products by Vendor, and involves operations by Vendor's employees or subcontractors on PetSmart's premises or the premises of a PetSmart customer, Vendor will: (i) at all times enforce strict discipline and maintain good order among all persons engaged in the activity on such premises and will cause Vendor's employees and subcontractors to comply with all fire prevention and safety rules and regulations in force at the premises and required by law; (ii) keep such premises free from accumulation of waste materials and rubbish caused by its employees or subcontractors and upon completion promptly remove all of Vendor's equipment and surplus materials; and (iii) reimburse PetSmart for all reasonable costs and expenses incurred by PetSmart for repairs completed by PetSmart or its designee if Vendor damages any equipment or property of PetSmart or its customer, or causes any damage to any portion of PetSmart's or its customers' premises, either during or resulting from the delivery or performance of the Products by Vendor. Under no circumstances will Vendor conduct or permit any hazardous activity or handling any hazardous materials at PetSmart's or its customers' premises without first coordinating the details of such activity or handling with PetSmart.

12. Services. If the PO includes the performance of services, (i) Vendor is an independent contractor, and neither Vendor nor any of Vendor's employees or agents will be considered agents or employees of PetSmart; and (ii) Vendor will furnish, at Vendor's expense, all labor, materials, equipment, transportation, facilities and other items necessary to perform such services. Vendor represents and warrants that any of its employees or agents (including subcontractors) deployed in performing any such services will at all times be lawfully engaged under applicable US immigration laws and regulations.

13. Ownership of Work. For purposes of this Agreement, "Works" shall mean any and all original creations, designs, materials, product developments, artwork, graphic designs, sketches, programs, code, software, specifications, drafts, advice, ideas, suggestions and any other pertinent data, including any derivatives thereof, in whatever form or media, prepared, made, expressed, developed, solely or jointly with others, in connection with Vendor's services performed for PetSmart. Vendor and its licensors will retain ownership of all works developed or acquired by Vendor prior to the Effective Date or developed independently of any agreement with PetSmart, together with all related Intellectual Property Rights ("Vendors' Works"), and no right or license, implied or otherwise, is granted to PetSmart with respect to any of Vendor's Works, provided however, Vendor grants PetSmart a license to any and all Vendors' Works embedded in or required for PetSmart's full use and enjoyment of the Products. Vendor agrees that all Works shall be solely owned by PetSmart. Vendor agrees that the aforementioned Works are works made for hire, under the federal Copyright Act of 1976, as amended, and all intellectual property rights shall vest in and be owned by PetSmart. Vendor irrevocably and exclusively assigns all rights, title and interest in the Works to PetSmart. Vendor hereby gives, transfers and assigns to PetSmart all right, title and interest, together with the goodwill, if any, associated therewith, in the Works not otherwise owned by PetSmart (as a work for hire or otherwise), effective as of the moment such Works are created, including all rights in the nature of patent, trademark, trade secret, or other intellectual property or proprietary rights and all rights of Vendor under copyright, whether such Works were generated solely by Vendor, or jointly with PetSmart. Vendor agrees to execute and deliver such additional documents and take such additional reasonable actions as PetSmart deems necessary to perfect or evidence PetSmart's ownership of the Works or to enable PetSmart to record this Agreement and/or secure rights of trademark, copyright and/or letters patent in its name.

14. Customs-Trade Partnership Against Terrorism. PetSmart participates in the US Customs-Trade Partnership Against Terrorism (C-TPAT) and is committed to engaging providers, vendors and consultants who have policies and procedures ensuring supply chain security. PetSmart requires that all its providers, vendors and consultants make reasonable efforts to have a security program that is in accordance with C-TPAT's minimum security requirements.

15. Indemnity. Vendor will indemnify, defend and hold harmless PetSmart, its directors, officers, employees, shareholders, agents, subsidiaries, affiliates and representatives ("Indemnitees") from and against any and all threatened or actual claims, losses, liabilities, damages, costs or expenses (including attorneys' and experts, fees and costs through all appeals) of any nature whatsoever and whether arising prior to, or after the commencement or termination of the Business Terms ("Losses"), arising out of or related to: (a) the Products, including, but not limited to, their manufacturing, packaging, pricing, labeling, sale or use, or any infringement by the Products of third-party intellectual property rights; (b) Vendor's breach of any provision of any of the PetSmart Documents; (c) any claim or threatened claim for personal injury, death or property damage or loss of any nature whatsoever arising from or related to any Product; (d) Vendor's violation of any applicable laws or regulations; or (e) any breach by Vendor of any of its obligations or warranties in favor of PetSmart. Vendor will defend, at its sole cost and expense, the Indemnitees in any action or proceeding arising out of any such Losses by counsel reasonably acceptable to Indemnitees and will promptly pay all costs and expenses arising in connection with such defense including attorneys' fees and expert witnesses' fees through all appeals.

16. Insurance. Vendor will maintain, at its sole cost and expense, during the term of the Business Terms and for at least five years thereafter (or if no such term is specified for at least three years after the date of the PO), the following types and amounts of insurance, with insurers with an A.M. Best rating of at least A- (Excellent), FSC VII, and authorized to conduct business in the United States and Canada:

(a) a commercial general liability insurance policy with full limits, achieved either by primary or excess/umbrella insurance, for bodily injury and property damage for not less than Two Million Dollars ($2,000,000.00 USD) per occurrence, with an aggregate limit of Four Million Dollars ($4,000,000.00 USD), such policies to include products liability and contractual liability;
(b) an automobile liability policy with limits not less than $3,000,000 combined single limit;
(c) workers' compensation insurance in the benefit amounts required by applicable law and an employer's liability policy with limits not less than $1,000,000 per accident or occurrence; and
(d) if services are provided under the PO or in connection with goods sold under a PO, a professional liability or errors and omissions policy with limits not less than $2,000,000 per occurrence and $5,000,000 aggregate.

Notwithstanding the foregoing, PetSmart may require Vendor to acquire additional or different insurance types or coverage amounts to the extent commercially reasonable in order to protect both PetSmart and Vendor from any and all claims and liabilities arising from or related to the PO and the goods or services provided under a PO. Such polices shall be issued by insurers that are reasonably satisfactory to PetSmart. Vendor's policies will provide a waiver of subrogation in favor of PetSmart. Upon PetSmart's written request, Vendor will name PetSmart as an additional insured on the policies on a primary and noncontributory basis. Vendor's policies will provide a waiver of subrogation in favor of PetSmart. Within 10 days after such request, Vendor will provide PetSmart with certificates of insurance for the policies required hereunder and send such certificates to certificates@petsmart.com. The insurance coverage provided for herein will not act to limit Vendor's liability under the Business Terms.

17. Confidentiality. As a result of its dealings with PetSmart, Vendor may have access to PetSmart's Confidential Information. "Confidential Information" is non-public information that, by its nature, ought to be treated as proprietary and confidential or that a reasonable person would conclude is confidential, which is disclosed by PetSmart, or its subcontractors or agents, to Vendor, orally, electronically or in tangible form. Vendor will not, without the written consent of PetSmart, its successors or assignees, disclose any Confidential Information to any person, firm, corporation, or other entity for any purpose whatsoever or use such information for any purpose not provided for in the PetSmart Documents, for a period of two years after it is disclosed. If there is a breach of this Section (either actual or threatened) by Vendor, PetSmart's remedies at law will be inadequate. Therefore PetSmart will have the right of specific performance or injunctive relief, or both, in addition to any and all other remedies and rights at law or in equity, and PetSmart's rights and remedies will be cumulative.

18. Publicity/Use of PetSmart Name. Vendor will acquire no right to use, and will not use, the name "PetSmart" (either alone or in conjunction with or as part of any other word or name) or any other name, mark, logo, design, product designations or other intellectual property of PetSmart or any of its related, affiliated or subsidiary companies: (i) in any advertising, publicity or promotion; (ii) to express or to imply any endorsement by PetSmart of Vendor's products, services or business; or (iii) in any other manner whatsoever (whether or not similar to uses prohibited by [i] and [ii] above) without PetSmart's express prior written consent, which may be withheld in its sole discretion. The terms of this paragraph will survive the expiration or termination of the Business Terms.

19. Remedies; Set-Off. In addition to the rights and remedies provided in the Business Terms, each party has all of the rights and remedies available to it under the Uniform Commercial Code as adopted in the State of Arizona; provided, however, that Vendor waives against PetSmart all rights to claim or collect punitive or exemplary, indirect, incidental, special or consequential damages, lost profits or loss of opportunity damages. The exercise of any rights or remedy provided for in the Business Terms will be without prejudice to the right of PetSmart to exercise any other right or remedy provided in the Business Terms or at law or in equity. All payments to be made by PetSmart to Vendor pursuant to the Business Terms are subject to set-off, deduction or offset by PetSmart of all sums due and owing PetSmart by Vendor.

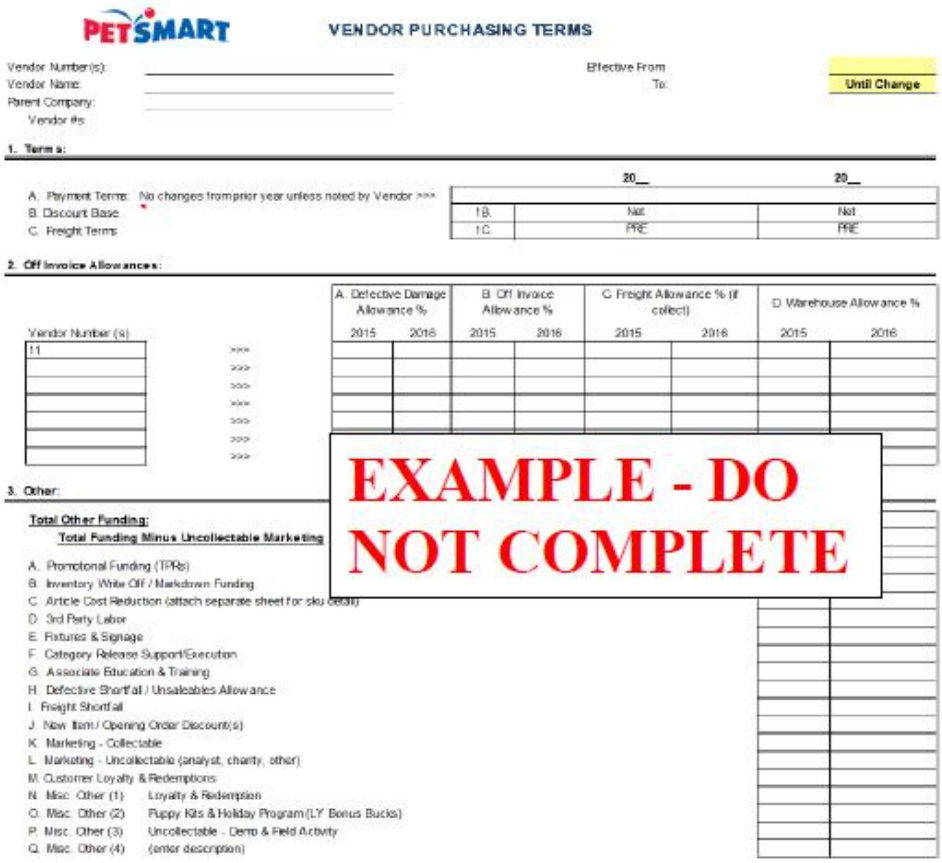
20. Governing Law/Venue/Jury Trial Waiver. The PetSmart Documents will be governed and construed in accordance with the laws of the State of Arizona without regard to principles of conflicts of laws. In any action or proceeding between any of the parties arising out of or relating to the PetSmart Documents (or any of the transactions contemplated thereby), each of the parties: (a) irrevocably and unconditionally consents and submits to the exclusive jurisdiction and venue of the state and federal courts located in Maricopa County, Arizona; and (b) agrees that all claims in respect of such action or proceeding will be exclusively heard by such courts. **EACH PARTY HEREBY WAIVES, IRREVOCABLY AND UNCONDITIONALLY, ANY RIGHT TO TRIAL BY JURY REGARDING ANY SUCH CLAIM.**

21. Data Security. (a) Vendor will comply with all applicable laws, regulations, and codes of practice in connection with the collection, processing, use and storage of data provided by PetSmart or PetSmart affiliates, customers, donors, vendors, or other third parties providing data to Vendor under the Business Terms (collectively, "PetSmart Data"). Vendor will implement and maintain reasonable physical, technical and organizational measures and safeguards in order to preserve the security and confidentiality of PetSmart Data against unlawful or unauthorized destruction, processing, disclosure, processing or access to, or accidental damage or loss of PetSmart Data. Without limiting the generality of the foregoing, where appropriate, and in accordance with industry standards and best practices, Vendor will implement and/or use network management and maintenance applications and tools, and fraud prevention, intrusion detection, and encryption technologies. At a minimum, all PetSmart data will be encrypted while in transit and will be transmitted using a secure transfer method (e.g. SFTP). PetSmart has the right to request an SSAE 16 SOC 2 service auditor's report, if applicable, at any time during performance under a PO or the term of an Agreement.

(b) If Vendor or any third party assisting Vendor (i) deliberately or inadvertently collects, uses, or discloses PetSmart Data in breach of this Section, or (ii) discovers, is notified of, or has reasonable awareness that an unauthorized access, acquisition, theft, disclosure or use of PetSmart Data has occurred or is likely to occur (each such event, an "Information Security Breach"), then Vendor will immediately notify PetSmart of such Information Security Breach and, at its own expense, investigate, remediate, and mitigate the effects of the Information Security Breach.

(c) Upon either the written request of PetSmart, at its discretion, or the expiration or termination of the Business Terms, Vendor will render unreadable or return to PetSmart, or any third party designated by PetSmart, within fifteen (15) business days, all copies, duplicates, summaries, abstracts or other representations of any PetSmart Data, without charge to PetSmart. For electronic media, "render unreadable" could include, but is not limited to, degaussing or using a FIPS compliant military-grade wipe program, and for hard-copy material "render unreadable" could include, but is not limited to, cross-cut shredding or incineration.

EXHIBIT C
COMMERCIAL TERMS



PETSMART

VENDOR PURCHASING TERMS

Vendor Number(s):
Vendor Name:
Parent Company:
Vendor #s

Effective From
To: Until Change

1. Terms:

		20__	20__
A. Payment Terms: No changes from prior year unless noted by Vendor >>>			
B. Discount Base	1B.	Net	Net
C. Freight Terms	1C.	PRE	PRE

2. Off Invoice Allowances:

Vendor Number (s)		A. Defective Damage Allowance % 2015	A. Defective Damage Allowance % 2016	B. Off Invoice Allowance % 2015	B. Off Invoice Allowance % 2016	C. Freight Allowance % (if collect) 2015	C. Freight Allowance % (if collect) 2016	D. Warehouse Allowance % 2015	D. Warehouse Allowance % 2016
11	>>>								
	>>>								
	>>>								
	>>>								
	>>>								
	>>>								
	>>>								

EXAMPLE - DO NOT COMPLETE

3. Other:

Total Other Funding:
Total Funding Minus Uncollectable Marketing

A. Promotional Funding (TPRs)			
B. Inventory Write Off / Markdown Funding			
C. Article Cost Reduction (attach separate sheet for sku detail)			
D. 3rd Party Labor			
E. Fixtures & Signage			
F. Category Release Support/Execution			
G. Associate Education & Training			
H. Defective Shortfall / Unsaleables Allowance			
I. Freight Shortfall			
J. New Item / Opening Order Discount(s)			
K. Marketing - Collectable			
L. Marketing - Uncollectable (analyst, charity, other)			
M. Customer Loyalty & Redemptions:			
N. Misc. Other (1)	Loyalty & Redemption		
O. Misc. Other (2)	Puppy Kits & Holiday Program (LY Bonus Bucks)		
P. Misc. Other (3)	Uncollectable - Demo & Field Activity		
Q. Misc. Other (4)	(enter description)		

Exhibit 10.33

Execution Copy

D I S T R I B U T I O N A G R E E M E N T

between

G. Pohl-Boskamp GmbH & Co. KG
Kieler Strasse 11
25551 Hohenlockstedt
Germany

- Hereinafter referred to as "**Pohl-Boskamp**"-

and

IntraDerm Pharmaceuticals,
A Division of Oculus Innovative Sciences, Inc.
1129 North McDowell Blvd.
Petaluma, California 94954
United States of America

- Hereinafter referred to as "**IntraDerm** " –

- Pohl-Boskamp and IntraDerm referred to as "**Party**"-

Preamble

Subject to the terms and conditions of this Distribution Agreement (the "**Agreement**"), Pohl-Boskamp intends to appoint a new distributor for the Territory as defined in § 3 hereinafter.

IntraDerm is willing to become a distributor for Pohl-Boskamp, like both Parties have stipulated already in the corresponding Term sheet from 12th November, resp. 2nd December 2015.

Now, therefore, the Parties agree upon the following terms and conditions:

§ 1

Object of the Agreement

1.1 Pohl-Boskamp hereby appoints IntraDerm, and IntraDerm hereby accepts the appointment, as Pohl-Boskamp´s exclusive distributor to import, register, label, promote, market, offer for sale, sell and otherwise distribute the Products as defined in § 2 in the Territory as defined in § 3. IntraDerm shall not actively market the Products anywhere elsewhere than in the Territory.

1.2 IntraDerm shall seek to secure one or more Marketing Authorisations and/or register new products in the Territory for use as provided under this Agreement. IntraDerm agrees to buy the Products which are destined for distribution in the Territory exclusively and directly from Pohl-Boskamp on the terms and subject to the conditions set forth herein.

1.3 Pohl-Boskamp shall label and supply and IntraDerm shall import and buy the Products as defined in § 2 in its own name and for its own account. IntraDerm shall sell such Products in the Territory, subject to obtaining appropriate Marketing Authorisation. IntraDerm acknowledges that it has no authority to act for or on behalf of Pohl-Boskamp unless specifically set forth in this Agreement or certified separately in written form.

1.4 IntraDerm is not entitled to entrust third parties with any rights or claims deriving from this Agreement without obtaining the prior written consent of Pohl-Boskamp. An affiliate of IntraDerm is not regarded as a third party. Affiliate means any corporation or other business entity controlling, controlled by or under common control with IntraDerm. Control for this purpose shall mean the direct or indirect ownership of at least fifty percent of the voting interest in such corporation or entity.

1.5 As an independent contractor, IntraDerm shall incur all expenses and costs related to the fulfilment of this Agreement, in particular regarding the registration, marketing, promotion and distribution of the Product under this Agreement – such as but not limited to – its office overhead costs, travel expenses, telephone, facsimile, sales promotion and advertising costs. Pohl-Boskamp shall not be responsible for such expenses unless otherwise agreed to by the Parties in writing.

1.6 During the term of this Agreement, Pohl-Boskamp agrees to not distribute the Products, directly or indirectly, in the Territory either by actively approaching customers directly, by appointing any third party to distribute the Products in the Territory, or otherwise, unless otherwise agreed to by Pohl-Boskamp and IntraDerm in writing or otherwise agreed in this Agreement. Pohl-Boskamp agrees to forward to IntraDerm all inquiries for Products from the Territory or for delivery in the Territory. Except as expressly provided in this Agreement, no right, title or interest is granted by Pohl-Boskamp to IntraDerm.

1.7 Notwithstanding the provisions of § 1.1 hereof, in order to maintain the exclusivity granted in § 1.1 above, IntraDerm shall achieve at least [ ]†% of the projected sales targets set forth on ANNEX III (the "**Annual Minimum Purchase Requirements**"). However, if IntraDerm fails to achieve the Annual Minimum Purchase Requirement during any calendar year and does not purchase the outstanding quantity of Products by the end of the following calendar year, Pohl-Boskamp shall have the right by providing written notice to IntraDerm to convert the exclusive distribution right granted in § 1.1 into a non-exclusive right and shall have the right itself, through Affiliates or by appointing one or more third parties, to import, promote, market, offer for sale or otherwise distribute the Products in the Territory.

§ 2
Products

The term "Products" refers to all products (whether finished or bulk) listed in **ANNEX I** ("**Products**") as presently manufactured and sold by Pohl-Boskamp, or as improved as provided in this § 2. Changes to ANNEX I are subject to a written agreement between the Parties. Products added to ANNEX I will become "Products" within the meaning of this Agreement and will be covered by this Agreement.

The Parties recognize that Pohl-Boskamp has an interest in improving its products in order to provide to its customers the most advanced devices. In the event that, during the term of this Agreement Pohl-Boskamp develops improvements to the Products that are incremental and do not form the basis of a new product, such improvements will be included in the Products, as long as the change does not adversely affect the Marketing Authorisation. In the event that, during the term of this Agreement, Pohl-Boskamp develops or has the right to market, an improvement such as an additional indication and/or a change of the formulation of any Product that is suitable for the Territory (hereinafter, the "**Improvement**"), and Pohl-Boskamp intends to exploit the Improvement in the Territory, for each such Improvement IntraDerm shall have the right of first refusal for a period of [ ]† days in case Pohl-Boskamp would wish to name a separate distributor. The Parties agree to negotiate in good faith commercially reasonable terms for distribution by IntraDerm of the new product that is subject of any such Improvement. For the purpose of this Agreement, any product that has the same active ingredient as a Product, or is intended for the same or substantially the same purpose or use as any Product listed on or contemplated by ANNEX I shall be deemed an Improvement.

† Confidential material redacted and separately filed with the Commission.

§ 3

Territory

The "**Territory**" is the geographical area listed in **ANNEX II**.

§ 4

Duties of IntraDerm / Representations of IntraDerm

4.1 IntraDerm shall exert commercially diligent efforts to register, promote, market, distribute and sell the Products in the Territory.

4.2 IntraDerm shall pay Pohl-Boskamp a royalty within [ ]† days following the end of each calendar month, based on Net Sales of all Products for which payment was received by IntraDerm in such previous calendar month, at the rates specified on ANNEX I.

4.3 IntraDerm further undertakes:

a) to maintain at all times a sales organisation including, a sufficient number of qualified personnel (employees or contractors) in the reasonable, good faith determination of IntraDerm, within the Territory in order to perform its obligations under this Agreement;

b) to always have quantities of the Products in stock or confirmed orders sufficient to cover a period of [ ]† months of foreseeable sales to meet the requirements of the market in the Territory;

c) to report to Pohl-Boskamp on a monthly basis its total stocks, turn-over figures, unit sales and sample movements as well as any significant issues that have an impact on the market for the Product in the Territory, especially with regard to competitive products and the price structure for Products in the Territory and any changes thereof. Monthly reports have to reach Pohl-Boskamp by the tenth (10^{th}) day of each following month;

d) to take the appropriate advertising and public relation measures as specified in § 9 below;

e) to use commercially reasonable efforts to buy from Pohl-Boskamp the Annual Minimum Purchase Requirements of Products;

f) to inform Pohl-Boskamp in writing as soon as possible about any substantial operational changes in personnel, management, ownership, and legal structure of IntraDerm;

† Confidential material redacted and separately filed with the Commission.

g) to sell the Products with the labelling agreed to by the Parties in the original packaging and/or presentation and not to modify the original presentations except in exceptional cases and then only with the prior written consent of Pohl-Boskamp in writing.

h) to provide Pohl-Boskamp within thirty (30) days after receipt by IntraDerm of the initial Marketing Authorisation Sales Targets (as defined on **ANNEX III**) for the Products for each Contract Year (as defined on **ANNEX III**) during the Initial Term, and within thirty (30) days prior to the end of Contract Year 5 (as defined on **ANNEX III**) and each Contract Year thereafter, to provide Pohl-Boskamp with target sales projections for the following Contract Year. IntraDerm's initial Sales Targets are set forth on **ANNEX III**. The Parties further agree that the wording of the SebDerm Claim will have a material impact on the marketability of the Product. IntraDerm shall update such Sales Targets after it obtains the 510k clearance for the SebDerm Claim (as defined on **ANNEX III**), and such Sales Targets and Minimum Purchase Requirements, as modified, shall be binding on the Parties.

i) about the laws and regulations applicable to the Products in the Territory which may affect Pohl-Boskamp in the fulfilment of its obligations under this Agreement (such as but not limited to statutory requirements regarding labelling of the Products, etc.).

4.4 During the term of this Agreement IntraDerm is not allowed to

a) produce, promote, distribute, sell or market in the Territory – either directly nor indirectly – products which have the same ingredients and indications as the Products, except for the products listed under § 5.1; and/or

b) actively solicit customers from outside the Territory to establish and/or maintain offices, branches and/or storage depots for the Products outside the Territory.

4.5 Upon termination of this Agreement, Pohl-Boskamp is, at the request of IntraDerm, obliged to buy any remaining stock of the Products from IntraDerm within [ ]† days after termination. However, upon request of Pohl-Boskamp, IntraDerm must resell any remaining stock of the Products to Pohl-Boskamp, or any third party named by Pohl-Boskamp at the price for which IntraDerm had initially bought the Products from Pohl-Boskamp. Pohl-Boskamp shall pay the shipping costs of the remaining stock of the Products.

† Confidential material redacted and separately filed with the Commission.

4.6 IntraDerm represents that it adheres to and employs all applicable European GDP guideline standards for the wholesale distribution of medicinal products for human use and that it retains valid certifications and/or licenses to distribute the Products listed in ANNEX I of this Agreement, other than the Marketing Authorisation. Upon Pohl-Boskamp's request, IntraDerm shall provide copies of such certification to Pohl-Boskamp in a timely manner.

4.7 IntraDerm further represents and warrants to Pohl-Boskamp that: (i) it has the full right, power, and authority to enter into this Agreement; and (ii) no consent of any third parties is required for IntraDerm to enter into this Agreement or (except for the Marketing Authorisation) perform its obligations hereunder.

4.8 IntraDerm shall indemnify and hold harmless Pohl-Boskamp, its Affiliates and their respective officers, directors, agents, successors and assigns against all suits, liabilities, losses, claims, damages, costs and expenses (including reasonable legal fees and costs) incurred by them resulting from or arising out of: (i) any material breach by IntraDerm of its obligations under this Agreement, including, without limitation, the obligations of § 9.3; (ii) any grossly negligent, wilful or unlawful act or omission of IntraDerm; and (iii) any injury or death of any person, directly arising from damages alleged to arise from the storage, labelling, sale or distribution of the Products in the Territory.

§ 5
Distribution of Other Products

5.1 At the time of signing this Agreement, IntraDerm produces, promotes, markets, distributes and/or sells the following products which are directly competitive with the Products and which contain the following active ingredient(s):

NONE

Without limiting the generality of the foregoing, a product will be deemed to be directly competitive with a Product if it is intended for the same, or substantially the same purpose or use as any of the Products.

5.2 Further exemptions from the regulation in § 4.4 of this Agreement are only admissible if Pohl-Boskamp gives its consent, in writing, prior to the commencement of the production, promotion, marketing, distribution and/or sale of products which are competitive to the Products.

§ 6

Purchase of Products / Obligations and Representations of Pohl-Boskamp

6.1 IntraDerm agrees to purchase the Products on the terms and subject to the conditions of Pohl-Boskamp's General Terms and Conditions of Trade unless they are modified by this Agreement. Pohl-Boskamp's current 'General Terms and Condition of Trade' are attached hereto as ANNEX IV. Pohl-Boskamp has the right to unilaterally change its 'General Terms and Conditions of Trade', provided, however, that any such change shall not modify the terms and conditions of this Agreement without the prior written consent of IntraDerm. Pohl-Boskamp will notify IntraDerm of any changes to the General Terms and Conditions of Trade in writing, and the new 'General Terms and Conditions of Trade' will become effective three (3) months after the initial notification from Pohl-Boskamp. In case any provision of this Agreement conflicts with or provides obligations in addition to any of the provisions of the 'General Terms and Conditions of Trade,' the provisions of this Agreement shall control.

6.2 IntraDerm shall submit written purchase orders to Pohl-Boskamp for the Products. Each purchase order shall include (i) the Product ordered; (ii) quantity, (iii) relevant price, as set forth on ANNEX I, (iv) requested delivery date, and (v) shipping instructions and shipping address. Any preprinted terms and conditions on either IntraDerm's purchase order or Pohl-Boskamp's order acknowledgement and/or invoice that are inconsistent with the terms and conditions of this Agreement shall have no force or effect, and the terms of this Agreement shall govern.

6.3 The purchase price for the Products are listed in ANNEX I. Pohl-Boskamp shall have the right to increase the purchase price for Products one time each year beginning on the one- year anniversary of the First Commercial Sale; provided, however, that no purchase price increase shall exceed [ ]†% of the purchase price effectively immediately prior to the increase.

6.4 The delivery terms for the Products are listed in **ANNEX I**

6.5 Under this Agreement, Pohl-Boskamp will exert best efforts to carry out IntraDerm's orders carefully and punctually. The scope of the orders and the delivery date are only binding for Pohl-Boskamp upon written confirmation by Pohl-Boskamp. Should Pohl-Boskamp not be able to execute a confirmed order in time, it will notify IntraDerm immediately. Pohl-Boskamp shall pack all Products in accordance with Pohl-Boskamp's standard packing procedure, cGMP(s) and any other applicable laws, regulations and ordinances.

6.6 Pohl-Boskamp shall label the Products using the Product Trademark specified on Annex I and under a labelling using IntraDerm / OCULUS branding, which labelling is mutually acceptable to Pohl-Boskamp and IntraDerm and compliant with the requirements of the Marketing Authorisation and Health Authorities.

† Confidential material redacted and separately filed with the Commission.

6.7 Pohl-Boskamp shall invoice IntraDerm upon shipment of each purchase order to IntraDerm. IntraDerm shall pay all amounts due to Pohl-Boskamp by wire transfer, and payment shall be made within thirty (30) days from the date of the relevant invoice.

6.8 IntraDerm determines its sales price for the Products within the Territory at its own discretion. Pohl-Boskamp, however, will give a non-binding recommendation on the sales price for the Products which will be discussed with IntraDerm. IntraDerm undertakes to notify Pohl-Boskamp of its sales prices and to provide Pohl-Boskamp with a corresponding price list if its sales prices are changed.

6.9 Any claim of IntraDerm concerning Pohl-Boskamp's deliveries of the Products shall be considered by Pohl-Boskamp only if Pohl-Boskamp receives such claim by registered mail, facsimile with confirmed letter or courier service within thirty (30) days after IntraDerm received the Products or within thirty (30) days after discovery of any hidden defects of the Products.

6.10 Based on the sales forecast figures provided by IntraDerm as stipulated in § 4.2 h, Pohl-Boskamp warrants to have packaging material in stock.

6.11 Pohl-Boskamp represents and warrants to IntraDerm that: (i) it is the owner of the Intellectual Property and that it has the right to grant the licenses and rights granted to IntraDerm pursuant to this Agreement; (ii) it has the full right, power, and authority to enter into this Agreement and there is nothing that will prevent it from performing its obligations under this Agreement; (iii) no consent of any third party is required for Pohl-Boskamp to enter into this Agreement or perform its obligations hereunder; (iv) the Products will, under normal use and conditions, substantially conform to the applicable Product specifications for a period in conformity with the applicable Product label claims regarding shelf-life and that the Product has been manufactured in accordance and compliance with current Good Manufacturing Practices and all applicable laws and regulations; (v) the Products supplied to IntraDerm shall at all times conform to the specifications set forth in the Marketing Authorisation; (vi) use of the Intellectual Property as delivered to IntraDerm does not infringe any patent, trademark, copyright or other intellectual property rights of any third party or misappropriate any trade secret or other proprietary right of any third party; (vii) it is not a party to any outstanding assignments, licenses, encumbrances, or other obligations that preclude or are inconsistent with this Agreement, specifically including, but not limited to, any geographic or market segment restrictions on the distribution of the Products and the Intellectual Property incorporated therein; (viii) no claims or suits are pending or threatened against Pohl-Boskamp or any other party with respect to all or part of the Intellectual Property.

6.12 Pohl-Boskamp shall indemnify and hold harmless IntraDerm, its Affiliates and their respective officers, directors, agents, successors and assigns against all suits, liabilities, losses, claims, damages, costs and expenses (including reasonable legal fees and costs) incurred by them resulting from or arising out of: (i) any negligence in the manufacture of the Products; (ii) any breach by Pohl-Boskamp of its obligations under this Agreement; any grossly negligent, wilful or unlawful act or omission of Pohl-Boskamp; or (iii) any injury or death of any person, directly arising from damages alleged to arise from the quality and manufacture of the products.

§ 7
Marketing Authorisation

7.1 For the term of this Agreement, Pohl-Boskamp grants to IntraDerm the right to utilise Pohl-Boskamp's Marketing Authorisations (as defined below) for the Medical Devices in the Territory for the fulfilment of IntraDerm's obligations under this Agreement. For purposes of this Agreement, "**Marketing Authorisations**" means the health registrations, as well as any other governmental approvals and/or official sales permissions, licenses and market authorisation in IntraDerm's or Pohl-Boskamp's name, which are required for the import, labelling, distribution, promotion, marketing, offering for sale, and sale of the Products in the Territory.

7.2 IntraDerm agrees to assist Pohl-Boskamp in securing one or more Marketing Authorisations and/or registering new products in the Territory, including, initially, a Marketing Authorisation for a Product claim for seborrheic dermatitis, and, thereafter, a Marketing Authorisation for a Product claim for psoriasis. IntraDerm shall give Pohl-Boskamp advice on the set of necessary Marketing Authorisation documents as required by the applicable laws in the Territory, and Pohl-Boskamp shall, for this purpose, provide to IntraDerm, free of charge, the required documents in English against receipt of such information from IntraDerm.

7.3 No later than thirty (30) days following the Effective Date of this Agreement, IntraDerm shall submit to Pohl-Boskamp for approval, which approval shall not be unreasonably withheld or delayed, a written plan detailing regulatory requirements, including, without limitation in respect to the content of the Marketing Authority application, dossiers, and estimated time frames for the regulatory approval and registration for the Product claim for seborrheic dermatitis in the Territory ("**Regulatory Plan**"). Pohl-Boskamp shall notify IntraDerm not later than thirty (30) days of any request for modification or clarification to the Regulatory Plan after Pohl-Boskamp receives the Regulatory Plan from IntraDerm and provide IntraDerm with consent to submit the application to the competent governmental or non governmental entity(ies) in the Territory ("**Health Authorities**"). IntraDerm shall take the steps reasonably necessary and use commercially reasonable efforts to secure and obtain from the Health Authorities, and thereafter to maintain the Marketing Authorisations for the Product in the name of IntraDerm in accordance with the local laws and regulations. Pohl-Boskamp will fully cooperate with IntraDerm in securing and maintaining the Marketing Authorisation for the Products in the Territory. If the Health Authorities issue a 510K clearance to IntraDerm for a Product claim for seborrheic dermatitis that in the good faith judgement of IntraDerm, is sufficiently broad to allow IntraDerm to market the Product in the Territory (the "**SebDerm Claim**"), IntraDerm shall seek to obtain a Marketing Authorisation for a Product claim for psoriasis.

7.4 In addition, IntraDerm undertakes to send a copy of all correspondence with the Health Authorities in the Territory regarding the Marketing Authorisations for the Medical Devices to Pohl-Boskamp, such as but not limited to approvals, renewals, changes in national texts (Summary of Product Characteristics (SmPC), labelling, Patient Information Leaflet (PIL)), requirements and all correspondence for maintenance procedure to keep the Marketing Authorisation(s) and defined deadlines by Health Authorities. This also includes the information and changes concerning officially registered contact persons (e.g. persons responsible for pharmacovigilance or scientific service), if required by applicable law. IntraDerm commits to promptly forward all this information to Pohl-Boskamp, so that Pohl-Boskamp is able to cope with transition periods and deadlines.

7.5 IntraDerm is obliged to keep itself informed at all times of the national laws concerning the application for and maintenance of the marketing authorisation(s) for the Medical Devices in the Territory in particular regarding the wording on the packaging in a local language as required by local laws of the Territory. IntraDerm shall promptly inform Pohl-Boskamp of any material change of the laws which may endanger the validity of the Marketing Authorisations. IntraDerm shall provide Pohl-Bokamp the relevant requirements and Pohl-Boskamp shall ensure compliance of the presentation of the Medical Devices, *e.g.* the packaging and labelling of the Products (SmPC, labelling, PIL), with the Marketing Authorisation and the legal requirements that are applicable in the Territory.

7.6 If any additional documentation such as, but not limited to, a clinical trial or any change of the Marketing Authorisation is required in order to obtain or maintain the Marketing Authorisation, IntraDerm shall not undertake any action without the express written consent of Pohl-Boskamp. Any necessary measures shall be carried out by IntraDerm only upon Pohl-Boskamp's approval. Pohl-Boskamp shall provide assistance free of charge. All other details will be agreed upon between the Parties separately in writing.

7.7 Upon termination of this Agreement, IntraDerm is obliged to return all documents in connection with the Marketing Authorisation for such Product to Pohl-Boskamp within 30 days by courier service at Pohl-Boskamp's expense, and to refund the Filing Fee to IntraDerm.

7.8 All formalities and steps required by the competent Health Authorities of the Territory in relation to the Medical Devices shall be effected by IntraDerm in the name of IntraDerm.

7.9 Subject to Pohl-Boskamp's refund of the Filing Fee to IntraDerm, IntraDerm hereby agrees irrevocably and unconditionally to surrender the Marketing Authorisation and the rights connected therewith as well as all documents and the dossier to Pohl-Boskamp immediately and unconditionally when the Agreement terminates.

7.10 IntraDerm shall pay the filing fee for the Marketing Authorisation. All costs incurred by IntraDerm in connection with the preparation, filing, maintenance and amendment to the Marketing Authorisation for Medical Devices, including the filing fees (the "**Filing Fee**") and out-of-pocket-expenses, shall be for the account of IntraDerm. Pohl-Boskamp shall reimburse IntraDerm for the Filing Fee upon expiration or termination of this Agreement.

7.11 IntraDerm shall arrange for the translation of all documents to/from the official language spoken in the Territory which are required for obtaining, maintaining or altering the Marketing Authorisation for the Medical Devices. IntraDerm affirms that it has no claim against Pohl-Boskamp for compensation or indemnity based on a fruitless registration attempt other than for the Filing Fees.

7.12 IntraDerm is not allowed to use any Marketing Authorisation documentation outside the Territory and inside the territory for other reasons as stipulated in this Agreement.

7.13 In the event that, due to unforeseen problems concerning the filing of the initial Marketing Authorisation (such as but not limited to costs, duration of application process, requests of Health Authorities, or failure to obtain clearance for a Satisfactory Claim (as defined below) prior to the one year anniversary of the Effective Date, IntraDerm is entitled to stop the process of pursuing the Marketing Authorisation for the SebDerm Claim. For purposes of this Agreement, a "**Satisfactory Claim**" is a claim that, in the reasonable judgment of IntraDerm, is sufficiently broad to support successful commercialization of the Product in the Territory.

7.14 Pohl-Boskamp and IntraDerm stipulate details concerning pharmacovigilance issues in a **Pharmacovigilance Agreement** as **ANNEX V** of this Agreement.

7.15 Pohl-Boskamp and IntraDerm shall comply with their respective quality and regulatory responsibilities as set forth in the **Quality Agreement** which the Parties will negotiate in good faith to conform to the Marketing Authorisation after receipt of such Marketing Authorisation.

§ 7a

Medical Device Regulations/Safety

7a.1 Pohl-Boskamp represents and warrants that those Products listed in **ANNEX I** that are medical devices are certified as medical devices pursuant to Council Directive 93/42/EEC, as modified to date.

7a.2 This § 7a applies only to Products which are medical devices pursuant to Council Directive 93/42/EEC ("**Medical Devices**").

7a.3 For the term of this Agreement, Pohl-Boskamp grants to IntraDerm the right to utilise in the Territory Pohl-Boskamp's product certifications for Medical Devices in accordance with the stipulations of this Agreement. Pohl-Boskamp undertakes to bear all cost and expenses associated with any product certification (*e.g.* declaration of conformity) in the Territory.

7a.4 IntraDerm is not allowed to use any certification or any documentation of the Products outside the Territory.

7a.5 IntraDerm shall promptly inform, in an appropriate reporting format to be specified in the Pharmacovigilance Agreement, which the Parties shall negotiate in good faith after receipt of each Regulatory Authorisation and which shall be attached hereto as **ANNEX V**, the Safety Officer for Medical Devices at Pohl-Boskamp by e-mail or fax about any incident and side effect as shall be defined in **ANNEX V** observed with the Products in the Territory during and beyond the Term of this Agreement for as long as IntraDerm is marketing the Products in the Territory and Pohl-Boskamp and IntraDerm are maintaining business contacts or until the end of the shelf-life of the Products depending on which deadline lasts longer. Pohl-Boskamp shall promptly inform IntraDerm by email or fax about any incident and side effect as shall be defined in ANNEX V observed with the Products outside the Territory during the Term of this Agreement. Further details shall be stipulated in **ANNEX V**.

7a.6 IntraDerm shall be responsible for: (i) the surveillance, receipt, evaluation, and reporting of the complaints related to the Products in the Territory as well as of reports on incidents and side effects as defined in applicable laws, ordinance and regulations in the Territory **ANNEX VI (Adverse Events)** connected with the Products in the Territory, and (ii) investigating the relevant customer complaints and reports on adverse effects with Medical Devices and on other information which is relevant for the safety of the Medical Devices in the Territory in compliance with applicable laws, ordinances and regulations in the Territory. After IntraDerm receives the SubDerm Claim from the FDA, and during the remainder of the Term of this Agreement, IntraDerm shall provide Pohl-Boskamp with any reports that it files with the governmental or regulatory authorities in the Territory that pertain to the Products. Pohl-Boskamp shall comply with the postmarket surveillance aspects of the EU Medical Device Directive described in ANNEX VI (Adverse Events) connected with the Products in the Territory. Pohl-Boskamp shall be responsible for revising the Medical Device's labelling for use in the Territory.

7a.7 Pohl-Boskamp is obliged and hereby covenants to fulfil all necessary measures to allow IntraDerm to comply with all local obligations for reporting adverse events or other aspects regarding the Medical Devices in the Territory. IntraDerm will keep Pohl-Boskamp informed and updated on all reporting that has been made by IntraDerm in the Territory.

7a.8 If, in case of a severe product defect or adverse event - a recall is considered, the Parties will consult one another whereas Pohl-Boskamp retains the right to finally decide on a potential voluntary recall or withdrawal. To the extent that (i) any Health Authority issues an order or directive that a Product be recalled or withdrawn in the Territory, or (ii) a court of competent jurisdiction orders a recall or withdrawal of a Product in the Territory, the Parties shall recall or withdraw such Product as provided in this § 7a. Pohl-Boskamp will assist IntraDerm in conducting the recall in the Territory. To that end, IntraDerm is obliged to keep itself acquainted with the national laws concerning a recall of Medical Devices in the Territory (such as but not limited to time limits, forms, notice to competent authorities, wholesalers, pharmacies, logistic partners).

7a.9 All out of pocket expenses (including costs of refunded sales) for the execution of any recall or withdrawal of such Product ("**Recall Costs**") pursuant to this § 7a shall be shared equally between the Parties; *provided*, that in the case of any voluntary recall or withdrawal determined by IntraDerm pursuant to subclause (ii) of § 7a.8, Pohl-Boskamp shall initially bear the entire expense of such recall or withdrawal; *provided further* that, in each case, responsibility of the Recall Costs shall be subject to the final allocation between the Parties as set out in paragraphs (i) and (ii) below. In the event that it is finally determined, or agreed between the Parties, that such recall or withdrawal is caused by:

(i) breach of Pohl-Boskamp's representations, warranties and covenants set forth in this Agreement, or the gross negligence or wilful misconduct of Pohl-Boskamp or those acting under the authority of Pohl-Boskamp, or the failure of Pohl-Boskamp or those acting under the authority of Pohl-Boskamp to comply with applicable laws, Pohl-Boskamp shall be responsible for Recall Costs; and

(ii) failure of IntraDerm to properly handle, store, transport, or distribute or use Product, as applicable, supplied by Pohl-Boskamp, or the gross negligence or wilful misconduct of IntraDerm or those acting under the authority of IntraDerm, or the failure of IntraDerm or those acting under the authority of IntraDerm to comply with applicable laws, IntraDerm shall be responsible for Recall Costs; and

In all other cases, fifty percent (50%) of the Recall Costs shall be borne by Pohl-Boskamp and fifty percent (50)% of the Recall Costs shall be borne by IntraDerm.

§ 8

Scientific Use of Products

8.1 If IntraDerm learns that a Product is used for scientific studies in the Territory which are or might be intended for publication, IntraDerm undertakes to get in touch and, to the extent reasonably practicable, and keep in touch with the respective scientists and to seek to coordinate the study with Pohl-Boskamp, especially in the stages of protocol planning and of formulating the study results before the actual publication. This duty extends to all scientific studies in which the Products are involved, i.e. regardless of whether Products may be involved alone or in conjunction with other drugs or placebos.

8.2 IntraDerm undertakes not to commence, initiate or, to the extent reasonably practicable, allow scientific studies involving the Products without obtaining Pohl-Boskamp's written authorization. IntraDerm shall promptly report to Pohl-Boskamp any scientific studies which are or may be conducted already, whether they are unauthorized or not, once IntraDerm gains knowledge of such studies.

§ 9

Advertisement/Publicity

9.1 Pohl-Boskamp agrees to provide – free of charge - to IntraDerm examples of marketing materials for the Products, specifically electronic drafts hereof, and reports on scientific tests of the Products as far as they are reasonably available.

9.2 IntraDerm undertakes to advertise the Products, in particular but not limited to: through visits to medical specialists, advertising in applicable medical journals and public media using leaflets, and the internet. IntraDerm shall keep available at all times a sufficient number of qualified personnel in order to visit medical specialists. Upon request, IntraDerm shall send Pohl-Boskamp copies of all advertising materials.

9.3 IntraDerm undertakes to comply with all legal requirements concerning advertisement/publicity for the Products in the Territory. IntraDerm is solely liable for any violation of those legal requirements, any error or omission in the advertisements unless any such error or omission is attributable to an act or omission of Pohl-Boskamp.

9.4 Any and all expenses for any advertising and/or publicity activities in the Territory are borne by IntraDerm.

9.5 If IntraDerm decides it would like to build a product specific website, this undertaking shall be stipulated in a separate written agreement mutually acceptable to the Parties.

§ 10

Proprietary Rights

10.1 "**Intellectual Property**" means all of the following relating to the Products: (i) all patents and design patents of Pohl-Boskamp, (ii) all trademarks (including the trademark for the product name "LOYON" registered with the U.S. Patent and Trademark Office (the "**Trademark**")), service marks, trade dress, logos, slogans, trade names, and internet domain names of Pohl-Boskamp covering or used in connection with the Products, including any goodwill associated therewith, and all applications, registrations, and renewals in connection therewith, (iii) all copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith, (iv) all trade secrets and confidential business information (including ideas, inventions, research and development, know-how, improvements, formulas, compositions, manufacturing and production processes, standard operating procedures and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals), and (v) all advertising and promotional materials. "**Patents**" mean those patents and patent applications covering the Products and any and all reissues, renewals, re-examinations, extensions, substitutions, confirmations, registrations, revalidations, additions, continuations, continuations-in-part or divisions of or to any of the aforesaid patents or patent applications, including, without limitation, that certain Patent Application [ ]† filed with the U.S. Patent and Trademark Office, which application is pending.

10.2 Pohl-Boskamp hereby grants to IntraDerm a non-exclusive, non-transferable, and royalty-free right and license to use the Intellectual Property in connection with the importation, offer for sale, sale and other distribution, promotion and marketing of the Products pursuant to this Agreement. Except for the license granted in this Agreement, this Agreement does not confer upon IntraDerm, and IntraDerm will not claim, any proprietary right, title, interest or other rights in any Intellectual Property in the Products or Intellectual Property otherwise owned or controlled by Pohl-Boskamp. IntraDerm may use Pohl-Boskamp's Intellectual Property only to the extent it is authorized by this Agreement. Upon termination of this Agreement such authorization ceases. IntraDerm acknowledges that all Intellectual Property existing in connection with the Products or arising or resulting from this Agreement (other than the customer lists, pricing information, business and marketing plans and proposals and advertising generated by IntraDerm, to which IntraDerm shall retain sole title) are and will be the sole property of Pohl-Boskamp. Except as provided in the immediately preceding sentence, IntraDerm hereby assigns to Pohl-Boskamp, without further consideration, its entire right, title and interest in each Intellectual Property arising or resulting from this Agreement. IntraDerm must not apply to register in its own name any proprietary right covering the Products.

† Confidential material redacted and separately filed with the Commission.

10.3 Pohl-Boskamp will prosecute infringements, maintain, and enforce its Intellectual Property. IntraDerm undertakes to assist Pohl-Boskamp, at the expense of Pohl-Boskamp, as far as Intellectual Property in the Territory is concerned.

10.4 If either Party learns that a third party claims the Products are infringing any intellectual property rights owned by a third party in the Territory, such Party will promptly inform the other Party of such allegations and provide the other Party with any available evidence of such allegations. Pohl-Boskamp shall have the first right to defend its interests and, in doing so, shall confer with IntraDerm and consider the actions that will be most beneficial to both Parties. In the event that Pohl-Boskamp does not defend against allegations of infringement, the provisions relating to Minimum Purchase Requirements and payment of Royalties will be suspended until such allegations have been settled, resolved or dismissed.

10.5 In the event that IntraDerm learns that Pohl-Boskamp's Intellectual Property is infringed in the Territory (*e.g.* counterfeit Product or trademarks that are imitated or illegally used by a third person), IntraDerm will promptly inform Pohl-Boskamp. IntraDerm agrees to cooperate with Pohl-Boskamp and to take commercially reasonable steps to protect the Intellectual Property of Pohl-Boskamp at Pohl-Boskamp's expense if requested by Pohl-Boskamp in writing.

§ 11
Confidentiality

11.1 All data, literature, information, know-how reports provided by one Party to the other Party, directly or indirectly, hereunder, that bears a written designation of as "confidential", "proprietary" or other similar designation, or which the receiving Party should reasonably conclude is confidential or proprietary under the circumstances, is considered "**Confidential Information**"; provided, however, that the following shall not be considered confidential information: (i) information in the public domain at the time of transmittal; (ii) information that becomes a part of the public domain after its transmittal through no fault of the receiving Party; (iii) information that is subsequently disclosed to the receiving Party by a third party that has the right to make such disclosure; and (iv) information that the receiving Party can show through its books and records was independently developed by the receiving Party without the aid, application or use of the other Party's confidential information. Each Party undertakes to keep secret all data, literature, information and know-how regarding the Products, especially concerning their formulations and the know-how of the manufacturing process. The receiving Party is not allowed to make use of any such data, literature, information and know-how itself nor to make it available nor to reveal or transfer such data, literature, information and know-how to third parties, except in connection with obtaining and maintaining the Marketing Authorisation. In the event that the receiving Party becomes legally compelled (by deposition, interrogatory, subpoena or similar process) to disclose any of the Confidential Information, the receiving Party shall provide the disclosing Party with prompt written notice of such requirement prior to such disclosure to allow the disclosing Party to seek a protective order or other remedy. In the event that a protective order or other remedy is not obtained, or that disclosing Party waives compliance with the provisions hereof, the receiving Party agrees to furnish only that portion of the Confidential Information that the receiving Party reasonably believes is legally required to be furnished.

11.2 The receiving Party has to return all data, literature, information and know-how in its possession which was made available to it within the framework of this Agreement to the disclosing Party within 30 days after this Agreement is terminated; *provided, however*, the receiving Party is entitled to retain one copy of the Confidential Information for archival purposes, which it shall maintain in confidence and not disclose to non-Affiliate third parties. In case that IntraDerm receives such documents from third parties – especially from the Health Authorities – after the 30-day-period, it has to forward them to Pohl-Boskamp or a person appointed by Pohl-Boskamp immediately after receipt of such document.

11.3 Each Party remains bound by the confidentiality obligation beyond the term of this Agreement for a period of [ ]† years following the expiration of termination of this Agreement.

11.4 If the Parties should decide to enter into discussions/ negotiations regarding a possible collaboration for further products which are not yet part of this Agreement, the Parties shall keep secret any transferred information related to these products as well, and agrees that §11 of the Agreement will apply to such aforementioned discussions/ negotiations as well.

11.5 The Confidentiality Agreement signed by the Parties on June 18, 2015 (the "**Confidentiality Agreement**"), remains in full force and effect and by this reference is incorporated herein.

§ 12
Term of the Agreement/Termination

12.1 This Agreement is valid from the date of the last signature the "**Effective Date**") and shall continue (i) for a period of five (5) years after the Parties obtain a Marketing Authorisation (the "**Initial Term**"). The Initial Term of this Agreement will be extended automatically for two five (5) year periods (each, an "**Extension Period**") unless it is cancelled with a six (6) month written notice by one of the contractual Parties prior to the end of the Initial Term or the initial Extension Period. The "**Term**" of this Agreement shall refer to the Initial Term and the Renewal Period unless and until this Agreement is terminated as provided herein.

12.2 The notice of termination has to be in writing. It has to be delivered to the other Party by courier service.

† Confidential material redacted and separately filed with the Commission.

12.3 If either Party materially defaults in the performance of any material provision of this Agreement, the non-defaulting Party may give written notice to the defaulting Party that if the default is not cured within thirty (30) days of such notice, the non-defaulting Party may terminate the Agreement. If the non-defaulting Party gives such notice and the default is not cured during the thirty (30) day period, this Agreement shall automatically terminate at the end of such period without further action by the non-defaulting Party, which shall be the effective date of termination.

12.4 This Agreement may be terminated by either Party upon written notice to the other Party (i) upon the institution by or against the other Party of insolvency, receivership, liquidation, moratorium, bankruptcy or similar proceedings or any other proceedings for the settlement of Distributor's debts, or (ii) upon Distributor's making an assignment or compromise for the benefit of creditors or a similar proceeding.

12.5 This Agreement may be terminated by IntraDerm upon written notice to Pohl-Boskamp if the Marketing Authorisation with a Satisfactory Claim is not obtained by the one-year anniversary of the Effective Date.

12.6 This Agreement may be terminated by Pohl-Boskamp effective either upon written notice to IntraDerm or up to three months after written notice to IntraDerm received by IntraDerm no later than 30 days after the occurrence of a triggering event specified in this §12.6 (a) or (b): (a) in the event that a majority of IntraDerm's Senior Management in any three-month period is replaced; or (b) if an entity that markets one or more products that are directly competitive with the Product resulting in revenues to the entity that are at least equal to the revenues generated by the Product in the United States directly or indirectly acquires control of IntraDerm. For purposes of this §12.6: (x) "Senior Management" means those executive officers who possess the power to direct or cause the direction of the management and policies of IntraDerm, which, as of the Execution Date, are [ ]†, [ ]† and [ ]†; (y) a product will be deemed to be "directly competitive" with a Product if it is intended for the same, or substantially the same, purpose or use as any Product; and (z) "control" means the possession of power to direct or cause the direction of management and the policies of IntraDerm, whether through the ownership of voting securities, by contract or otherwise.

12.7 Upon expiration of this Agreement (or termination of this Agreement for whatsoever reason),

(i) IntraDerm shall take the following actions:

- Notify Health Authorities and, at Pohl-Boskamp's cost and expense, adopt any and all actions necessary for the transfer of the Marketing Authorisation for the Products to Pohl-Boskamp;
- Cease using all Pohl-Boskamp Intellectual Property furnished to it by Pohl-Boskamp hereunder and return it to Pohl-Boskamp pursuant to § 11.2; and
- Cease any marketing and sale activity and discontinue the use of the Trademark; provided, however, that IntraDerm shall have a reasonable period of time to remove the Trademark from its website, and IntraDerm shall have no liability for marketing materials that contain Pohl-Boskamp's trademarks distributed to third parties prior to the date of termination.

† Confidential material redacted and separately filed with the Commission.

(ii) Pohl-Boskamp shall take the following actions:

- Reimburse the Filing Fee to IntraDerm;
- Repurchase IntraDerm's remaining stock of Products pursuant to § 4.4;
- Cease using IntraDerm's intellectual property and know-how furnished to it by IntraDerm.

12.8 The termination of this Agreement shall not affect any rights or obligations of the Parties that have accrued or matured prior thereto. In addition, the following provisions shall survive the expiration or termination of this Agreement in accordance with their respective terms: §§ 4.5, 4.8, 6.12, 7.7, 7.9, 7.10, 7.11, 7a.6, 7a.9, 11.1-11.3, 11.5, 12, 14, 15, 18 and 20-22.

12..9 In the event of an expiration of this Agreement neither Party shall be liable to the other because of such termination, including but not limited to compensation, reimbursement or damages on account of the loss of prospective profits or anticipated sales or goodwill, or on account of any expenditures, inventory, investments, leases or other commitments including hiring of personnel, in connection with the business of Pohl-Boskamp or IntraDerm. IntraDerm acknowledges that its profit margins derived on sale of the Products pursuant to this Agreement have induced IntraDerm to enter into and perform this Agreement and that such profits constitute good, sufficient and valuable consideration for its duties and obligations hereunder. The expiration shall not, however, relieve either Party of obligations incurred prior to the expiration.

§ 13
Force Majeure

13.1 The Parties hereto shall not be liable for any damage if the performance of all or parts of this Agreement is hindered or prevented by causes beyond the performing Party's control and without its fault or negligence, including but not limited to acts of God or of public enemy, nuclear incidents, acts, laws, orders or regulations of any government or department or agency thereof acting in either its sovereign or contractual capacity, fires, floods, epidemics, quarantine restrictions, strikes, work stoppages, slowdowns or other job actions, freight embargoes, shortages of fuel or other items, delays in transportation, boycotts, unusually severe weather and riots, insurrections, revolutions, wars or other civil or military disturbances.

13.2 If Pohl-Boskamp is not able to deliver pursuant to force majeure as stipulated in § 13 and/or direction by government, IntraDerm shall not be entitled to claim for compensation in any kind.

§ 14

Written Requirements

14.1 This Agreement and the Annexes attached hereto and the Confidentiality Agreement set forth in writing all agreements and understandings between Pohl-Boskamp and IntraDerm. Oral agreements do not exist. All previous agreements or arrangements (if any) between the Parties, be it in writing or orally, relating to the subject matter hereof are hereby cancelled and superseded.

14.2 Modifications, amendments and changes of this Agreement, including this clause, must be in writing. Pohl-Boskamp's 'General Terms and Conditions of Trade' (**ANNEX IV**) apply unless they have been modified by the Parties in this Agreement.

§ 15

Notices

All notices will be deemed to have been given when received if sent by personal delivery, registered mail return receipt, reputable express courier or when receipt of a facsimile has been acknowledged by machine generated receipt, to the following address:

If to Pohl-Boskamp:

G. Pohl-Boskamp GmbH & Co. KG
Kieler Strasse 1125551 Hohenlockstedt
Germany
Attn: Executive Director
Facsimile:+49 4826 59-376

If to IntraDerm :

IntraDerm Pharmaceuticals,
a division of Oculus Innovative Sciences, Inc.
1129 North McDowell Blvd.
Petaluma, California 94954
USA
Attn: Chief Financial Officer
Facsimile: (707) 283-0551

If notice is personally delivered, the individual accepting such notice, if requested, will sign a duplicate of the notice to confirm receipt thereof.

§ 16

Insurance

Each Party shall maintain comprehensive general liability and product liability insurance, covering the obligations of such Party under this Agreement throughout the Term of this Agreement and as long as the Products sold under this Agreement are marketed or sold in the Territory. Upon request of either Party, the other Party will provide Pohl-Boskamp with certificate(s) of insurance evidencing the above and showing the name of the issuing company, the policy number, the effective date, the expiration date and the limits of liability.

§ 17

Partial Invalidity

Should any of the provisions of this Agreement be or become invalid, the invalidity does not prejudice the validity of the remaining provisions of this Agreement, and the Agreement shall be enforced in accordance with its terms and its validity shall not in any way be affected or impaired thereby. In the event that any term or provision of this Agreement is held to be unreasonable, the same shall not fail, but shall be deemed amended only to the extent necessary to render it reasonable and the Parties agree in writing to be bound by the amended term or provision.

§ 18

Applicable Law/

18.1 This Agreement shall be governed by and construed in accordance with the laws of the Federal Republic of Germany, regardless of the laws that might otherwise govern under applicable principles of conflicts of law thereof. The provisions of the U.N. Convention on Contracts for the International Sale of Goods shall not apply.

18.2

Both Parties are entitled to take legal action, submitted to the jurisdiction of the courts of Hamburg, Federal Republic of Germany, on their own discretion.

However, with mutual consent, disputes arising out of or relating to this Agreement shall be submitted to arbitration in London, England in accordance with the rules of the International Chamber of Commerce or its successor by three arbitrators, one chosen by each of the Parties, and the third arbitrator being chosen by the two chosen arbitrators. The decision of the arbitrator shall be conclusive and binding on the Parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction. Each Party will take care of its own cost in this arbitration and both Parties will pay half of the arbitration court costs itself. All information relating to or disclosed by any Party in connection with the arbitration shall be treated by the Parties as confidential information and no disclosure of such information shall be made by either Party without the prior written consent of the other Party. The Parties expressly agree that any arbitration shall be conducted, and any and all evidence, pleadings, correspondence, and other documents relating to the arbitration will be presented, in the English language.

§ 19

Registration of the Agreement

If required IntraDerm shall take all the necessary activities and bear all the expenses and costs arising from the registration of this Agreement before the local authorities, including all necessary translations and provide evidence thereof to Pohl-Boskamp.

§ 20

Relationship of Parties

This Agreement does not, and shall not be construed to create a relationship of joint venture, partnership or principal and agent between Pohl-Boskamp and IntraDerm. Neither Party has, or may exercise, any authority, express, implied or apparent, to act on behalf of or as an agent of the the other Party for any purpose, and neither Party shall take any action which might tend to create an obligation on behalf of the other Party. Each Party is, and shall at all times remain an independent contractor responsible for all obligations and liabilities of, and for all loss or damage arising out of its business activities.

§ 21

Non-Assignment

Neither Party may assign, delegate or otherwise transfer any of its right or obligation arising under this Agreement whether by agreement, or otherwise, without the express prior written consent of the other Party; provided, however, that either Party may assign this Agreement to any person or entity into which the assigning Party has merged or which has otherwise succeeded to all or substantially all of the business and assets to which this Agreement pertains, by merger, consolidation, reorganization or otherwise if such successor entity has assumed in writing or by operation of law the assigning Party's obligations under this Agreement. Any purported assignment, delegation, or transfer in violation of the previous sentence will be null and void. Subject to the foregoing, this Agreement in its entirety will bind each Party and its successors and permitted assigns.

§ 22

Counterparts

The Parties may execute this Agreement in one or more counterparts, and each fully executed counterpart shall be deemed an original, and when taken together with other signed counterparts, shall be binding upon and effective as to all Parties hereto. This Agreement in the English language shall be the controlling text to the extent allowable under applicable law.

*****

Hohenlockstedt, April 13, 2016
For and on behalf of
G. Pohl-Boskamp GmbH & Co. KG

represented by its general partner
Boskamp GmbH

/s/ Thomas Höppner
Dr. Thomas Höppner
Executive Director

/s/ André Horst
André Horst
Legal Affairs

Petaluma, April 13, 2016
For and on behalf of
IntraDerm Pharmaceuticals,
a Division of Oculus Innovative Sciences, Inc.
represented by its President

/s/ Robert Miller
Robert Miller
Chief Financial Officer

Annex I – Products, Prices and Royalties
Annex II – Territory
Annex III – Minimum Purchase Requirements
Annex IV – General Terms and Conditions of Trade
Annex V – Pharmacovigilance Agreement
Annex VI – Adverse Events

ANNEX I
Products, Prices and Royalties

Product	Size	Price	Medical Device (Yes/No)	Medical Product (Yes/No)
Loyon	[ ]†ml	TBD	Yes	No
Loyon	[ ]† ml	US$ [ ]†	Yes	No
Loyon	[ ]† ml	US$ [ ]†*	Yes	No
Loyon	[ ]† ml (sample)	US$ [ ]†**	Yes	No

*Subject to confirmation about feasibility of Pohl-Boskamp providing this size in one bottle

**Parties agree to revisit the sample program within on year after First Commercial Sale to assess results and then determine what the year 2 samples volume and price should be. Price of samples in year 2 shall not exceed US$[ ]†.

Terms of transportation and delivery of product is ExWorks Incoterms 2010 at Pohl-Boskamp's facility in Germany.

All labelling shall bear Pohl-Boskamp's Trademark, "Loyon" (the "**Trademark**").

ROYALTIES

The Royalty structure is as follows:

Year 1 – [ ]†%

Year 2 – [ ]†%

Year 3 – [ ]†% and remaining at [ ]†% through the balance of the agreement as long as the Product is in Sales Position 1 or 2.

If the Sales Position changes to a higher position during Contract Year 1 or Contract Year 2, the royalty rate will move to [ ]†%.

If the Parties have not been able to obtain a psoriasis claim during Contract Year 1 or Contract Year 2, IntraDerm may move the Product into Sales Position 3 with royalties staying at [ ]†%. If the Sales Position changes to a higher position, the royalty rate will immediately move to [ ]†%.

If the Parties have been able to obtain a psoriasis claim during Contract Year 1 or Contract Year 2, and the Sales Position changes to a higher position than it occupied in the prior year, the royalty rate will move to [ ]†%.

IntraDerm shall, in good faith, make the sole good faith determination as to the Sales Position of the Product at any time or times.

The Royalty structure therefore is as follows:

	Year 1		Year 2		Year 3			
					no psoriasis claim		psoriasis claim	
Sales Position	#1 or #2	≥ #3	#1 or #2	≥ #3	#1 or #2 or #3	≥ #4	#1 or #2	≥ #3
Royalty	[ ]†%	[ ]†%	[ ]†%	[ ]†%	[ ]†%	[ ]†%	[ ]†%	[ ]†%

For Purposes of this Agreement:

† Confidential material redacted and separately filed with the Commission.

"**Net Sales**" means, the amount of gross sales of applicable Product invoiced by IntraDerm to independent third Parties, and received by IntraDerm, net of the amount paid by IntraDerm for the Products, less the following deductions: returns (including allowances actually given for spoiled, damaged, expired, rejected, returned Product sold, return reserves, withdrawals, and recalls), rebates (price reductions, rebates to social and welfare systems, charge backs, government mandated rebates, and similar types of rebates (e.g., Medicaid)), volume (quantity) discounts, and/or taxes (value added or sales taxes, government-mandated exceptional taxes and other taxes directly imposed upon and paid with respect to such sales, excluding any taxes on income); in each case, only to the extent such deductions are (i) consistently applied in accordance with US GAAP, (ii) actually incurred, (iii) included in the amount of gross sales invoiced and separately identified on the invoice or other documentation maintained in the ordinary course of business, and (iv) not otherwise recovered by or reimbursed to IntraDerm. Notwithstanding the foregoing, amounts received by IntraDerm for the sale of Product among IntraDerm Affiliates for resale shall not be included in the computation of Net Sales; provided if and when such Product is resold to a non-Affiliate third party, amounts for any such sales shall be included in Net Sales.

ANNEX II
Territory

The United States of America and its territories and possessions, including Puerto Rico and the District of Columbia.

ANNEX III
Minimum Purchases

IntraDerm and Pohl-Boskamp have discussed the following Sales Targets. However, the Parties acknowledge and agree that the wording of the SebDerm Claim, which IntraDerm will pursue, will impact the marketability of the Product in the Territory. Accordingly, the Parties agree that IntraDerm shall modify the Sales Targets upon receipt of the SebDerm Claim language, and such Sales Targets shall replace the Sales Targets below.

	Total Contract Year 1 Sales Target	**Contract Year 1* Minimum Purchase Requirement**
Loyon units	[ ]†	[ ]†
Loyon Samples	[ ]†	[ ]†

*commences on First Commercial Sale

	Total Contract Year 2 Sales Target	**Contract Year 2 Minimum Purchase Requirement**
Loyon units	[ ]†	[ ]†
Loyon Samples	[ ]†	[ ]†

	Total Contract Year 3 Sales Target	**Contract Year 3 Minimum Purchase Requirement**
Loyon units	[ ]†	[ ]†
Loyon Samples	[ ]†	[ ]†

For purposes of this Agreement:

- "**Contract Year 1**" means the twelve (12) month period commencing on the First Commercial Sale.
- Each successive Contract Year is the twelve (12) month period commencing on the same number anniversary of the First Commercial Sale.
- "**First Commercial Sale**" shall mean the date on which the cumulative Net Sales in the Terrritory reaches US $[ ]† following issuance of the Marketing Authorisation with the SebDerm Claim required to commercialize the Product in the Territory.
- **Sales Targets** set forth above are for discussion purposes only and are not binding on the Parties. After Health Authority issues the Marketing Authority for the SebDerm Claim, IntraDerm shall provide Pohl-Boskamp updated Sales Targets for each Contract Year during the Initial Term, and such Sales Targets shall be binding on the Parties.
- **Minimum Purchase Requirement** for each Contract Year is [ ]†% of the Sales Target for such Contract Year.

† Confidential material redacted and separately filed with the Commission.

ANNEX IV
General Terms and Condition of Trade

ANNEX V
Pharmacovigilance Agreement

ANNEX VI
Adverse Events

Exhibit 10.34

AMENDMENT NO. 8 TO LEASE

THIS AMENDMENT NO. 8 TO LEASE (this "**Amendment**") dated as of June 23, 2016 is entered into between **SSCOP PROPERTIES LLC**, a Delaware limited liability company ("**Landlord**") and **OCULUS INNOVATIVE SCIENCES, INC.** , a Delaware corporation ("**Tenant**").

THE PARTIES ENTER INTO THIS AMENDMENT based upon the following facts, understandings and intentions:

A. Landlord (successor in interest to 1125-1137 North McDowell, LLC, a Delaware limited liability company, successor in interest to RNM Lakeville, L.P., a California limited partnership) and Tenant (formerly known as MicroMed Laboratories, Inc., a California corporation) previously entered into that certain Lease dated October 26, 1999, as amended by that certain Amendment No. 1 to Lease dated September 15, 2000, as amended by that certain Amendment No. 2 to Lease dated July 29, 2005, as amended by that certain Amendment No. 3 to Lease dated August 23, 2006, as amended by that certain Amendment No. 4 to Lease dated September 13, 2007, as amended by that certain Amendment No. 5 to Lease dated May 18, 2009, as amended by that certain Amendment No. 6 to Lease dated April 26, 2011, as amended by that certain Amendment No. 7 to Lease dated October 10, 2012 (collectively, the "**Lease**"), pursuant to which Landlord leases to Tenant approximately Thirteen Thousand, Eight Hundred Forty (**13,840**) rentable square feet of space at 1129 North McDowell Boulevard, Petaluma, California 94954 (the "**Premises**") located at 1125-1137 North McDowell Boulevard in Petaluma, California 94954 (the "**Building**"), as more particularly described in the Lease. The capitalized terms used in this Amendment and not otherwise defined herein shall have the same meanings given to such terms in the Lease.

B. Landlord and Tenant now desire to amend the Lease as provided herein.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1 . Term. The Term of the Lease is hereby extended for an additional seven (7) years commencing October 1, 2017 and expiring September 30, 2024 (the "**Seventh Extended Term**"), unless sooner terminated in accordance with the terms of this Lease.

2. Base Rent. Tenant shall pay Base Rent to the Landlord during the Seventh Extended Term as follows:

Period	Total Monthly Base Rent Per Square Foot	Monthly NNN Base Rent
10/1/2017 – 9/30/2018	$0.85	$11,764.00
10/1/2018 – 9/30/2019	$0.88	$12,116.92
10/1/2019 – 9/30/2020	$0.90	$12,480.43
10/1/2020 – 9/30/2021	$0.93	$12,854.84
10/1/2021 – 9/30/2022	$0.96	$13,240.49
10/1/2022 – 9/30/2023	$0.99	$13,637.70
10/1/2023 – 9/30/2024	$1.01	$14,046.83

*Monthly Base Rent per square foot is rounded to the nearest penny and is provided for reference only.

3 . Early Termination Right . Tenant shall have the one-time right to terminate this Lease effective as of the last day of the 36th month of the Seventh Extended Term if the Landlord is unable to accommodate Tenant's growth by at least fifty percent (50%) by finding a different property which is price competitive and which provides for medical device and drug compliance in a cost effective manner (this right, the "Early Termination Right"). Tenant shall give Landlord at least nine (9) months prior written notice thereof if Tenant chooses to exercise its Early Termination Right. After Tenant provides notice to Landlord, then Landlord will have three months to provide potential, alternative spaces to Tenant to evaluate. If Tenant exercises its Early Termination Right, it shall not be subject to a termination penalty, and the Lease shall terminate and the parties shall have no further duties and obligations under the Lease or otherwise, except for those obligations that expressly survive termination. If Tenant does not exercise its Early Termination Right, the Lease shall remain in full force and effect for the remainder of the Seventh Extended Term.

4 . Tenant Improvements. Landlord shall, at Landlord's sole cost and expense, replace the carpet in the office area and wrap the warehouse lights, using reasonable efforts not to disturb Tenant's use of the Premises. Tenant shall be responsible for moving and relocating any furniture or equipment.

5. Costs of Tenant Improvements. Notwithstanding anything to the contrary in the Lease and except as otherwise specifically provided in this Amendment, Tenant shall be responsible, at its sole cost and expense, for the cost of changes to the Premises, the Building or the Project required during the Term (or if any such requirement is enforced) under any existing, ordinance, regulation or requirement (including, without limitation, the Americans with Disabilities Act and Title 24 of the California Code of Regulations) of any governmental authority having jurisdiction over the Building as a result of any improvements or alterations to the Premises performed by or at the request of Tenant after the date of this Amendment. At the time of any improvements, which are approved by the Landlord, Landlord will inform Tenant of any relevant non-compliance with existing codes or regulations.

6. Notice. The Landlord's address as set forth in the Lease is hereby deleted in its entirety and replaced by the following:

Landlord:

SSCOP Properties LLC

_____

_____

Attention:

7 . Previous Extension Options. Tenant's options or rights to extend the Term of the Lease are limited to those set forth in this Amendment. All of Tenant's previous rights and options to extend the Term set forth in the Lease, if any, shall be of no further force or effect.

8 . Entire Agreement. This Amendment, together with the Lease, represents the entire understanding between Landlord and Tenant concerning the subject matter hereof, and there are no understandings or agreements between them relating to the Lease or the Premises not set forth in writing and signed by the parties hereto. No party hereto has relied upon any representation, warranty or understanding not set forth herein, either oral or written, as an inducement to enter into this Amendment.

9 . Continuing Obligations. Except as expressly set forth to the contrary in this Amendment, the Lease remains unmodified and in full force and effect. To the extent of any conflict between the terms of this Amendment and the terms of the Lease, the terms of this Amendment shall control.

10 . Partial Invalidity. If any provision of this Amendment or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Amendment, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Amendment shall remain in effect and shall be enforceable to the full extent permitted by law.

11. **Authority to Execute**. Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

12. **Counterparts/Facsimile**. This Amendment may be executed in counterparts and delivered via facsimile.

[Remainder of page left intentionally blank]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first above written.

LANDLORD:

SSCOP PROPERTIES LLC
a Delaware limited liability company

By: G&W Ventures, LLC
a California limited liability company
Its Manager

By: /s/ Matthew White
Matthew T. White,
Manager

TENANT:

OCULUS INNOVATIVE SCIENCES, INC.,
a Delaware corporation

By: /s/ Robert Miller
Name: Robert Miller
Its: CFO

By: _____
Name: _____
Its: _____

Exhibit 21.1

SUBSIDIARIES OF REGISTRANT

1. Aquamed Technologies, Inc., a corporation organized under the laws of California (wholly owned).
2. Oculus Technologies of Mexico, S.A. de C.V., a corporation organized under the laws of Mexico (wholly owned).
3. Sonoma Pharmaceuticals Netherlands B.V., a corporation organized under the laws of the Netherlands (wholly owned).

Exhibit 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Sonoma Pharmaceuticals, Inc. on Form S-3 (File No. 333-195554), Form S-8 (File No. 333-214760), Form S-8 (File No. 333-205171), Form S-8 (File No. 333-171412), Form S-8 (File No. 333-141017), Form S-8 (File No. 333-182263), Form S-8 (File No. 333-195530), Form S-8 (File No. 333-194314) and Form S-8 (File No. 333-163988) of our report dated June 28, 2017, with respect to our audits of the consolidated financial statements of Sonoma Pharmaceuticals, Inc. (formerly known as Oculus Innovative Sciences, Inc.) and Subsidiaries as of March 31, 2017 and 2016 and for the years then ended, which report is included in this Annual Report on Form 10-K of Sonoma Pharmaceuticals, Inc. for the year ended March 31, 2017.

/s/ Marcum LLP

Marcum LLP
New York, NY
June 28, 2017

Exhibit 31.1

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

I, Jim Schutz, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sonoma Pharmaceuticals, Inc. for the year ended March 31, 2017;

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

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

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

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

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

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

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

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

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

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

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

Date: June 28, 2017

Exhibit 31.2

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

I, Robert Miller, certify that:

1. I have reviewed this Annual Report on Form 10-K of Sonoma Pharmaceuticals, Inc. for the year ended March 31, 2017;

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:

   (e) 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;

   (f) 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;

   (g) 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

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

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

   (c) 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

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

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

Date: June 28, 2017

Exhibit 32.1

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

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

The Annual Report on Form 10-K for the year ended March 31, 2017 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2017

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

Date: June 28, 2017

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