

## Oculus Innovative Sciences (OCLS)

### UPDATE REPORT

November 9, 2011

Rating	Target
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Strong Buy	\$4.75
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### Analysts

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- ◆ Yet Another Consecutive Record Sales Quarter
- ◆ Margins Improve to 80% Due to Increased Royalty Rate
- ◆ Seasonality to Affect Sales Next Quarter

1.) **Record Sales in FYQ2 following Record Q1 and Record FY 2011:** Oculus reported record top line revenues of \$3.7M for FYQ2'12. This follows Q1 record revenues of \$2.9M and total FY2011 record revenues of \$9.8M. The 49% increase Q/Q in product revenue (3.4M vs. 2.3M) was primarily due to the royalty rate increase from partner Innovacyn from 20% to approximately 30% on July 1<sup>st</sup> for the Vetericyn<sup>®</sup> animal health and Puracyn<sup>®</sup> OTC human product lines.

2.) **Significant Margin Improvement:** Oculus reported record gross margins of 80% for FYQ2 (versus 66% in Q1), mostly attributable to the increase in royalty rates from partner Innovacyn. The company has guided gross margins going forward in the 75% range due to seasonality.

3.) **Seasonality and Guidance:** Investors should note that top line sales and gross margins will experience seasonal fluctuations as the equine animal health business decreases during the winter months. To mitigate this, the company is working on expanding its companion animal (cats and dogs) presence as well as the development of new products for animal livestock that are less correlated to seasonal changes. For the upcoming FYQ3 (Dec. 31) Oculus management guided revenue in the \$2.6M range, EBITDA in the \$1.4M range and cash operating expenses in the \$3M range. For the Innovacyn group the company reduced the original 70%-90% growth to 50%-70% while increasing guidance for the international market from 10-25% growth to 15%-30%. Oculus is maintaining their guidance for the US prescription group of 50%-100% and the total product revenue of 40%-80%.



Symbol: OCLS  
Exchange: Nasdaq

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www.oculusis.com  
CEO – Hoji Alimi  
CFO – Robert Miller

### Market Data

Price	\$1.47
52-Week	\$0.97-\$2.65
Market Cap	\$39.5M
Avg. Daily Vol.	134,000
% Short	2.4%

### Share Data

Outstanding	26.9M
Cash/Share	\$0.13
Book/Share	(\$0.01)
Price/Book	n/a
Debt/Share	\$0.10

### Most Recent Quarter

Revenue	\$3.7M
Net Income	(\$0.8M)
EPS	(\$0.03)
Cash	\$3.6M
Debt	\$2.6M

### Financial Results and Projections

FYE Mar. 31	2010	2011	2012E	2013E	2014E
Revenue	\$7.4M	\$9.8M	\$12.6M	\$21.8M	\$38.9M
Net Income	(\$8.2M)	(\$7.9M)	(\$6.6M)	(\$2.1M)	\$7.7M
EPS	(\$0.36)	(\$0.30)	(\$0.23)	(\$0.07)	\$0.24



Please See Last Two Pages For Important Disclosures And Analyst Certification

4.) **Partnerships Launching New Products:** In the United States alone, Oculus has six product launches that are either underway or scheduled to begin by the end of the year. These product launches include Microcyn<sup>®</sup>-based products for dermatology, veterinary, podiatry, and wound care markets.

5.) **New R&D and Growth Initiatives:** Management has expressed interest in expanding into new markets with Microcyn<sup>®</sup>-based products including surgical and urinary tract infection indications. Management has also indicated that they are pursuing the development of new healthcare technologies other than Microcyn, either externally or through internal development. During FYQ2'11 Oculus licensed global rights for an endotracheal tube from the National Institutes of Health (NIH) designed to reduce ventilator-associated pneumonia. Investors should note that while this product is not included in our model, it could represent additional value in the future. Oculus is continuing to work with the FDA on both scar and allergen indications, and Oculus's partner, OroSciences is continuing to work with the FDA on multiple oral applications of Microcyn<sup>®</sup>-based products.

6.) **Undervalued Stock:** We believe shares of Oculus Innovative Sciences are undervalued and are maintaining Oculus with a Strong Buy rating and a 12-18 month Price Target of \$4.75. Our valuation is based on a 35x multiple on projected fiscal year 2014 EPS and discounted 15% for cumulative risk.

## Company Description

Petaluma, California-based Oculus Innovative Science develops, manufactures and markets a family of products for tissue care markets in wound care and dermatology using their Microcyn<sup>®</sup> technology. Microcyn<sup>®</sup> is a proprietary solution of electrically charged oxychlorine small molecules designed to significantly reduce the need for antibiotics as it reduces infections. Oculus has received several FDA clearances as a 510(k) medical device for uses such as moistening and debridement for multiple wound types. In Europe, Oculus has CE Mark device approval for debriding, irrigating and moistening acute and chronic wounds while in Mexico they have drug approval as an antiseptic. Oculus also has a drug license for cleaning and debriding wounds in India and a medical device approval in China. Going forward, Oculus has a number of significant milestones through 2011 as shown:



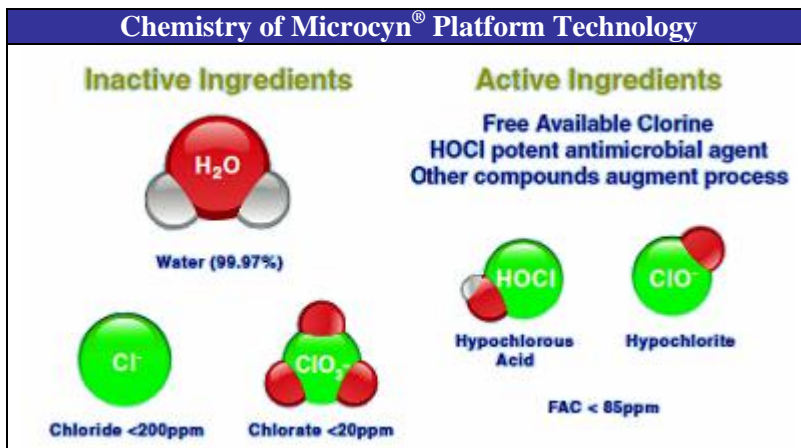
Calendar Quarter	MILESTONES & EVENTS
Q1'10	<ul style="list-style-type: none"> <li>✓ U.S. Launch of Microcyn<sup>®</sup> Post-Surgical Wounds</li> <li>✓ U.S. Launch Microcyn<sup>®</sup> Skin and Wound HydroGel</li> </ul>
Q2'10	<ul style="list-style-type: none"> <li>✓ U.S. Launch of Microcyn<sup>®</sup> Negative-Pressure Wound Therapy</li> </ul>
H2'10	<ul style="list-style-type: none"> <li>✓ Mexico MOH Approval and Launch of GramaDerm<sup>®</sup> HydroGel Dermatology</li> <li>✓ U.S Launch of XuSorb<sup>™</sup> Foam Wound Dressing and Covering</li> </ul>
2011	<ul style="list-style-type: none"> <li>✓ U.S. FDA 510(k) Clearance and Launch Microcyn<sup>®</sup> Atopic Dermatitis Hydrogel</li> <li>✓ July 1, 2011 – Gross Profit Sharing for Vetericyn<sup>®</sup> Products Goes Into Effect</li> <li>U.S. FDA 510(k) Clearance and Launch Microcyn<sup>®</sup> Oral Biofilm</li> <li>U.S. FDA 510(k) Clearance and Launch Microcyn<sup>®</sup> Muco Protectant</li> <li>U.S. FDA 510(k) Clearance and Launch Microcyn<sup>®</sup> Allergen Protection</li> <li>Chinese SFDA Approval and Launch of Microcyn<sup>®</sup> HydroGel</li> <li>India Regulatory Approval and Launch of Microcyn<sup>®</sup> HydroGel</li> <li>European CE Mark Approval and Launch of Microcyn<sup>®</sup> HydroGel</li> </ul>

Source: Oculus and LifeTech Capital Estimates

## Microcyn® Technology

Oculus Innovative Science's Microcyn® technology is a well understood and safe chemistry consisting of oxidized water, Sodium Hypochlorite (NaOCl), Hypochlorous Acid (HOCl) and Sodium Chloride (NaCl) using an electrolysis manufacturing process. The result is a chemistry that mimics the antimicrobial activity of white blood cells (neutrophils) in a stable product.

Neutrophils are part of the human immune system and are the most abundant type of white blood cells. The reactivity with lipids and proteins in cell membranes from oxychlorine compounds causes organisms to rupture and die rapidly. Microcyn® is biocompatible to mammalian cells, which have evolved mechanisms to tolerate and regulate the active ingredients, while pathogens lack this capability.



*Source: Oculus Innovative Sciences*

### Oculus Manufacturing Facilities (Bottling Process)



*Source: Oculus Innovative Sciences*

Oculus manufactures Microcyn® through a proprietary electrolysis process within a multi-chamber system. They are able to control the passage of ions through proprietary membranes, yielding electrolyzed water with only trace amounts of chlorine. This process is fundamentally different from the processes for manufacturing hydrogen peroxide and bleach. The manufacturing process produces very little waste, which is disposed of as water after a simple non-toxic chemical treatment. Oculus currently has manufacturing sites in San Diego and Petaluma California as well as Zapopan, Mexico.

Oculus believes that they have a sufficient manufacturing capacity to meet anticipated future requirements for at least the next two years. However, as they expand into new geographic markets, they may establish additional manufacturing facilities to better serve the new markets.

## Microcyn® Approved & Marketed Products for Healthcare Professionals

Oculus Innovative Sciences has a number of Microcyn® products that have already received U.S. FDA 510(k) medical device clearance for use by healthcare professionals. We also believe this demonstrates the capabilities of the Oculus management team in successfully navigating the regulatory pathway.

Product	510(k) Ref #	Decision Date	References Documents for FDA 510(k) Clearance
Epicyn Atopic Dermatitis Hydrogel	K102945	02/02/2011	<a href="http://www.accessdata.fda.gov/cdrh_docs/pdf10/K102945.pdf" style="color: blue; text-decoration: underline;">http://www.accessdata.fda.gov/cdrh_docs/pdf10/K102945.pdf</a>

Microcyn Skin And Wound Hydrogel	K093585	03/08/2010	<a href="http://www.accessdata.fda.gov/cdrh_docs/pdf9/K093585.pdf">http://www.accessdata.fda.gov/cdrh_docs/pdf9/K093585.pdf</a>
Puracyn Antimicrobial Skin And Wound	K090206	06/02/2009	<a href="http://www.accessdata.fda.gov/cdrh_docs/pdf9/K090206.pdf">http://www.accessdata.fda.gov/cdrh_docs/pdf9/K090206.pdf</a>
Microcyn Wound Gel	K090725	05/20/2009	<a href="http://www.accessdata.fda.gov/cdrh_docs/pdf9/K090725.pdf">http://www.accessdata.fda.gov/cdrh_docs/pdf9/K090725.pdf</a>
Dermacyn Wound Care	K060113	02/22/2006	<a href="http://www.accessdata.fda.gov/cdrh_docs/pdf6/K060113.pdf">http://www.accessdata.fda.gov/cdrh_docs/pdf6/K060113.pdf</a>
Dermacyn Wound Irrigation	K042729	05/17/2005	<a href="http://www.accessdata.fda.gov/cdrh_docs/pdf4/K042729.pdf">http://www.accessdata.fda.gov/cdrh_docs/pdf4/K042729.pdf</a>
Microcyn Wound Care Dressing	K041161	05/03/2005	<a href="http://www.accessdata.fda.gov/cdrh_docs/pdf4/K041161.pdf">http://www.accessdata.fda.gov/cdrh_docs/pdf4/K041161.pdf</a>

Source: United States Food & Drug Administration

The U.S. FDA has cleared the various Microcyn® products for a number of different indications for use by healthcare professionals as shown below:

Product	Indications for Use
Epicyn Atopic Dermatitis Hydrogel	Management and relief of burning, itching and pain experienced with various types of dermatoses, including atopic dermatitis. It may also be used to relieve the pain of first and second degree burns.
Microcyn Skin And Wound Hydrogel	Management of wounds including itch and pain relief associated with dermal irritation, sores, injuries and ulcers of dermal tissue.
Puracyn Antimicrobial Skin And Wound	Management via debridement of wounds such as stage I-IV pressure ulcers, partial and full thickness wounds, diabetic foot ulcers, post-surgical wounds, first and second degree burns, grafted and donor sites
Microcyn Wound Gel	Management of exuding wounds such as leg ulcers, pressure ulcer, diabetic ulcers, and for the management of mechanically or surgically debrided wounds.
Dermacyn Wound Care	Moistening absorbent wound dressings and for debriding and cleaning acute and chronic dermal lesions, such as Stage I-IV pressure ulcers, statis ulcers, diabetic ulcers, post-surgical wounds, first and second degree burns, abrasions and minor irritations of the skin.
Dermacyn Wound Irrigation	Moistening and debriding acute and chronic dermal lesions, such as Stage I-IV pressure ulcers, statis ulcers, diabetic ulcers, post-surgical wounds, first and second degree bums, abrasions and minor irritations of the skin.
Microcyn Wound Care Dressing	Moistening and lubricating absorbent wound dressings for traumatic wounds, cuts, abrasions and minor bums.

Source: United States Food & Drug Administration

Outside the United States, Oculus Innovative Sciences has also been successful in achieving regulatory approvals for a number of Microcyn® product indications as shown below:

Country/Region	Indications for Use
Europe	European CE Mark device approval for debriding, irrigating and moistening acute and chronic wounds in comprehensive wound treatment by reducing microbial load and creating a moist environment.
Mexico	Drug approval as an antiseptic for treatment of wounds and infected areas. Antiseptic disinfection solution for high level disinfection of medical instruments, and/or equipment and clean-rooms, areas of medical instruments, equipment and clean room areas.
Canada	Moistening, irrigating, cleansing and debriding acute and chronic dermal lesions, diabetic ulcers and post-surgical wounds.
India	Drug license for cleaning and debriding in wound management
China	Medical device approval for reducing the propagation of microbes in wounds and creating a moist environment for wound healing.

Source: Oculus Innovative Sciences

Oculus Innovative Sciences packages their Healthcare Professional products in a variety of formulations, form factors and sizes to meet the specific needs of each medical indication. A sample of the various Microcyn® products are shown below:

Microcyn® Dermatology HydroGel (for Professionals)	Microcyn® Skin and Wound Care with Preservatives (for Professionals)	Microcyn® Skin & Wound HydroGel (for Professionals)	Microcyn® Solution with Preservatives (for Professionals)
			

Source: Oculus Innovative Sciences

In addition, Oculus launched XuSorb™ Foam Wound Dressing with a waterproof polyurethane covering for the U.S. professional wound care and surgical market as Class I FDA exempt device in November 2010. XuSorb™ Foam Wound Dressing is a non-adhesive Microcyn-compatible foam suitable for many types of exuding wounds including leg ulcers, pressure ulcers, donor sites and partial- and full-thickness wounds.



Source: Oculus Innovative Sciences

## Microcyn® Approved & Marketed Products for Consumers

In addition to their Healthcare Professional product line, Oculus Innovative Sciences also has a number of products that are approved by the FDA for Over-the-Counter (OTC) use and available to United States consumers without requiring a prescription. Oculus partner Innocyn also markets to the over-the-counter wound care market under the brand name of Puracyn®. (Please see <http://puracyn.com> for more information)

Microcyn® Skin & Wound HydroGel OTC (Consumer)	Microcyn® Skin and Wound Care with Preservatives OTC (Consumer)	Microcyn® Skin and Wound Care with Preservatives OTC Squeeze Bottle (Consumer)	MyClyns® Protective Spray
			

Source: Oculus Innovative Sciences

Source: Union Springs Pharmaceuticals

The MyClyns® Personal Protective Spray from Oculus partner Union Springs Pharmaceuticals (a subsidiary of the Drug Enhancement Company of America) is marketed as an over-the-counter “first responder” pen application with Microcyn® as its key ingredient. They market MyClyns® in the United States to professional first-responder markets (i.e., police, fire,

military and EMTs) as well as to consumers into the retail market with national distribution through chains such as CVS Pharmacy, Krogers and many other retail outlets. (Please see <http://www.myclyns.com> for more information)

## Microcyn<sup>®</sup> Marketed Products for Animal Healthcare

Microcyn<sup>®</sup> based products for Animal Healthcare are marketed by Oculus partner Innovacyn under the brand name Vetericyn<sup>®</sup> to both the Professional Veterinarian and the Direct-to-Consumer markets. (Please see <http://www.vetericyn.com> for more information)



Source: Innovacyn Inc.

## Distribution Agreements

In addition to Oculus Innovative Sciences own sales and marketing team, Oculus has added several additional distribution channels with multiple different companies around the world. We expect Oculus to continue adding to their distribution network through 2011.

Distribution Agreements by Region		
Region	Company Name	Products
USA	Advocos	Microcyn Technology Prescription and OTC Products
USA	Eloquest Healthcare (Ferndale Pharma Group)	Microcyn Technology Rx Wound Care / Negative Pressure Wound Therapy
USA & Canada	AmDerma Pharmaceuticals	Microcyn Technology Rx Acne (Development)
	Quinnova Pharmaceuticals	Microcyn Technology Rx Dermatology
	Amneal	Microcyn Technology Rx Chronic Wound Care Podiatry (Co-Promotion)
USA & Canada	Innovacyn (formally VetCure)	Microcyn Technology Animal Healthcare (Vetericyn)
USA	Union Partner Pharmaceuticals	MyClyns
USA	OroScience Inc	Microcyn Technology Prescription Dental Products
USA	PreCision Dermatology (Previously	Microcyn Technology

	Onset Therapeutics)	Dermatology Products
India & Nepal	Alkem	Microcyn Technology Products
China	Tianjin Ascent Import and Export China Bao Tai (non-exclusive)	Microcyn Technology Products
Mexico	Internal Contract Sales Force	Microcyn Technology Products
Italy, Netherlands, Germany, Czech Republic, Sweden, Finland, Denmark, Bangladesh, Pakistan, Singapore, United Arab Emirates and Saudi Arabia	Undisclosed Country-Specific Distribution Agreements	Microcyn Technology Products

Source: Oculus Innovative Sciences

#### **UPDATE**

On July 27, 2011, Oculus announced a multi-year licensing agreement with Eloquest Healthcare (subsidiary of Ferndale Pharma Group), for an exclusive U.S. license for Microcyn-based negative-pressure wound therapy solution, and will promote Microcyn-based wound care products under Eloquest Healthcare Brand to U.S. hospitals, ambulatory surgical and acute care centers. Eloquest Healthcare plans to begin marketing both product lines beginning in January 2012.

On June 28, 2011, Oculus announced that AmDerma Pharmaceuticals, the parent company of Quinnova Pharmaceuticals, an alliance member of Amneal Enterprises, has exercised its option to license rights to Oculus' Microcyn-based acne drug candidate. AmDerma previously paid \$500,000 for the option to license the NDA for acne on February 14, 2011.

On February 14, 2011, Oculus entered into an Exclusive Sales and Distribution Agreement with Quinnova Pharmaceuticals, Inc., granting Quinnova the right to act as an exclusive sales, marketing, and distribution agent in the United States and Canada in the prescription dermatology market. Under the Agreement, Oculus manufactures the products and samples and Quinnova is responsible for all sales, marketing and clinical activity associated with current and any future products later approved by the FDA. Oculus retains final approval on any and all new promotional materials or portions of materials specific to the products developed by Quinnova. Oculus, at the same time, also entered into an Exclusive Co-Promotion Agreement with Amneal, Inc, parent company of Quinnova to promote Microcyn prescription products designed for chronic wound care in the field of podiatry in U.S. and Canada. Oculus will pay Amneal a percentage of the collected net sales sold by Amneal under the terms of the agreement. The Agreements have a term of five years and will automatically renew for successive one-year terms.

In the United States, Oculus launched the Microcyn Technology for the U.S. podiatry market in October 2008, through a partnership with Advocos, a contract sales organization based in Atlanta, Georgia. The company has since expanded this effort to include wound care clinics, hospitals, nursing homes, urgent care and home health care. (*please see <http://www.advocos.com> for more information*)

Oculus is also partnered with Union Springs Pharmaceuticals which is marketing MyClyns<sup>®</sup>, an OTC first responder pen delivery device to both emergency services and consumer markets. (*please see <http://www.myclyns.com> for more information*)

In animal healthcare, Oculus has partnered with Innovacyn (formally VetCare, Inc), a company wholly-owned by Oculus's former director, Robert Burlingame. The profit sharing partnership markets a family of animal healthcare products named Vetrycin<sup>®</sup> supported by an 85-person U.S. sales team, national television advertising, and most recently a strong push into the canine market via a multimedia campaign with Cesar Millan of the Dog Whisperer. (*please see <http://vetericyn.com> for more information*) Innovacyn also markets to the over-the-counter wound care market under the brand name of Puracyn<sup>®</sup>. (*Please see <http://puracyn.com> for more information*)

OroScience, Inc. has exclusive right to sell prescription dental products in the United States and Europe subject to certain annual minimum payments and has filed for 510(k) approval to market a Microcyn technology product for use as an oral rinse in liquid form and for oral mucositis in a gel form. In addition to strategic partnering for various applications, the company is also building a commissioned U.S. sales team to focus on the Rx human wound care products. (*please see <http://www.oro-science.com> for more information*)

In Mexico, Oculus sells through a network of distributors and through a contract sales force dedicated exclusively to selling Microcyn<sup>®</sup>, including salespeople, nurses and clinical support staff. The company also has a commercial scale manufacturing operation in Mexico.

In India, Oculus sells through their distribution partner Alkem, the 5<sup>th</sup> largest pharmaceutical company in India. They market some of the biggest brands in the Indian Pharmaceutical market and the Alkem product portfolio encompasses a wide spectrum of therapeutic groups, ranging from Anti bacterials, NSAIDS, Gastro Enterology products, Gynecology products, CNS and CVS products along with an impressive oncology range. (please see <http://www.alkemlabs.com> for more information)

On January 28, 2011, Oculus signed an agreement with Tianjin Ascent Import and Export Company, Ltd., a distributor in China, to sell into the People's Republic of China. Tianjin will pay a \$350,000 non-refundable upfront payment by February 23, 2011, for which they will be given exclusivity to sell certain products for the first contract year. In order to maintain exclusivity in subsequent years, the distributor will need to meet minimum purchase requirements each contract year. The initial term of the contract is for five years.

Also in China, Oculus has a non-exclusive distribution agreement with China Bao Tai, which secured marketing approval from the SFDA in March 2008.

On November 8<sup>th</sup>, 2010 Oculus announced they and Onset Therapeutics will work together to bring Microcyn Technology based products to the U.S. dermatology market, initially targeting atopic dermatitis and related conditions. Onset Therapeutics later became Onset Dermatologics, a PreCision Dermatology company (please see <http://www.onsetdermatologics.com> for more information)

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## Market Landscape

### Competition

Oculus Innovative Sciences Microcyn<sup>®</sup> competes with products used for wound cleaning, debriding and moistening, including sterile saline, and chlorhexadine antiseptics as well as topical anti-infectives such as Purdue Pharma's Betadine<sup>®</sup>, silver sulfadiazine, hydrogen peroxide, Dakin's solution and hypochlorous acid, and topical antibiotics, such as Johnson & Johnson (NYSE:JNJ) Neosporine<sup>®</sup>, mupirocin and bacitracin. Currently, no single anti-infective product dominates the chronic or acute wound markets because many of the products have limitations or tend to inhibit the wound healing process. Many companies are able to produce oxchlorine formulations but they become unstable after a relatively short period of time, unlike Microcyn<sup>®</sup>. While PuriCore (LSE:PURI) sells electrolysis machines used to manufacture brine-based oxidized water primarily as a sterilant for food safety and endoscopy indications, they received FDA 510(k) clearance in March 2010 for their Vashe<sup>®</sup> Wound Therapy for healthcare professional use in "*cleansing, irrigating, moistening, and debriding acute and chronic dermal lesions, such as Stage I-IV pressure ulcers, stasis ulcers, diabetic ulcers, post-surgical wounds, first and second degree burns, abrasions and minor irritations of the skin in addition to moistening and lubricating absorbent wound dressings.*" In April 2010 they received FDA 510(k) clearance for consumer use in "*minor skin abrasions, minor lacerations, minor irritations, minor cuts, and intact skin*".

### Products Having Potential Synergies with Microcyn<sup>®</sup>

Oculus' products can replace the use of sterile saline for debriding and moistening a dressing as well as for use as a complementary product with many advanced wound care technologies, such as the VAC Therapy System and Apligraf skin substitute both from Kinetic Concepts Inc. (NYSE:KCI), skin substitute products from Smith & Nephew (NYSE:SNN), Advanced BioHealing, Integra Life Sciences (Nasdaq:IART), Organogenesis, Forticell Biosciences (Pinksheets:FORBQ), and ultrasound from Celleration. Oculus believes that Microcyn<sup>®</sup> can enhance the effectiveness of many of these advanced wound care technologies.

V.A.C. Wound Healing System



Source: Kinetic Concepts Inc.

AlloDerm®



Source: Life Cell (division of Kinetic Concepts)

ALLEVYN®



Source: Smith & Nephew

Apligraf®



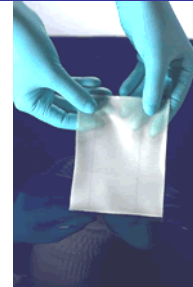
Source: Organogenesis

MIST Ultrasound Healing Therapy



Source: Celeration

INTEGRA®



Source: Integra Life Sciences

Financial Model & Valuation

With a number of new partnerships and products announced during calendar 2011 with more expected, we believe Microcyn®-based products will achieve significant sales penetration as well as stronger pricing in the United States professional healthcare market. We anticipate strong international sales as well due to new products and additional distribution networks and countries. Finally, Oculus' distribution agreement with their partner Innovacyne increased the royalty fee payable to Oculus from 20% to approximately 30% starting July 1, 2011 for the Vetericyn® animal health product line.

	Oculus Innovative Sciences Historical Sale Analysis (\$000's)															Sales Estimates						
	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Fiscal 2009	Jun 30 2009	Sep 30 2009	Dec 31 2009	Mar 31 2010	Fiscal 2010	Jun 30 2010	Sep 30 2010	Dec 31 2010	Mar 31 2011	Fiscal 2011	Jun 30 2011	Sep 30 2011	Dec 31 2011E	Mar 31 2012E	Fiscal 2012E	2013E	2014E
Sales United States	65	68	85	80	298	131	160	307	598	1,196	522	918	477	867	2,784	840	1,446	1,000	1,300	4,586	9,860	21,692
Services United States	204	269	222	278	973	280	269	256	261	1,066	219	184	310	215	928	230	273	285	250	1,038	1,142	1,256
Sales Mexico	758	911	800	804	3,273	1,208	890	878	904	3,880	998	1,054	1,082	1,173	4,307	1,380	1,304	800	1,250	4,734	5,918	7,397
Sales Europe / Other	184	233	114	313	844	228	353	172	469	1,222	525	310	444	456	1,735	490	640	500	600	2,230	4,906	8,586
Net Sales	1,211	1,481	1,221	1,475	5,388	1,847	1,672	1,613	2,232	7,364	2,264	2,466	2,313	2,711	9,754	2,940	3,663	2,585	3,400	12,588	21,825	38,930

We project overall blended gross margins to grow steadily over the forecast period as the geographic sales mix for the United States increases.

We do not anticipate a significant increase in R&D spending through the forecast period, however, we do project SG&A spending to increase in-line with the growth the sales organization and support operations.

Oculus management has guided to 20% operating margin by calendar year 2013 and our model reflects this.

Finally, we estimate that approximately 8 million warrants would be "in-the-money" at our target price which could provide additional funds for Oculus during the forecast period. However, we believe that the company will be required to raise additional funds and have included additional share issuances in our model.

Our valuation is based on a 35x multiple on projected fiscal year 2014 EPS and discounted 15% for cumulative risk.

## Intellectual Property

Oculus owns two issued U.S. patents, one issued European patent, one issued Japanese patent, 17 pending U.S. patent applications and 86 foreign pending patent applications. The patent portfolio can be divided into two groups with the first group consisting of the two issued U.S. patents, one issued European patents, one issued Japanese patent, two pending U.S. patent applications, and four foreign patent applications that relate to early generation electrolyzed water product, methods of using electrolyzed water, and aspects of the method and apparatus for manufacturing electrolyzed water. The second group includes 14 pending U.S. patent applications and 82 foreign patent applications that relate to Microcyn<sup>®</sup>, the method and apparatus for manufacturing Microcyn<sup>®</sup>, and its uses. In addition, Oculus has licensed technology developed in Japan relating to an electrolyzed water solution, methods of manufacture and electrolytic cell designs. This license includes eight issued Japanese patents.

Oculus Innovative Sciences – United States Patents & Selected Patent Applications		
Number	Description	Status
7,442,288	Electrolytic cell for producing charged anode water suitable for surface cleaning or treatment, and method for producing the same and use of the same	Granted
7,090,753	Electrolytic cell for producing charged anode water suitable for surface cleaning or treatment, and method for producing the same and use of the same	Granted
20100112092	Antimicrobial solutions containing dichlorine monoxide and methods of making and using the same	Pending
20100106079	Method and apparatus for treating a wound	Pending
20100092399	Methods of treating or preventing inflammation and hypersensitivity with oxidative reductive potential water solution	Pending
20070196434	Methods of preventing or treating sinusitis with oxidative reductive potential water solution	Pending
20070196357	Methods of treating or preventing inflammation and hypersensitivity with oxidative reductive potential water solution	Pending
20070173755	Methods of treating or preventing peritonitis with oxidative reductive potential water solution	Pending
20070173460	Compositions comprising lignin and methods of making and using the same	Pending
20060272954	Electrolytic cell for producing charger anode water suitable for surface cleaning or treatment, and method for producing the same and use of the same	Pending
20060253060	Method of using oxidative reductive potential water solution in dental applications	Pending
20060241546	Method of treating second and third degree burns using oxidative reductive potential water solution	Pending
20060235350	Method of treating skin ulcers using oxidative reductive potential water solution	Pending
20050196462	Topical formulation containing oxidative reductive potential water solution and method for using same	Pending
20050142157	Oxidative reductive potential water solution and methods of using the same	Pending
20050139808	Oxidative reductive potential water solution and process for producing same	Pending

Source: U.S. Patent & Trademark Office

## Recent Financing Activity

On June 29, 2011, Oculus entered into a Loan and Security Agreement with Venture Lending & Leasing VI, Inc. (VLL6) to borrow up to an aggregate of \$2,500,000. The VLL6 Agreement provides for a first tranche of \$1,500,000 and, upon meeting certain milestones, the Oculus may borrow an additional \$1,000,000. The loan is secured by the assets of the Oculus. On June 29, 2011, the Oculus borrowed \$1,500,000 on the first tranche at a cash interest or “streaming” rate of 10%. For the first nine months, Oculus will make monthly interest-only payments set at \$12,500. Thereafter, Oculus will make principal and interest payments of \$56,250 per month for thirty months. Oculus will make a final balloon payment of \$116,505 on September 29, 2014, resulting in an effective interest rate of 13%.

If Oculus becomes eligible to draw the second tranche, and determines to borrow additional funds, Oculus will make interest-only payments for nine months following the commencement of the second tranche. Following the interest-only period, the second tranche will be amortized over thirty months, with a final payment due equal to 7.767% of the amount funded.

On September 30, 2011, Oculus met the financial milestones and borrowed the second tranche of \$1,000,000 prior to November 30, 2011.

In connection with the VLL6 Agreement, Oculus issued warrants for the purchase of 226,325 shares of common stock at a purchase price per share of \$1.657. If Oculus becomes eligible to draw the second tranche of the loan, they will be obliged to issue a second warrant with coverage equal to \$62,500 for the purchase of additional shares of its common stock at a strike price equal to the 10-day volume-weighted average price (VWAP), ending on the trading day prior to the date the Oculus satisfies the second tranche milestone. If Oculus draws on the second tranche, it will be obliged to issue a third warrant with coverage equal to \$62,500 for the purchase of additional shares of common stock at a strike price equal to the 10-day VWAP ending on the trading day prior to the borrowing date of the loan funded on the second tranche. All of the warrants have a cashless exercise feature and expire on November 30, 2018. Additionally, the warrants related to the first tranche may be put back to Oculus for \$937,500 cash, which will increase to \$1,093,750 if it becomes eligible to draw the second tranche of the loan, and which will increase to \$1,250,000 if the Company draws the additional full \$1,000,000 on the second tranche. A put feature is available to the holder for 60 days after the first of the following to occur:

1. a change in control of the Company,
2. the closing of at least \$20,000,000 of additional equity financing, or
3. July 31, 2015.

On May 1, 2010, Oculus entered into a Loan and Security Agreement to borrow up to an aggregate of \$3,000,000 and on May 3, 2010 borrowed \$2,000,000 under this facility. The loan is secured by the assets of the company. Oculus will make monthly interest only payments set at \$16,660 through December 1, 2010 and then make interest and principal payments of \$75,000 per month through June 1, 2013 with a final balloon payment of \$132,340 on June 1, 2013 yielding an effective interest rate of 13%. If Oculus draw the second tranche for \$1,00,000 they will make interest-only payments for 6 months be amortized over 30 months, with a final payment due equal to 6.617% of the original principal balance.

As of November 3, 2011 there were 26,902,200 shares of common stock issued and outstanding. In addition, Oculus had 3,702,000 exercisable stock options with a weighted-average exercise price of \$2.92 as of September 30, 2011.

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## Management

**Hoji Alimi, Chief Executive Officer, President and Chairman of the Board:** Hoji Alimi was one of the founders of Oculus Innovative Sciences and has served as chief executive officer, president and director since 1999 and was appointed as chairman of the board of directors in June 2006. Prior to co-founding Oculus with his spouse in 1999, Mr. Alimi was a corporate microbiologist for Arterial Vascular Engineering. Mr. Alimi received a B.A. in biology from Sonoma State University.

**Robert Miller, Chief Financial Officer:** Robert Miller has served as chief financial officer since June 2004 and was a consultant to Oculus from March 2003 to May 2004. Mr. Miller has served as a director of Scanis, Inc. since 1998 and served as acting chief financial officer from 1998 to June 2006. He was a chief financial officer consultant to Evit Labs from June 2003 to December 2004, Wildlife International Network from October 2002 to December 2005, Endoscopic Technologies from November 2002 to March 2004, Biolog from January 2000 to December 2002 and Webware from August 2000 to August 2002. Prior to this, Mr. Miller was the chief financial officer for GAF Corporation, Penwest Ltd. and Bugle Boy and treasurer of Mead Corporation. He received a B.A. in economics from Stanford University and an M.B.A. in finance from Columbia University.

**James Schutz, Chief Operating Officer, General Counsel, Corporate Secretary and Director:** James Schutz has served as vice president of corporate development and general counsel since August 2003, as a director since May 2004 and corporate secretary since June 2006. From August 2001 to August 2003, Mr. Schutz served as general counsel at Jomed (formerly EndoSonic Corp.), an international medical device company. From 1999 to July 2001, Mr. Schutz served as in-house counsel at Urban Media Communications Corporation, an Internet/telecom company based in Palo Alto, California. Mr. Schutz received a B.A. in economics from the University of California, San Diego and a J.D. from the University of San Francisco School of Law.

**Bruce Thornton, Executive Vice President:** Bruce Thornton has served as vice president of international operations and sales since June 2005. Mr. Thornton served as general manager for U.S. operations from March 2004 to July 2005. He served as vice president of operations for Jomed (formerly EndoSonic Corp.) from January 1999 to September 2003, and as vice president of manufacturing for Volcano Therapeutics, an international medical device company, following its acquisition of Jomed, until March 2004. Mr. Thornton received a B.S. in aeronautical science from Embry-Riddle Aeronautical University and an M.B.A. from National University.

**Robert Northey Ph.D., Director of Research and Development:** Robert Northey, Ph.D. has served as director of research and development since July 2005. Dr. Northey served as a consultant to Oculus from May 2001 to June 2005. From August 1998 until June 2005, he was an assistant professor in the paper science and engineering department at the University of Washington. Dr. Northey received a B.S. in wood and fiber science and a Ph.D. in wood chemistry, each from the University of Washington.

### **Independent Directors**

**Gregg Alton:** Gregg Alton has served as a director since January 2008. Mr. Alton is currently a senior vice president, general counsel and secretary at Gilead Sciences, Inc. His expertise lies in the areas legal affairs, public affairs, government affairs, and international access operations of publicly traded biopharmaceutical company. In addition, Mr. Alton is a member and chairman of Gilead Healthcare PAC, and a member of the board of Gilead Foundation. Since joining Gilead Sciences Inc. as associate general counsel in 1999, Mr. Alton has managed the company's departments of U.S. and European legal affairs; intellectual property; public affairs; international access operations; government affairs; and global government affairs. Previously, Mr. Alton was a corporate associate at the mergers and acquisitions group Cooley Godward LLP, where he counseled technology and biotechnology clients in transaction structures and related documentation. Prior to that, Mr. Alton served a similar role as a corporate associate at Mintz, Levin, Cohn, Ferris, Glovsky & Popeco. He received a BA in legal studies from the University of California at Berkeley, and a JD from Stanford Law School.

**Jay Birnbaum:** Jay Birnbaum has served as a director since April 2007. Dr. Birnbaum is a pharmacologist and previous to his current role as a consultant to pharmaceutical companies, he served as vice president of global project management at Novartis/Sandoz Pharmaceuticals Corporation, where he had responsibility for strategic planning and development of the company's dermatology portfolio. Dr. Birnbaum is a co-founder of Kythera Biopharmaceuticals, a company developing products in aesthetic and restorative dermatology, as well as a member of NanoBio Corporation's scientific advisory board. He received both an M.S. and Ph.D. in pharmacology from the University of Wisconsin and a B.S. in biology from Trinity College in Connecticut.

**Richard Conley:** Richard Conley has served as a director since 1999, and served as secretary from July 2002 to June 2006. Since April 2001, Mr. Conley has served as executive vice president and chief operating officer at Don Sebastiani & Sons International Wine Negotiants, a branded wine marketing company. From 1994 to March 2001, he served as senior vice president and chief operating officer at Sebastiani Vineyards, a California wine producer, where he was originally hired as chief financial officer in 1994. Mr. Conley received a B.S. in finance and accounting from Western Carolina University and an M.B.A. from St. Mary's University.

**Greg French:** Gregory French has served as a director since 2000. Mr. French is owner and chairman of the board of G&C Enterprises LLC, a real estate and investment company, which he founded in 1999. He held various engineering and senior management positions at several medical device companies, including Advanced Cardiovascular Systems, Peripheral Systems Group and Arterial Vascular Engineering. Mr. French received a B.S.I.E. from the California State Polytechnic University, San Luis Obispo.

## Risks

Some of the operational and financial risks to Oculus Innovative Sciences are:

- **FDA and Regulatory risks:** All of Oculus Innovative Sciences products are reliant on approvals by the U.S. FDA and other national regulatory bodies. There can be no guarantee of timely or definite FDA or other national regulatory body approvals for any of their products.
- **Need to Raise Additional Funds:** Although it is possible that Oculus Innovative Sciences may raise sufficient operating funds for development through warrant conversions, partnerships and/or debt, we believe that the company will be required to raise additional funds during the forecast period through the issuance of stock which would be dilutive to existing shareholders and could potentially affect the share price. We have included our estimate of future share issuance in our financial model but there can be no guarantee that our estimates are accurate.
- **Partnerships:** Oculus Innovative Sciences is reliant on partners to successfully market some its products as well as partners for development and regulatory filings for some of its products. Failure of Oculus Innovative Sciences existing or future partners to perform satisfactorily or in a timely fashion could adversely impact the company's financial position.
- **Reimbursement:** Oculus Innovative Sciences ability to commercialize products successfully depends in part on government and private health insurers reimbursement for the cost of their products. There is significant uncertainty concerning reimbursement of newly approved medical products and drugs due to ongoing federal and state government initiatives directed at lowering the total cost of health care. The announcement or adoption of these initiatives could reduce the reimbursement for their products in the future.
- **Foreign Currency:** During fiscal years ended March 31, 2011, 2010 and 2009, approximately 62%, 69% and 76% of Oculus Innovative Sciences total revenues were generated from sales outside of the United States. Fluctuations in Foreign Exchange gains or losses could adversely impact operating results and demand for their products.
- **Patent Litigation:** Third-party claims of infringement of intellectual property could require Oculus Innovative Sciences to spend time and money on defending their intellectual property rights up to and including adverse judgments against Oculus.
- **Sector Rotation:** Oculus Innovative Sciences is a small medical technology company often kept in a portfolio with similar companies. In such cases, a significant event for one company may have a material impact on the valuation of all similar companies regardless of their unique qualities.

**Consolidated Income Statement**  
(in \$000s, except EPS)

FYE March 31st

	Mar 31 2009	Mar 31 2010	Jun 30 2010	Sep 30 2010	Dec 31 2010	Mar 31 2011	Jun 30 2011	Sep 30 2011	Dec 31 2011E	Mar 31 2012E	Jun 30 2012E	Sep 30 2013E	Dec 31 2013E	Mar 31 2014E
<b>Revenue</b>														
Sales United States	298	1,196	522	918	477	867	2,784	840	1,446	1,000	1,300	4,586	9,860	21,692
Services United States	973	1,066	219	184	310	215	928	230	273	285	250	1,038	1,142	1,256
Sales Mexico	3,273	3,880	998	1,054	1,082	1,173	4,307	1,380	1,304	800	1,250	4,734	5,918	7,397
Sales Europe / Other	<u>844</u>	<u>1,222</u>	<u>525</u>	<u>310</u>	<u>444</u>	<u>456</u>	<u>1,735</u>	<u>490</u>	<u>640</u>	<u>500</u>	<u>600</u>	<u>2,230</u>	<u>4,906</u>	<u>8,586</u>
Net Sales	5,388	7,364	2,264	2,466	2,313	2,711	9,754	2,940	3,663	2,585	3,400	12,588	21,825	38,930
Cost of Goods Sold	1,673	2,633	696	638	925	617	2,876	790	668	650	995	3,103	6,205	11,302
Cost of Services	<u>913</u>	<u>853</u>	<u>179</u>	<u>155</u>	<u>239</u>	<u>164</u>	<u>737</u>	<u>201</u>	<u>217</u>	<u>239</u>	<u>200</u>	<u>857</u>	<u>856</u>	<u>942</u>
Total Cost of Sales	<u>2,586</u>	<u>3,486</u>	<u>875</u>	<u>793</u>	<u>1,164</u>	<u>781</u>	<u>3,613</u>	<u>991</u>	<u>885</u>	<u>889</u>	<u>1,195</u>	<u>3,960</u>	<u>7,061</u>	<u>12,244</u>
Gross Profit	2,802	3,878	1,389	1,673	1,149	1,930	6,141	1,949	2,778	1,696	2,205	8,628	14,764	26,686
Gross Profit Margin Products	62%	58%	66%	72%	54%	75%	67%	71%	80%	72%	68%	73%	70%	70%
Gross Profit Margin Services	<u>6%</u>	<u>20%</u>	<u>18%</u>	<u>16%</u>	<u>23%</u>	<u>24%</u>	<u>21%</u>	<u>13%</u>	<u>21%</u>	<u>16%</u>	<u>20%</u>	<u>17%</u>	<u>25%</u>	<u>25%</u>
Total Gross Profit Margin	52%	53%	61%	68%	50%	71%	63%	66%	76%	66%	65%	69%	68%	69%
<b>Operating Expenses</b>														
Research & Development	6,252	1,996	396	553	467	630	2,046	436	560	515	630	2,141	2,355	2,708
Sales, General & Administrative	<u>13,857</u>	<u>9,898</u>	<u>3,389</u>	<u>2,765</u>	<u>2,760</u>	<u>2,686</u>	<u>11,600</u>	<u>3,531</u>	<u>2,848</u>	<u>2,400</u>	<u>3,050</u>	<u>11,829</u>	<u>13,603</u>	<u>15,644</u>
Total Operating Expenses	<u>20,109</u>	<u>11,894</u>	<u>3,785</u>	<u>3,318</u>	<u>3,227</u>	<u>3,316</u>	<u>13,646</u>	<u>3,967</u>	<u>3,408</u>	<u>2,915</u>	<u>3,680</u>	<u>13,970</u>	<u>15,958</u>	<u>18,352</u>
Income from Operations	(17,307)	(8,016)	(2,396)	(1,645)	(2,078)	(1,386)	(7,505)	(2,018)	(630)	(1,219)	(1,475)	(5,342)	(1,195)	8,334
Operating Margin	-321%	-109%	-106%	-67%	-90%	-51%	-77%	-69%	-17%	-47%	-43%	-42%	-5%	21%
Interest Income	152	2	0	1	2	0	3	1	1	2	0	4	4	4
Interest Expense	(437)	(9)	(59)	(88)	(109)	(150)	(406)	(162)	(230)	(320)	(320)	(1,032)	(200)	(100)
Derivatives Income (Loss)	0	(149)	88	166	(55)	(64)	135	96	121	(300)	125	42	(600)	(400)
Total Other Income/Expense	<u>(64)</u>	<u>(60)</u>	<u>(8)</u>	<u>(83)</u>	<u>10</u>	<u>(94)</u>	<u>(175)</u>	<u>(92)</u>	<u>(101)</u>	<u>(30)</u>	<u>(30)</u>	<u>(253)</u>	<u>(100)</u>	<u>(100)</u>
Income Before Tax	(17,656)	(8,232)	(2,375)	(1,649)	(2,230)	(1,694)	(7,948)	(2,175)	(839)	(1,867)	(1,700)	(6,581)	(2,091)	7,738
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income from Continuing Operations	(17,656)	(8,232)	(2,375)	(1,649)	(2,230)	(1,694)	(7,948)	(2,175)	(839)	(1,867)	(1,700)	(6,581)	(2,091)	7,738
EPS - Diluted	<u>(\$1.09)</u>	<u>(\$0.36)</u>	<u>(\$0.09)</u>	<u>(\$0.06)</u>	<u>(\$0.08)</u>	<u>(\$0.06)</u>	<u>(\$0.30)</u>	<u>(\$0.08)</u>	<u>(\$0.03)</u>	<u>(\$0.06)</u>	<u>(\$0.05)</u>	<u>(\$0.23)</u>	<u>(\$0.07)</u>	<u>\$0.24</u>
Shares Outstanding - Diluted	16,221	22,993	26,215	26,321	26,431	26,529	26,374	26,711	26,828	30,852	31,161	28,888	31,784	32,420
<b>Other Comprehensive Loss, Net of Tax</b>														
Net Loss	(17,656)	(8,232)	(2,375)	(1,649)	(2,230)	(1,694)	(7,948)	(2,175)	(839)	(1,867)	(1,700)	(6,581)	(2,091)	7,738
Foreign Currency Translation Adjustments	<u>(2,411)</u>	<u>(279)</u>	<u>71</u>	<u>42</u>	<u>(5)</u>	<u>(21)</u>	<u>87</u>	<u>33</u>	<u>(174)</u>	<u>(40)</u>	<u>(40)</u>	<u>(221)</u>	<u>(200)</u>	<u>(100)</u>
Other Comprehensive Loss	(20,067)	(8,511)	(2,304)	(1,607)	(2,235)	(1,715)	(7,861)	(2,142)	(1,013)	(1,907)	(1,740)	(6,802)	(2,291)	7,638

**Balance Sheets**  
(in \$000s)

	3/31/10	3/31/11	9/30/11
<b>Assets:</b>			
Cash and Marketable Securities	\$6,258	\$4,371	\$3,622
Accounts Receivable	1,416	2,094	2,074
Inventory	565	733	887
Prepaid Expenses & Other Current Assets	<u>811</u>	<u>611</u>	<u>339</u>
Total Current Assets	\$9,050	\$7,809	\$6,922
Property & Equip, net	1,108	802	722
Debt Issuance Costs, net	0	0	0
Other Assets	60	53	119
<b>TOTAL ASSETS</b>	<u>\$10,218</u>	<u>\$8,664</u>	<u>\$7,763</u>
<b>Liabilities:</b>			
Accounts Payable	\$981	\$669	\$605
Accrued Expenses & Other Current Liabilities	760	694	736
Deferred Revenue, ST	318	1,808	1,895
Capital Lease Obligations ST	0	0	0
Debt ST	204	907	852
Derivative Liability ST	<u>472</u>	<u>337</u>	<u>119</u>
Total Current Liabilities	\$2,735	\$4,415	\$4,207
Deferred Revenue LT	328	160	147
Debt LT	110	1,638	1,701
Put Warrant Liability	0	750	1,844
Capital Lease Obligations LT	0	0	0
Stockholders' Equity	<u>7,045</u>	<u>1,701</u>	<u>(136)</u>
<b>TOTAL LIAB. &amp; EQ</b>	<u>\$10,218</u>	<u>\$8,664</u>	<u>\$7,763</u>

**NOTES**

1. As of March 31, 2011, there were Federal net operating loss carryforwards of approx \$77M

**DISCLOSURES**



Ratings and Price Target Changes over Past 3 Years  
Initiated June 23, 2010 – Strong Buy - Price Target \$4.75

**Analyst Certification:** We, Stephen M. Dunn and William D. Dawson, the authors of this research report certify that a.) All of the views expressed in this report accurately reflect our personal views about any and all of the subject securities or issuers discussed b.) No part of our compensation is directly or indirectly related to the specific recommendations or views expressed in this research report and c.) We may be eligible to receive other compensation based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

**DISCLOSURES**

Does the Analyst or any member of the Analyst's household have a financial interest in any securities of the Company?	NO
Does the Analyst or any member of the Analyst's household or Firm serve as an officer, director or advisory board member of the Company?	NO
Has the Analyst or any member of the Analyst's household received compensation directly or indirectly from the Company in the previous 12 months?	NO
Does the Firm or affiliates beneficially own ≥1% of the Company's common stock?	NO
Has the Firm or affiliates received investment banking services compensation in previous 12 months?	NO
Has the Firm or affiliates received non-investment banking securities-related services compensation in previous 12 months?	NO
Does the Firm or affiliates expect to receive or intend to seek investment banking compensation in next 3 months?	YES
Has the Firm or affiliates received non-securities services compensation in previous 12 months?	YES
Does the Firm or affiliates make a market in the Company's securities?	NO

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**Ratings Definitions:** 1) **Strong Buy:** the stock is expected to appreciate and produce a total return of at least 40% over the next 12-18 months; 2) **Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; 3) **Strong Speculative Buy:** the stock is expected to appreciate and produce a total return of at least 40% over the next 12-18 months but **the volatility and investment risk is substantially higher** than our "Strong Buy" recommendation; 4) **Speculative Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months but **the volatility and investment risk is substantially higher** than our "Buy" recommendation; 5) **Neutral:** the stock is fairly valued for the next 12-18 months; 6) **Avoid/Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be avoided or sold if held; 7) **Under Review:** the previous rating and/or price target is suspended due to a significant event which now requires additional analysis and the previous rating and/or price target cannot be relied upon; 8) **Not Rated:** the stock has too much business or financial uncertainty to form an investment conclusion or is currently in the process of being acquired and 9) **Restricted:** coverage cannot be initiated or has been temporarily suspended to comply with applicable regulations and/or firm policies in certain circumstances such as investment banking or an advisory capacity involving the company.

LifeTech Capital Research	Research Coverage	Investment Banking	FINRA RULE 2711	Research Coverage	Investment Banking
Ratings Distribution	% of Total	% of Total	Ratings Distribution	% of Total	% of Total
Strong Buy	17%	50%	Buy	83%	60%
Strong Speculative Buy	67%	63%	Hold/Neutral	8%	0%
Buy	0%	0%	Sell	8%	0%
Speculative Buy	0%	0%	Total	100%	50%
Neutral	8%	0%			
Avoid/Sell	8%	0%			
Under Review	0%	0%			
Not Rated	0%	0%			
Restricted	0%	0%			
Total	100%	50%			

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