

NovaBay Pharmaceuticals Reports Third Quarter Financials and Provides Update on Pipeline of Anti-infective Compounds

- Company continues to maintain strong cash position and low net cash burn-rate -

EMERYVILLE, Calif., November 13, 2009 – NovaBay Pharmaceuticals, Inc. (NYSE Amex: NBY), a clinical-stage biopharmaceutical company developing first-in-class anti-infective products for the treatment and prevention of a wide range of infections, today reported financial results for the third quarter ended September 30, 2009.

License and collaboration revenue for the third quarter of 2009 doubled to \$3.2 million from \$1.6 million in the third quarter of 2008. This revenue consisted almost exclusively of amounts earned under the license and collaboration agreements with Alcon (NYSE: ACL) and Galderma S.A. for amortization of the upfront technology access fees, receipt of milestone payments, and other amounts to reimburse the cost of research and development activities during the quarter.

The net loss for the third quarter of 2009 was \$111,000, or break even on a per share basis, compared to a net loss of \$1.5 million or \$0.07 per share reported in the third quarter of 2008.

As of September 30, 2009, the company's cash, cash equivalents and short-term investments totaled \$11.7 million, a net decrease of \$400,000 from the \$12.1 million reported December 31, 2008. Additionally, at September 30, 2009, NovaBay reported accounts receivable totaling approximately \$1 million, primarily consisting of reimbursements from its partners Alcon and Galderma under its license and collaboration agreements. The company expects to receive payments related to these receivables in the fourth quarter. NovaBay also reported net proceeds of approximately \$2 million from a registered direct offering completed during the quarter.

Research and development expenses for the quarter ending September 30 were \$2.0 million, up from \$1.6 million in the same quarter a year ago. The increased costs are attributed to an increase in clinical studies in 2009. General and administrative expenses for the third quarter of 2009 decreased to \$1.3 million from \$1.5 million a year ago. The decrease in costs occurred as a result of decreased headcount, and lower spending on Sarbanes – Oxley implementation.

“We continue to maintain a strong cash position, which has enabled us to make significant strides in our Aganocide[®] programs, both our proprietary candidates and those we are advancing with partners,” said Ron Najafi, Ph.D, chairman and chief executive officer of NovaBay. “As multi-drug resistance to bacterial and fungal infections becomes an ever-increasing health crisis, NovaBay remains committed to developing a pipeline of potential products that do not potentiate resistance in bacteria and which can show equivalent or better performance than antibiotics. We bolstered our management team with several key hires this past quarter, and look forward to calling on their combined expertise as we look forward to 2010 and several important clinical milestones.”

Nine Month Results

For the nine months ended September 30, 2009 net cash used in operating activities was \$1.5 million, due to the receipt of milestone and other cash payments from collaborative agreements, which largely offset research and development, and general and administrative expenses.

NovaBay reported a net loss of \$718,000 for the nine-month period ending September 30, down from a net loss of \$6.6 million reported for the nine months ending in September 2008. Total license and collaboration revenue was \$8.2 million for the nine months ended September 30, 2009 compared to \$4.5 for the nine months ended September 30, 2008. The increase in revenue consisted almost exclusively of money earned under the license and collaboration agreements with Alcon and Galderma.

Total research and development expenses fell by 30 percent to \$4.8 million for the nine months ended September 30, 2009 from \$6.9 million for the nine months ended September 30, 2008. The decrease was primarily due to deferment of some clinical trials during the first half of 2009.

Total general and administrative expenses were \$4.1 million for the nine months ended September 30, 2009, compared to \$4.6 million for the nine months ended September 30, 2008. General and administrative expenses were lower overall because of lower head count and decreased expenditures on Sarbanes-Oxley implementation.

Third Quarter Highlights

- Expanded and strengthened management team with the appointment of Roy Wu, as senior vice president of business development, and Mark Anderson, Ph.D., as chief scientific officer. Bez Khosrovi also assumed an expanded role as senior vice president for product development and chief alliance officer
- Partner Alcon initiated a Phase 2 clinical trial of lead Aganocide compound NVC-422 for the treatment of viral conjunctivitis
- Launched a Phase 2a proof-of-concept study of NVC-422 for the treatment of impetigo, one of the most common skin infections, with partner Galderma, S.A., the world's leading dermatology company
- Presented positive data from two pre-clinical studies of NVC-422 at the 49th Annual Interscience Conference on Antimicrobial Agents and Chemotherapy conference, revealing that NVC-422 had potent activity in killing bacteria that have developed resistance to antiseptics and antibiotics
- Presented data at the 47th Annual Meeting of the Infectious Diseases Society of America (IDSA) showing that NovaBay's Aganocide compounds demonstrated efficacy and penetration in an established pre-clinical infected nail model of onychomycosis, or nail fungus
- Recognized as a New California 100 Innovative Business by Golden Capital Network and Hamilton Lane

Pipeline Overview

NovaBay also provided the following detailed pipeline overview of its most advanced partnered and proprietary development programs:

- NovaBay and Alcon are currently conducting a Phase 2 clinical trial for the treatment of viral conjunctivitis, or “pink eye,” at 30 centers around the U.S. in approximately 250 patients. The trial is expected to conclude in early 2010, with top-line data available in the first half of 2010. NovaBay and its partner Alcon anticipate presenting complete Phase 2 data at an appropriate medical meeting later in 2010. Conjunctivitis represents a potential \$500 million to \$1 billion market. While there are several antibiotics to treat the bacterial form of conjunctivitis, there are currently no medications to treat viral conjunctivitis. NovaBay’s current formulation under development will have the potential to treat both bacterial and viral conjunctivitis. As part of the original NovaBay and Alcon collaboration, Alcon has paid NovaBay a \$10 million upfront licensing fee and NovaBay may receive up to an additional \$70 million in clinical milestones plus \$20 million to support ongoing research and development efforts.
- NovaBay and partner Galderma S.A. are conducting a Phase 2 clinical trial of NVC-422 in impetigo, a common skin condition that primarily affects children between the ages of 2 and 12. More than 1 million cases of impetigo are diagnosed annually in the United States alone. Top-line data is expected in the first half of 2010. As part of the NovaBay and Galderma collaboration signed in March, 2009, NovaBay received a \$2 million upfront payment. The company may receive up to \$50 million in clinical milestones and R&D reimbursements.
- NovaBay has initiated a Phase 2 trial of NVC-422 for the treatment of catheter-associated urinary tract infection (CAUTI). During the Phase 2 trial, chronically catheterized patients with confirmed cases of bacteriuria receive a daily irrigation of bladder lavage to measure the extent to which NVC-422 can reduce the bacterial load, and therefore the incidence of CAUTI. CAUTI is the most common nosocomial (hospital-acquired) infection, responsible for nearly 40% of infections related to hospitalization. Top-line data from this trial is expected in the first half of 2010. A Phase 1 trial showed that NVC-422 was safe in healthy volunteers. In multiple pre-clinical studies, with Foley catheters, NVC-422 solution demonstrated the ability to penetrate and eliminate the bacteria residing in biofilm. This is of particular importance in CAUTI, as biofilms – which are complex colonies of microorganisms, proteins and other components – form readily around catheters and often develop broad resistance to many commonly used antibiotics.

About NovaBay Pharmaceuticals, Inc.

NovaBay Pharmaceuticals is a clinical-stage biopharmaceutical company focused on developing its proprietary and patented Aganocide® compounds as 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 NovaBay's current expectations, assumptions, estimates, projections and beliefs. Statements regarding NovaBay's expectations that it will receive from Alcon up to \$70 million in clinical milestones plus \$20 million to support ongoing research and development efforts, and that it will receive from Galderma up to \$50 million upon achievement of certain development and regulatory milestones, NovaBay's expectations regarding its clinical programs, including the timing of conclusions of those trials and when it will receive clinical data, 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 Alcon and Galderma agreements; 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 Quarterly Report on Form 10-Q for the period ended September 30, 2009, under the caption "Risk Factors" in Item 1A of Part I of that report, filed with the Securities and Exchange Commission on November 12, 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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	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative Period from July 1, 2002 (date of development stage inception) to September 30, 2009 (unaudited)
	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	
REVENUE					
License and collaboration revenue	\$1,592	\$3,224	\$4,526	\$8,192	\$22,360
EXPENSES					
Operating Expenses:					
Research and development	1,614	2,004	6,861	4,809	29,816
General and administrative	1,544	1,309	4,575	4,078	21,043
Total operating expenses	3,158	3,313	11,436	8,887	50,859
Interest expense	(28)	(56)	(77)	(98)	(244)
Other income (expense), net	105	34	411	75	1,450
Total Other income (expense), net	77	(22)	334	(23)	1,206
Net loss before income taxes	(1,489)	(111)	(6,576)	(718)	(27,293)
Provision for income taxes		-	2		14
Net loss	\$ (1,489)	\$ (111)	\$ (6,578)	\$ (718)	\$ (27,307)
Net loss per share:					
Basic and diluted	\$ (0.07)	\$ (0.00)	\$ (0.31)	\$ (0.03)	
Shares used in per share calculations:					
Basic and diluted	21,443	23,251	21,313	22,117	