

NovaBay Pharmaceuticals, Inc. Announces Fourth Quarter and Full Year 2008 Financial Results
2008 and Recent Events Highlighted

EMERYVILLE, Calif. – April 1, 2009 – NovaBay Pharmaceuticals, Inc. (NYSE Amex: NBY), a mid-stage biopharmaceutical company developing first-in-class anti-infective products for the treatment and prevention of a wide range of infections without causing resistance, reported today its financial results for the fourth quarter and full year ended December 31, 2008. The company also announced clinical development progress and operational highlights during the year 2008.

License and collaboration revenue for the fourth quarter of 2008 increased 44% to \$2.2 million from \$1.5 million for the fourth quarter of 2007. The net loss for the fourth quarter of 2008 was \$(1.5) million, or \$(0.07) per share, compared to a net loss of \$(1.4) million, or \$(0.09) per share, reported for the fourth quarter of 2007. License and collaboration revenue for the year ended December 31, 2008 increased 14% to \$6.7 million, from \$5.9 million for the year ended December 31, 2007. The net loss for the year ended December 31, 2008 was \$8.1 million, or \$(0.38) per share, compared to a net loss of \$5.4 million, or \$(0.60) per share reported for the year ended December 31, 2007. As of December 31, 2008, the company's cash and cash equivalents totaled \$12.1 million.

“During 2008, NovaBay continued to advance development of our Aganocide[®] compounds, our proprietary, first-in-class anti-infective products that are designed to mimic the human body’s natural defense against infection without developing resistance,” said Dr. Ron Najafi, chairman and chief executive officer of NovaBay. “We have built on this solid progress in 2009, as evidenced by our recently announced exclusive agreement with Galderma to develop and commercialize our Aganocides for major dermatological conditions. This is NovaBay’s second collaboration with a worldwide market leader after our alliance with Alcon in the ophthalmic, otic and sinusitis fields. We expect to maintain a low cash burn in 2009 as we work closely with our partners that fund clinical development costs, and as we focus investment on developing our earlier-stage internal pipeline programs for which we anticipate proof-of-concept data later this year.”

2008 and Recent Highlights

- **Ophthalmic:** NovaBay continues to work closely with Alcon, Inc. to commercialize Aganocide compounds to treat infections of the eye, ear and sinus, and to develop the next generation of contact lens solutions. Alcon recently initiated a Phase I clinical trial of NVC-422 (*N,N*-dichloro-2,2-dimethyltaurine), NovaBay’s lead Aganocide compound, after receiving clearance of an Investigational New Drug (IND) application from the U.S. Food and Drug Administration in January 2009. The IND clearance triggered an immediate milestone payment of \$1 million from Alcon to NovaBay.
- **Dermatology:** In March 2009, NovaBay announced a global agreement with Galderma, S.A. to develop and commercialize Aganocides for large dermatological markets such as acne, impetigo and other conditions. Under the terms of the agreement, NovaBay expects

to receive from Galderma up to \$50 million upon achievement of certain development and regulatory milestones related to the acne and impetigo indications and escalating double digit royalties on future net sales of products. Galderma will be responsible for the development costs of the acne and other indications, except in Japan, and for the ongoing development program for impetigo, upon the achievement of a specified milestone. NovaBay also announced in March new data presented at the American Academy of Dermatology 67th Annual Meeting that showed NVC-422 achieved significant clinical and mycological efficacy *in-vivo* in treating subcutaneous dermatophyte infections based on an established animal model. Importantly, these data combined with the past preclinical work that showed NVC-422 kills *P. Acne*, in the follicle, strongly suggest that NVC-422 may be a potent and well-tolerated treatment for acne and other numerous serious skin infections.

- Hospital infections: In May 2008, NovaBay successfully completed a Phase I trial that showed NVC-422 was well tolerated in the bladder as a lavage solution for catheterized patients. In November 2008, the company commenced patient enrollment in a Phase II exploratory study of hospitalized patients who are catheterized and have bacteriuria. Data from this ongoing study, which is expected later this year, if positive, will provide support for future development plans for catheter-associated urinary tract infections, the most common hospital-acquired infection.
- Respiratory infections: In May 2008, NovaBay completed its Phase IIa study of NVC-422 for nasal decolonization of *Staphylococcus aureus*, including MRSA (Methicillin Resistant *Staphylococcus Aureus*). In this study, two concentrations of a prototype nasal spray formulation of NVC-422 were tested to decolonize the lower nasal passages and were both found to be well tolerated. Based on a statistical analysis the higher dose treatment group provided consistent *S. aureus* reduction below the baseline score throughout the treatment period.
- Intellectual property: NovaBay continues to solidify and expand its proprietary position in the Aganocide compounds and related antimicrobial technologies. NovaBay's key composition of matter patent for Aganocide compounds, including NVC-422, was issued by the U.S. Patent and Trademark Office in December 2008. This patent will expire in 2026. NovaBay has recently filed additional patent applications that cover compositions of matter of additional Aganocide compounds, methods of use and formulations, and is preparing further applications in other areas.

Financial Results

Fourth Quarter 2008 Financial Results

License and collaboration revenue for the fourth quarter of 2008 increased 44% to \$2.2 million from \$1.5 million for the fourth quarter of 2007. License and collaboration revenue consists of the amortization of the upfront technology access fees previously paid, and reimbursements for the funding of research and development activities.

The net loss for the fourth quarter of 2008 was \$(1.5) million, or \$(0.07) per share, compared to a net loss of \$(1.4) million, or \$(0.09) per share, reported for the fourth quarter of 2007.

Research and development expenses for the quarter ended December 31, 2008 totaled \$3.3 million, compared to \$1.8 million for the quarter ended December 31, 2007. The increase was largely due to the timing of pre-clinical and clinical trials.

General and administrative expenses for the quarter ended December 31, 2008 were \$0.5 million, compared to \$1.2 million in the comparable 2007 period.

NovaBay ended the quarter and year with \$12.1 million in cash and cash equivalents.

Full Year 2008 Financial Results

For the full year 2008, license and collaboration revenue totaled \$6.7 million, compared to \$5.9 for the year 2007.

NovaBay reported a net loss of \$(8.1) million, or \$(0.38) per share, for the full year 2008, compared to a net loss of \$(5.4) million, or \$(0.60) per share, for the full year 2007.

Research and development expenses for the full year 2008 were \$9.6 million compared with \$7.4 million for the full year 2007. The increase was primarily attributable to an increase in development/clinical expenses and higher employee costs due to an increase in headcount.

General and administrative expenses totaled \$5.6 million for the year ended December 31, 2008, compared with \$4.4 million for the year-ago period. This increase was due in part to an increase in employee costs and related increases in other employee benefits and recruiting expenses

About NovaBay Pharmaceuticals, Inc.

NovaBay Pharmaceuticals is a mid-stage biopharmaceutical company focused on developing its proprietary and patented Aganocide compounds, first-in-class, novel, synthetic anti-infective product candidates that are bioequivalent to the active antimicrobial molecules generated within white blood cells to treat and prevent a wide range of infections without causing resistance. NovaBay has internal development programs aimed at addressing hospital and respiratory infections. The company has a licensing and research collaboration agreement with Alcon, Inc. for use of its Aganocides in the eye, ear and sinus, and in contact lens solutions. NovaBay has entered into an agreement with Galderma S.A. to develop and commercialize Aganocides in acne, impetigo and other dermatological indications. NovaBay[®] and Aganocide[®] are trademarks of NovaBay Pharmaceuticals, Inc. For more information on NovaBay, visit www.novabaypharma.com.

Forward-Looking Statements

This release contains forward-looking statements, which are based upon management's current expectations, assumptions, estimates, projections and beliefs. Statements regarding NovaBay's expectations of its 2009 cash burn, anticipation of proof-of-concept data later in 2009 on its earlier-stage internal pipeline programs, that it will receive from Galderma up to \$50 million upon achievement of certain development and regulatory milestones, the development and potential benefits of, and the market opportunities for, NovaBay's product candidates, as well as other statements that relate to future events or results, are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or achievements to be materially different and adverse from those expressed in or implied by the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to: the risk that NovaBay may incur unexpected charges or need to or determined to engage in research and development not previously planned, which will cause NovaBay's cash burn to be greater than it expects; risks and uncertainties relating to difficulties or delays in discovery, development, testing, production and marketing of the company's product candidates; unexpected adverse side effects or inadequate therapeutic efficacy of the product candidates; the uncertainty of patent protection for the company's intellectual property or trade secrets; the company's ability to obtain additional financing as necessary; results obtained in animal models may not be obtained in humans; and the risk of unexpected delays in the regulatory process which may delay the commencement or completion of clinical trials. Other risks relating to NovaBay and Aganocide[®] compounds, including risks that could cause actual results to differ materially from those projected in the forward-looking statements in this press release, are detailed in NovaBay's Annual Report on Form 10-K for the period ended December 31, 2008, under the caption "Risk Factors" in Item 1A of Part I of that report, filed with the Securities and Exchange Commission on March 31, 2009. The forward-looking statements in this release speak only as of this date, and NovaBay disclaims any intent or obligation to revise or update publicly any forward-looking statement except as required by law.

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NOVABAY PHARMACEUTICALS, INC
(formerly NovaCal Pharmaceuticals Inc.)
(a developmental stage company)
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31, 2007	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,941	\$ 12,099
Short-term investments (Note 2)	11,412	-
Prepaid expenses and other current assets	419	414
Total current assets	22,772	12,513
Property and equipment, net (Note 4)	1,150	1,456
TOTAL ASSETS	\$ 23,922	\$ 13,969
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 142	\$ 406
Accrued liabilities (Note 5)	1,141	1,166
Capital lease obligation (Note 6)	37	42
Equipment loan (Note 7)	219	366
Deferred revenue	3,039	2,500
Total current liabilities	4,578	4,480
Capital lease obligation - non-current (Note 6)	49	7
Equipment loan - non-current (Note 7)	497	470
Deferred revenue - non-current	4,478	1,667
Total liabilities	9,602	6,624
Stockholders' Equity:		
Common stock, \$0.01 par value; 65,000 and 65,000 shares authorized at December 31, 2007 and December 31, 2008, respectively, 21,269 and 21,471 shares issued and outstanding at December 31, 2007 and December 31, 2008, respectively.	212	215
Additional paid-in capital	32,585	33,718
Accumulated other comprehensive income (loss)	(3)	-
Accumulated deficit during development stage	(18,474)	(26,588)
Total stockholders' equity	14,320	7,345
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 23,922	\$ 13,969

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,			Cumulative Period from July 1, 2002 (date of development stage inception) to December 31,
	2006	2007	2008	2008
REVENUE				
License and collaboration revenue	\$ 1,533	\$ 5,913	\$ 6,722	\$ 14,168
Total revenue	1,533	5,913	6,722	14,168
EXPENSES				
Operating Expenses:				
Research and development	4,087	7,421	9,595	25,007
General and administrative	2,972	4,368	5,636	16,964
Total operating expenses	7,059	11,789	15,231	41,971
Other income, net	240	488	397	1,229
Net loss before income taxes	(5,286)	(5,388)	(8,112)	(26,574)
Provision for income taxes	-	(12)	(2)	(14)
Net loss	\$ (5,286)	\$ (5,400)	\$ (8,114)	\$ (26,588)
Net loss per share:				
Basic and diluted	\$ (0.92)	\$ (0.60)	\$ (0.38)	
Shares used in per share calculations:				
Basic and diluted	5,715	8,974	21,312	