



INSTITUTIONAL RESEARCH

Healthcare & Biotechnology

COMPANY UPDATE

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January 17, 2011

NovaBay Pharmaceuticals, Inc. (ASE/NBY)

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Neutral Terminating Coverage

NovaBay is developing treatments for infections in hospitals and other healthcare environments

Investment Highlights

1) We are terminating coverage on shares of NovaBay Pharmaceuticals at this time in order to focus research resources in other areas. Our most recent rating on these shares was Neutral. Shares of NBY have traded very near the \$1.79 share price in evidence in our update on October 7, 2009, when these shares were downgraded to Neutral. We will continue to monitor these shares for the time being.

Current Price \$1.74

Price Target N/A

Estimates	F2008A	F2009A	F2010E
Revenues(\$000s)	\$6,722	\$15,680	\$10,300
EPS	(\$0.38)	\$0.12	(\$0.24)

Stock Data	
52-Week Range	\$1.64-\$2.71
Shares Outstanding (mil.)	23.3
Market Capitalization (mil.)	\$40.5
Enterprise Value (mil.)	\$30.3
Debt to Capital (9/10)	1.7%
Book Value/Share (9/10)	\$0.43
Price/Book	4.1 x
Average Trading Volume (3-Month)	36,000
Insider Ownership	17.8%
Institutional Ownership	10.2%
Short interest	140,000
Dividend / Yield	\$0.00/0.00%



Price target and ratings changes over the past 3 yrs:
 Initiated - January 3, 2008 - Speculative Buy - Price Target \$8.00
 Downgraded - Neutral - October 7, 2009
 Coverage terminated - January 17, 2011

Risk Factors

- NovaBay is subject to regulatory review for its ongoing research and development activities, currently with the US Food and Drug Administration but also potentially with other regulatory agencies should the Company pursue regulatory approvals in Europe, Latin America and/or Asia.
- The Company is also reliant on several development partners for key medical indications, and should one or more of these partners experience regulatory or internal planning issues the Company's near- and medium-term potential returns could be delayed.
- Finally, the Company may need to defend its product patent portfolio in the event of future challenges by competitors.

Catalysts/Investor Timeline

- 1) Begin Phase 2b trial for Impetigo – Q1/2011
- 2) Begin Phase 2b trial for UCBE (urinary tract infections) – Q1/2011
- 3) Results of proof of concept trial for Viral Conjunctivitis announced by Alcon – Q1/2011
- 4) Results for Q4/2010 – Late March 2011

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated – January 3, 2008 – Speculative Buy – Price Target \$8.00

Downgrade to Neutral – October 7, 2009

Coverage terminated – January 17, 2011

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Ratings definitions: **1) Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **2) Neutral:** the stock is fairly valued for the next 12-18 months; and **3) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	16	73%	5	31%
Neutral	6	37%	4	67%
Sell	0	0%	0	0%
Total	22	100%	9	41%

Information about risks can be found in the "RISK FACTORS" section of this report. We do not have a Price Target or Valuation on these shares at this time.

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