

**NOVABAY PHARMACEUTICALS, INC**

**(formerly NovaCal Pharmaceuticals Inc. )**

**(a developmental stage company)**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except per share data)**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,739	\$ 10,941
Short-term investments	3,463	11,412
Prepaid expenses and other current assets	773	419
Total current assets	<u>15,975</u>	<u>22,772</u>
Property and equipment, net	1,449	1,150
<b>TOTAL ASSETS</b>	<u><u>\$ 17,424</u></u>	<u><u>\$ 23,922</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 457	\$ 142
Accrued liabilities	1,350	1,141
Capital lease obligation	40	37
Equipment loan	357	219
Deferred revenue	3,468	3,039
Total current liabilities	<u>5,672</u>	<u>4,578</u>
Capital lease obligation - non-current	18	49
Equipment loan - non-current	565	497
Deferred revenue - non-current	2,539	4,478
Total liabilities	<u>8,794</u>	<u>9,602</u>
Stockholders' Equity:		
Common stock, \$0.01 par value; 65,000 and 65,000 shares authorized at September 30, 2008 and December 31, 2007, respectively, 21,457 and 21,269 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	214	212
Additional paid-in capital	33,437	32,585
Accumulated other comprehensive income (loss)	31	(3)
Accumulated deficit during development stage	(25,052)	(18,474)
Total stockholders' equity	<u>8,630</u>	<u>14,320</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 17,424</u></u>	<u><u>\$ 23,922</u></u>

**NOVABAY PHARMACEUTICALS, INC**  
**(formerly NovaCal Pharmaceuticals Inc. )**  
**(a developmental stage company)**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**(in thousands, except per share data)**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative Period from July 1, 2002 (date of development stage inception) to September 30,
	2008	2007	2008	2007	2008
<b>REVENUE</b>					
License and collaboration revenue	\$ 1,592	\$ 1,444	\$ 4,526	\$ 4,392	\$ 11,972
Total revenue	<u>1,592</u>	<u>1,444</u>	<u>4,526</u>	<u>4,392</u>	<u>11,972</u>
<b>EXPENSES</b>					
Operating Expenses:					
Research and development	1,443	2,051	6,263	5,580	21,675
General and administrative	1,715	1,021	5,173	3,125	16,501
Total operating expenses	<u>3,158</u>	<u>3,072</u>	<u>11,436</u>	<u>8,705</u>	<u>38,176</u>
Other income, net	<u>77</u>	<u>72</u>	<u>334</u>	<u>307</u>	<u>1,166</u>
Net loss before income taxes	(1,489)	(1,556)	(6,576)	(4,006)	(25,038)
Provision for income taxes	-	-	(2)	-	(14)
Net loss	<u>\$ (1,489)</u>	<u>\$ (1,556)</u>	<u>\$ (6,578)</u>	<u>\$ (4,006)</u>	<u>\$ (25,052)</u>
Net loss per share:					
Basic and diluted	\$ (0.07)	\$ (0.24)	\$ (0.31)	\$ (0.62)	
Shares used in per share calculations:					
Basic and diluted	21,443	6,564	21,313	6,494	

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)  
(unaudited)

	Nine Months Ended September 30,		Cumulative Period from July 1, 2002 (date of development stage inception) to September 30,
	2008	2007	2008
<b>Cash flows from operating activities:</b>			
Net loss	\$ (6,578)	\$ (4,006)	\$ (25,052)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	222	128	622
Accretion of discount on short-term investments	(40)	(81)	(318)
Net realized (gain) loss on sales of short-term investments	(4)	(88)	28
Loss on disposal of property and equipment	-	-	121
Stock-based compensation expense for options issued to employees and directors	667	287	1,408
Compensation expense for warrants issued for services	44	-	44
Stock-based compensation expense for options and stock issued to non-employees	(9)	130	354
Taxes paid by LLC	-	-	1
Changes in operating assets and liabilities:			
Decrease in prepaid expenses and other assets	(354)	(138)	(768)
Increase in accounts payable and accrued liabilities	524	992	1,832
(Increase) decrease in deferred revenue	(1,510)	(839)	6,007
Net cash provided by (used in) operating activities	<u>(7,038)</u>	<u>(3,615)</u>	<u>(15,721)</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(521)	(371)	(2,071)
Proceeds from disposal of property and equipment	-	1	44
Purchases of short-term investments	(32,103)	(30,028)	(94,550)
Proceeds from maturities and sales of short-term investments	40,129	30,200	91,405
Cash acquired in purchase of LLC	-	-	516
Net cash provided by (used in) investing activities	<u>7,505</u>	<u>(198)</u>	<u>(4,656)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from preferred stock issuances, net	-	-	11,160
Proceeds from common stock issuances	-	-	17
Proceeds from exercise of options and warrants	153	99	1,761
Initial public offering costs	-	(926)	17,077
Proceeds from stock subscription receivable	-	-	873
Proceeds from issuance of notes	-	-	405
Principal payments on capital lease	(28)	(22)	(99)
Proceeds from borrowings under equipment loan	422	494	1,216
Principal payments on equipment loan	(216)	(46)	(294)
Tax benefit from stock plans	-	-	-
Net cash provided by (used in) financing activities	<u>331</u>	<u>(401)</u>	<u>32,116</u>
Net increase (decrease) in cash and cash equivalents	798	(4,214)	11,739
Cash and cash equivalents, beginning of period	10,941	4,903	-
Cash and cash equivalents, end of period	<u>\$ 11,739</u>	<u>\$ 689</u>	<u>\$ 11,739</u>