

NovaBay Pharmaceuticals, Inc. Reports First Quarter 2009 Financial Results

Milestone Payment from Alcon and Initial Payments from New Galderma Collaboration Resulted in Positive Cash-Flow for the Quarter

EMERYVILLE, Calif., May 18, 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 and operational highlights for the first quarter of 2009 ended March 31, 2009.

License and collaboration revenue for the first quarter of 2009 increased 75% to \$2.6 million from \$1.5 million for the first quarter of 2008. This revenue consisted almost exclusively of amounts earned under license and collaboration agreements with Alcon, Inc. (NYSE: ACL), a leader in the discovery, development, and commercialization of pharmaceutical products, in particular for the treatment of eye and ear infections and for contact lens care, commencing in August of 2006, and most recently, Galderma S.A, the leading dermatology company in the world. Payments from Alcon were related to on-going research and development support and a milestone payment triggered by the clearance of an Investigational New Drug (IND) application by the U.S. Food and Drug Administration (FDA). During this quarter, a license agreement and collaboration was entered into with Galderma S.A., a leader in the discovery, development, and commercialization of pharmaceutical products and medical devices for the prevention and treatment of skin diseases, for the development of the Aganocide[®] compounds for certain dermatological indications. Under the terms of the agreement, NovaBay received an initial payment and also the first of committed monthly payments in support of development of compounds for acne and eventually for impetigo.

The net loss for the first quarter of 2009 was \$(0.3) million, or \$(0.01) per share, compared to a net loss of \$(2.7) million, or \$(0.13) per share, reported for the first quarter of 2008. As of March 31, 2009, the company's cash, cash equivalents and short-term investments totaled \$12.9 million, up from \$12.1 million at December 31, 2008. The increase was largely due to receipt of milestone payments from Alcon and upfront payments from Galderma, as well as reduced spending on overhead and delayed research and development costs.

“We believe the first quarter of 2009 was one of continued accomplishment for NovaBay as we achieved business development and clinical progress in advancing our first-in-class Aganocide[®] compounds 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. “Our collaboration with Galderma for the Aganocides in major dermatological conditions further validates the potential for our novel, potent anti-infectives. At the same time, our pipeline continued to advance during the quarter, and we recently announced an agreement with Professors Nagl and Gottardi of Medical University of Innsbruck – Austria, pioneers in the clinical evaluation of the endogenous, unstable molecule upon which NovaBay’s proprietary Aganocides are based, to broaden our intellectual property portfolio and expand the clinical opportunities for the Aganocides.”

First Quarter 2009 and Recent Key Achievements

- NovaBay's alliance with Alcon, Inc. in the ophthalmic, otic and sinusitis fields continues to advance. Alcon 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 IND application from the FDA in January. The IND clearance triggered a milestone payment of \$1 million from Alcon to NovaBay.
- In March 2009, NovaBay announced a global agreement with Galderma, S.A. to develop and commercialize Aganocide compounds for all major dermatological conditions, excluding onychomycosis (nail fungus). Under the terms of the agreement, NovaBay expects to receive up to \$50 million from Galderma 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 anti-mycological efficacy *in-vivo* in treating subcutaneous dermatophyte infections based on an established pre-clinical model. Importantly, these data combined with the past preclinical work that showed NVC-422 kills *P. acne* in the follicle which strongly suggests that NVC-422 may be a potent and well-tolerated treatment for acne and numerous other serious skin infections.
- In April 2009, NovaBay announced an exclusive agreement with Professors Markus Nagl M.D. and Waldemar Gottardi, Ph.D. of the Medical University of Innsbruck, Austria that broadens NovaBay's intellectual property portfolio and could expand clinical opportunities and accelerate clinical timelines for the Aganocide compounds. Under the terms of the agreement, NovaBay has an exclusive license to a broad portfolio of patent applications, as well as exclusive pre-clinical and clinical research data on *N*-chlorotaurine (NCT), a natural antimicrobial produced by the body's white blood cells which is the biological basis for NovaBay's Aganocides, in multiple disease indications. In addition, NovaBay also owns the rights to successful human proof of concept trials of NCT in otitis externa (ear infection) and viral conjunctivitis (pink eye) that is expected to provide guidance for NovaBay's and its partners' future clinical programs.

First Quarter 2009 Financial Results

License and collaboration revenue for the first quarter of 2009 increased 75% to \$2.6 million from \$1.5 million for the first quarter of 2008. 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, and payments for milestones from Alcon and Galderma.

The net loss for the first quarter of 2009 was \$(0.3) million, or \$(0.01) per share, compared to a net loss of \$(2.7) million, or \$(0.13) per share, reported for the first quarter of 2008.

Research and development expenses for the quarter ended March 31, 2009 totaled \$1.4 million, compared to \$2.6 million for the quarter ended March 31, 2008. The decrease was due to budget reductions at year end 2008 resulting in decreased headcount, and delayed research, development, and clinical expenses. However, the company expects to incur increasing research, development and clinical expenses in the remainder of 2009 as programs to develop product candidates move forward, both independently and in collaboration with Alcon and now Galderma.

General and administrative expenses for the quarter ended March 31, 2009 were \$1.6 million, compared to \$1.7 million in the comparable 2008 period. Employee costs related to general and administrative expenses decreased as a result of staff reductions at year end 2008. Professional services costs increased primarily as a result of increased Sarbanes-Oxley implementation and year end audit costs.

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 Aganocide compounds in the eye, ear and sinus, and in contact lens care 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 that it will receive from Galderma up to \$50 million upon achievement of certain development and regulatory milestones, NovaBay's expectations regarding its future research and development expenses in 2009, and NovaBay's expectations that its owning rights to successful human proof of concept trials of NCT in otitis externa (ear infection) and viral conjunctivitis (pink eye) will provide guidance for NovaBay's and its partners' future clinical programs, 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 milestones and net sales may not be achieved under the Galderma agreement; the risk that NovaBay may incur unexpected charges or need to or determine to engage in research and development not previously planned, which will cause NovaBay's research and development expenses 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.

Contact:

NovaBay Pharmaceuticals, Inc.
Thomas J. Paulson, 510-899-8809
Chief Financial Officer
tpaulson@novabaypharma.com

Invigorate Communications
Investor Relations:
Gregory Gin, 908-376-7737
ggin@invigoratepr.com

Media Relations:
Mariesa Kemble, 608-850-4745
mkemble@invigoratepr.com

NOVABAY PHARMACEUTICALS, INC
(formerly NovaCal Pharmaceuticals Inc.)
(a developmental stage company)

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	<u>December 31,</u> <u>2008</u>	<u>March 31,</u> <u>2009</u> (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,099	\$ 10,243
Short-term investments	-	2,631
Prepaid expenses and other current assets	414	684
Total current assets	<u>12,513</u>	<u>13,558</u>
Property and equipment, net	1,456	1,400
TOTAL ASSETS	<u><u>\$ 13,969</u></u>	<u><u>\$ 14,958</u></u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 406	\$ 367
Accrued liabilities	1,166	1,075
Capital lease obligation	42	39
Equipment loan	366	376
Deferred revenue	2,500	3,836
Total current liabilities	<u>4,480</u>	<u>5,693</u>
Capital lease obligation - non-current	7	-
Equipment loan - non-current	470	372
Deferred revenue - non-current	1,667	1,392
Total liabilities	<u>6,624</u>	<u>7,457</u>
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, \$0.01 par value; 65,000 and 65,000 shares authorized at December 31, 2008 and March 31, 2009, respectively; 21,471 and 21,662 shares issued and outstanding at December 31, 2008 and March 31, 2009, respectively	215	217
Additional paid-in capital	33,718	34,199
Accumulated other comprehensive income (loss)	-	(8)
Accumulated deficit during development stage	<u>(26,588)</u>	<u>(26,907)</u>
Total stockholders' equity	<u>7,345</u>	<u>7,501</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 13,969</u></u>	<u><u>\$ 14,958</u></u>

NOVABAY PHARMACEUTICALS, INC
(formerly NovaCal Pharmaceuticals Inc.)
(a developmental stage company)

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

	<u>Three Months Ended March 31,</u>		Cumulative Period from July 1, 2002 (date of development stage inception) to March 31,
	<u>2008</u>	<u>2009</u>	<u>2009</u>
	(unaudited)	(unaudited)	(unaudited)
REVENUE			
License and collaboration revenue	\$ 1,492	\$ 2,611	\$ 16,779
Total revenue	<u>1,492</u>	<u>2,611</u>	<u>16,779</u>
EXPENSES			
Operating Expenses:			
Research and development	2,647	1,361	26,368
General and administrative	1,684	1,579	18,544
Total operating expenses	<u>4,331</u>	<u>2,940</u>	<u>44,912</u>
Other income, net	<u>163</u>	<u>11</u>	<u>1,240</u>
Net loss before income taxes	(2,676)	(318)	(26,893)
Provision for income taxes	(2)	-	(14)
Net loss	<u>\$ (2,678)</u>	<u>\$ (318)</u>	<u>\$ (26,907)</u>
Net loss per share:			
Basic and diluted	\$ (0.13)	\$ (0.01)	
Shares used in per share calculations:			
Basic and diluted	21,288	21,620	