February 12, 2015

Oculus Innovative Sciences Reports Financial Results for the Third Quarter of Fiscal Year 2015

- **Total revenue of $3.2 million for the third quarter**
- **Oculus has agreed to sell its two million shares of common stock held in Ruthigen, Inc. (Nasdaq:RTGN) for $5.5 million if a Ruthigen merger transaction occurs**
- **Oculus added $5.3 million to its cash position on January 26, 2015, from the sale of common shares and warrants, net of offering costs**

Conference Call Begins at 4:30 p.m. (ET) Today

PETALUMA, Calif., Feb. 12, 2015 (GLOBE NEWSWIRE) -- Oculus Innovative Sciences, Inc. (Nasdaq: Common Stock-OCLS and Warrants-OCLSW) today announced financial results for the third quarter of fiscal year 2015, which ended on December 31, 2014. Total revenue was $3.2 million for the third quarter as compared to $3.3 million for the same period in 2013. Product revenues were down 2% from the same period last year, with a decrease in United States, which was mostly offset by increases in Europe, Mexico, Middle East and India.

"We are implementing three key initiatives that we believe will return us to strong overall revenue growth in conjunction with the continued high growth of our international business," said Jim Schutz, Oculus CEO. "First, over the next two quarters, we intend to launch six new human healthcare products in the United States, using our direct sales force. Second, building on our solid sales performance in Europe, along with the recent CE Mark approvals for the treatment of acne, scars, atopic dermatitis and certain skin procedures, we intend to create a country-specific European dermatology distribution network. Third, we have selected two new partners, highly experienced in the animal healthcare space, to launch the MicrocynAH animal healthcare family of products in the United States beginning in 2015."

Results for the Three Months Ended December 31, 2014

Product revenue in Mexico for the three months ended December 31, 2014, of $1.5 million, increased $222,000, or 18%, when compared to the same period in the prior year, with an increase of 32% in product revenue, calculated in pesos. The increased revenue is due to the strong growth in the sales of Microcyn®-based hydrogel and 120-milliliter liquid products. Additionally, for the three months ended December 31, 2014 and 2013, $378,000 and $379,000, respectively, was recognized related to the amortization of the upfront license fees paid by Oculus' sales partner in Mexico.

Revenue in Europe and Rest of the World for the three months ended December 31, 2014, increased $239,000, or 47%, to $750,000 as compared to the same period in the prior year, with increases in Europe, Middle East and India, partly offset by a slight decrease in Singapore. The increase in Europe is largely the result of new advanced wound tissue line extensions including a gel product, as well as the addition of new European distributors. The large sales increase in the Middle East relates to the timing of periodic orders.

Total product revenues in the United States were $820,000 for the three months ended December 31, 2014, as compared to $1.3 million in the quarter ended December 31, 2013. Product revenues were down $511,000 from the same period last year, caused mostly by lower sales in animal health care, related to the transition to a new partner, partially offset by increased sales of dermatology and advanced tissue care products sold by Oculus' direct sales force. Oculus has deployed a direct sales force focused on dermatology, which has launched three new products into the U.S. dermatology market this quarter. Oculus expects to re-launch the Microcyn line into the animal health care market with this new partner over the next several months.

Oculus reported gross profit related to the company's products of $1.6 million, or 53% of product revenues, during the three months ended December 31, 2014, compared to a gross profit of $2.1 million, or 67% of product revenues, for the same period in the prior year. Licensing revenues are included in the calculation of product revenues and gross profit for the quarters ended December 31, 2014 and 2013, which amounted to $379,000 and $629,000. Gross margins declined primarily as a result of the decline in U.S. sales.

Total operating expenses of $3.6 million for the three months ended December 31, 2014, decreased by $50,000, or 1%, as compared to the same period in the prior year. Operating expenses minus non-cash expenses during the third quarter of fiscal year 2015 were $3.2 million, down $3,000 as compared to the same period in the prior year. The slight decrease in operating expenses, minus non-cash expenses, was due to lower expenses related to the company's previously consolidated, wholly owned subsidiary, Ruthigen, mostly offset by higher sales and marketing expenses in the United States.

Research and development expenses of $367,000 for the three months ended December 31, 2014, decreased $408,000, or 53%, when compared to the same period in the prior year. The decrease is largely due to $395,000 related to expenses incurred during the three months ended December 31, 2013, by the company's formerly wholly owned subsidiary Ruthigen, partially offset by an increase of $37,000 incurred during the three months ended December 31, 2014, related to stock compensation expense. Selling, general and administrative expense for the three months ended December 31, 2014, increased $358,000, or 12%, when compared for the same period in the prior year. The increase for the three months ended December 31, 2014, was primarily due to higher sales and marketing expenses in the United States, as Oculus added to its direct sales force in dermatology and acute care, partially offset by a decrease of $263,000 related to expenses incurred by the company's formerly wholly owned subsidiary, Ruthigen, in the prior period.

Net loss for the three months ended December 31, 2014 was $5.9 million, an increase of

$5.3 million, as compared to net loss of $611,000 for the same period in the prior year. The increase is primarily due to an impairment loss recorded in the three months ended December 31, 2014, in the amount of $4,650,000, related to Oculus' investment in Ruthigen.

As of December 31, 2014, Oculus had unrestricted cash and cash equivalents of $2.2 million, as compared with $5.5 million at March 31, 2014, and has no debt outstanding. On January 26, 2015, Oculus closed an underwritten public offering with net proceeds of $5.3 million. On January 12, 2015, Oculus announced that it agreed to sell two million Ruthigen shares for $5.5 million to an investor if a merger of Ruthigen occurs.

Results for Nine Months Ending December 31, 2014

Total revenues were $9.9 million for the nine months ended December 31, 2014, as compared to $10.8 million for the same period in the prior year. Product revenues, including product licensing fees received, for the nine months ended December 31, 2014, decreased $814,000, or 8%, to $9.3 million, as compared to $10.1 million for the same period in the prior year, with decreases in sales in the United States and China, partially offset by increases in Europe, Mexico, the Middle East and Singapore.

Oculus reported gross profit related to sales of its products of $5.2 million, or 56% of product revenues, for the nine months ended December 31, 2014, compared to a gross profit of $6.8 million, or 68% of product revenues, for the same period in the prior year. Total operating expenses minus non-cash expenses decreased $750,000, for the nine months compared to the same period in the prior year. Operating loss minus non-cash expenses (EBITDAS) for the nine months ended December 31, 2014, was $3.5 million, compared to $2.6 million for the same period last year.

Conference Call

Oculus' management will hold a conference call today to discuss third quarter fiscal year 2015 results and answer questions, beginning at 4:30 p.m. ET. Individuals interested in participating in the conference call may do so by dialing 877-303-7607 for domestic callers or 973-638-3203 for international callers.

Those interested in listening to the conference call live via the Internet may do so at http://ir.oculusis.com/events.cfm. Please log on approximately 30 minutes prior to the presentation in order to register and download the appropriate software.

A telephone replay will be available for seven days following the conclusion of the call by dialing 855-859-2056 for domestic callers, or 404-537-3406 for international callers, and entering conference code 65129609. A webcast replay will be available on the site at http://ir.oculusis.com/events.cfm for one year following the call.

About Oculus Innovative Sciences, Inc.

Oculus Innovative Sciences 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 internationally, have improved outcomes for more than five million patients globally by reducing infections, itch, pain, scarring and harmful inflammatory responses. The company's headquarters are in Petaluma, California, with manufacturing operations in the United States and Latin America. European marketing and sales are headquartered in Roermond, Netherlands. More information can be found at www.oculusis.com.

Forward-Looking Statements

Except for historical information herein, matters set forth in this press release are forward-looking within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including statements about the commercial and technology progress and future financial performance of Oculus Innovative Sciences, Inc. and its subsidiaries (the "Company"). These forward-looking statements are identified by the use of words such as "believe," "preparing," "anticipates," and "launch," "create," among others. Forward-looking statements in this press release are subject to certain risks and uncertainties inherent in the Company's business that could cause actual results to vary, including such risks that regulatory clinical and guideline developments may change, scientific data may not be sufficient to meet regulatory standards or receipt of required regulatory clearances or approvals, clinical results may not be replicated in actual patient settings, protection offered by the Company's patents and patent applications may be challenged, invalidated or circumvented by its competitors, the available market for the Company's products will not be as large as expected, the Company's common stock and warrants may be delisted from NASDAQ, the Company's products will not be able to penetrate one or more targeted markets, revenues will not be sufficient to fund further development and clinical studies, the Company may not meet its future capital needs, the Company may not be able to obtain additional funding, as well as uncertainties relative to varying product formulations and a multitude of diverse regulatory and marketing requirements in different countries and municipalities, and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission including its annual report on Form 10-K for the year ended March 31, 2014. The Company disclaims any obligation to update these forward-looking statements, except as required by law.

Oculus and Microcyn® Technology are trademarks or registered trademarks of Oculus Innovative Sciences, Inc. All other trademarks and service marks are the property of their respective owners.

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 31,	March 31,
	2014	2014
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,240	$ 5,480

Accounts receivable, net	1,416	1,790
Due from affiliate	–	537
Inventories, net	1,351	1,088
Prepaid expenses and other current assets	190	647
Total current assets	5,197	9,542
Property and equipment, net	807	971
Deferred offering cost	250	–
Long-term investment	5,500	10,150
Other assets	80	128
Total assets	$ 11,834	$ 20,791
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 942	$ 736
Accrued expenses and other current liabilities	833	889
Deferred revenue	1,561	2,629
Current portion of long-term debt	6	143
Derivative liabilities	177	3,175
Total current liabilities	3,519	7,572
Deferred revenue	487	1,152
Long-term debt, less current portion	–	4
Total liabilities	4,006	8,728
Commitments and Contingencies		
Stockholders' Equity		
Convertible preferred stock, $0.0001 par value; 714,286 shares authorized, none issued and outstanding at December 31, 2014 (unaudited) and March 31, 2014, respectively	–	–
Common stock, $0.0001 par value; 30,000,000 shares authorized, 8,660,580 and 8,160,145 shares issued and outstanding at December 31, 2014 (unaudited) and March 31, 2014, respectively	1	1
Additional paid-in capital	151,912	149, 141
Accumulated other comprehensive loss	(3,373)	(3,069)
Accumulated deficit	(140,712)	(134,010)
Total stockholders' equity	7,828	12,063
Total liabilities and stockholders' equity	$ 11,834	$ 20,791

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2014	**2013**	**2014**	**2013**
Revenues				
Product	$ 2,651	$ 2,450	$ 8,142	$ 8,627

Product licensing fees	378	629	1,130	1,459
Service	189	214	602	668
Total revenues	3,218	3,293	9,874	10,754
Cost of revenues				
Product	1,417	1,023	4,107	3,247
Service	145	161	473	493
Total cost of revenues	1,562	1,184	4,580	3,740
Gross profit	1,656	2,109	5,294	7,014
Operating expenses				
Research and development	367	775	1,159	2,165
Selling, general and administrative	3,238	2,880	9,142	8,792
Total operating expenses	3,605	3,655	10,301	10,957
Loss from operations	(1,949)	(1,546)	(5,007)	(3,943)
Interest expense		(618)	(4)	(1,056)
Interest income	1	–	1	1
Gain due to change in fair value of common stock	–	1,567	–	1,357
Gain due to change in fair value of derivative liabilities	679	–	2,998	–
Loss on impairment of investment held at cost	(4,650)	–	(4,650)	–
Other income (expense), net	5	(14)	(40)	(81)
Net loss	$ (5,914)	$ (611)	$ (6,702)	$ (3,722)
Net loss per common share: basic and diluted	$ (0.69)	$ (0.09)	$ (0.79)	$ (0.56)
Weighted-average number of shares used in per common share calculations:				
Basic and diluted	8,600	6,810	8,494	6,687
Other comprehensive loss				
Net loss	$ (5,914)	$ (611)	$ (6,702)	$ (3,722)
Foreign currency translation adjustments	(202)	8	(304)	(78)
Comprehensive loss	$ (6,116)	$ (603)	$ (7,006)	$ (3,800)

OCULUS INNOVATIVE SCIENCES, INC. AND SUBSIDIARIES

Reconciliation of GAAP Measures to Non-GAAP Measures

(In thousands)

(Unaudited)

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2014	**2013**	**2014**	**2013**
(1) Loss from operations minus non-cash expenses (EBITDAS):				
GAAP loss from operations as reported	$ (1,949)	$ (1,546)	$ (5,007)	$ (3,943)
Non-cash adjustments:				
Stock-based compensation	447	448	1,354	1,114
Depreciation and amortization	91	75	192	211
Non-GAAP loss from operations minus non-cash expenses (EBITDAS)	$ (1,411)	$ (1,023)	$ (3,461)	$ (2,618)

(2) Net loss minus non-cash expenses:				
GAAP net loss as reported	$ (5,914)	$ (611)	$ (6,702)	$ (3,722)
Non-cash adjustments:				
Stock-based compensation	447	448	1,354	1,114
Depreciation and amortization	91	75	192	211
Gain due to change in fair value of common stock	–	(1,567)	–	(1,357)
Gain due to change in fair value of derivative instruments	(679)	–	(2,998)	–
Loss on impairment of investment	4,650	–	4,650	–
Non-cash interest expense	–	569	–	863
Non-GAAP net loss minus non-cash expenses	$ (1,405)	$ (1,086)	$ (3,504)	$ (2,891)
(3) Operating expenses minus non-cash expenses				
GAAP operating expenses as reported	$ 3,605	$ 3,655	$ 10,301	$ 10,957
Non-cash adjustments:				
Stock-based compensation	(389)	(420)	(1,173)	(1,030)
Depreciation and amortization	(8)	(24)	(33)	(82)
Non-GAAP operating expenses minus non-cash expenses	$ 3,208	$ 3,211	$ 9,095	$ 9,845

(1) Loss from operations minus non-cash expenses (EBITDAS) is a non-GAAP financial measure. The Company defines operating loss minus non-cash expenses as GAAP reported operating loss minus operating depreciation and amortization, and operating stock-based compensation. The Company uses this measure for the purpose of modifying the operating loss to reflect direct cash related transactions during the measurement period.

(2) Net loss minus non-cash expenses is a non-GAAP financial measure. The Company defines net loss minus non-cash expenses as GAAP reported net loss minus depreciation and amortization, stock-based compensation, a change in fair value of common stock, a change in the fair value of derivative instruments, loss on impairment of investment, and non-cash interest expense. The Company uses this measure for the purpose of modifying the net loss to reflect only those expenses to reflect direct cash transactions during the measurement period.

(3) Operating expenses minus non-cash expenses is a non-GAAP financial measure. The Company defines operating expenses minus non-cash expenses as GAAP reported operating expenses minus operating depreciation and amortization, and operating stock-based compensation. The Company uses this measure for the purpose of identifying total operating expenses involving cash transactions during the measurement period.

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