NATIONAL INSTRUMENTS CORP /DE/
Form 4
June 30, 2006

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
KODOSKY JEFFREY L

(Last) (First) (Middle)

C/O NATIONAL INSTRUMENTS CORP, 11500 N. MOPAC EXPRESSWAY

(Street)

AUSTIN, TX 78759

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NATIONAL INSTRUMENTS CORP /DE/ [NATI]

3. Date of Earliest Transaction (Month/Day/Year)
06/29/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	06/29/2006		S		1,000 (1)	D	$ 27.0592	1,215,390	D	
Common Stock	06/29/2006		S		1,000 (1)	D	$ 27.0592	1,215,391	I	by Spouse
Common Stock	06/29/2006		S		100 (1)	D	$ 27.0592	709,874	I	by Karen Kodosky trust
Common Stock	06/29/2006		S		100 (1)	D	$ 27.0592	709,874	I	by Laura Kodosky

trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KODOSKY JEFFREY L C/O NATIONAL INSTRUMENTS CORP 11500 N. MOPAC EXPRESSWAY AUSTIN, TX 78759	X			

Signatures

David G. Hugley as attorney-in-fact for Jeffrey L. Kodosky	06/30/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares were sold under Reporting Person's 10(b)5-1 Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. #160;307
Issuance of stock for services

— — 106 1 202 — — 203
Issuance of stock for warrant exercises
— — 1,608 16 1,434 — — 1,450
Sale of stock warrants
— — — — 10 — — 10
Compensation expense for warrants issued for services
— — — — 67 — — 67
Stock-based compensation expense related to employee and director stock options
— — — — 1,433 — — 1,433
Stock-based compensation expense related to non-employee stock options
— — — — 235 — — 235
Tax benefit from stock plans
— — — — 1 — — 1
Balance at December 31, 2008
— — 21,471 215 33,718 — (26,588) 7,345

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NOVABAY PHARMACEUTICALS, INC.
(a development stage company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – (Continued)
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit During Development Stage	Total Stockholders' Equity
Balance at December 31, 2008	21,471	215	33,718	—	(26,588)	7,345
Comprehensive loss:						
Net income	—	—	—	—	2,697	2,697
Change in unrealized gains (losses) on investments	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	—	2,697
Issuance of common stock in connection with shelf offering, net of offering costs	1,225	12	1,932	—	—	1,944
Issuance of stock for option exercises	119	1	73	—	—	74
Compensation expense for warrants issued for services	—	—	88	—	—	88
Stock-based compensation expense related to employee and director stock and stock options	130	1	919	—	—	920
Stock-based compensation expense related to non-employee stock and stock options	309	4	269	—	—	273
Other	—	—	4	—	—	4
Balance at December 31, 2009	23,254	233	37,003	—	(23,891)	13,345
Comprehensive loss:						
Net loss	—	—	—	—	(4,308)	(4,308)
Change in unrealized losses on investments	—	—	—	(14)		(14)
Total comprehensive loss						(4,322)
Costs related to shelf offering	—	—	(2)	—	—	(2)
Compensation expense for warrants issued for services	—	—	7	—	—	7
Issuance of stock for option exercises	105	1	80	—	—	81
Stock-based compensation expense related to employee and director stock options	—	—	1,129	—	—	1,129
Stock-based compensation expense related to non-employee stock and stock options	33	—	263	—	—	263
Other	—	—	(11)	—	—	(11)
Balance at December 31, 2010	23,392	234	38,469	(14)	(28,199)	10,490

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NOVABAY PHARMACEUTICALS, INC.
(a development stage company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – (Continued)
(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit During Development Stage	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2010	23,392	234	38,469	(14)	(28,199)	10,490
Comprehensive loss:						
Net loss	—	—	—	—	(5,085)	(5,085)
Change in unrealized gains (losses) on investments	—	—	—	(30)	—	(30)
Total comprehensive loss	—	—	—	—	—	(5,115)
Issuance of common stock in connection with shelf offering, net of offering costs	4,651	47	4,586	—	—	4,633
Issuance of warrants in connection with shelf offering	—	—	(1,988)	—	—	(1,988)
Issuance of stock for option exercises	319	3	100	—	—	103
Issuance of stock for services	43	—	74	—	—	74
Issuance of restricted Stock awards for employee services	182	2	(2)	—	—	—
Stock-based compensation expense related to employee and director stock options	—	—	1,110	—	—	1,110
Stock-based compensation expense related to non-employee stock options	—	—	37	—	—	37
Balance at December 31, 2011	28,587	$ 286	$ 42,386	$ (44)	$ (33,284)	$ 9,344

NOVABAY PHARMACEUTICALS, INC.
(a development stage company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Cumulative Period from July 1, 2002 (inception) to December 31, 2011
Cash flows from operating activities:				
Net income (loss)	$ (5,085)	$ (4,308)	$ 2,697	$ (33,284)
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation and amortization	425	427	373	1,929
Accretion and amortization of short-term investments	—	10	42	(252)
Net realized loss on sales of short-term investments	25	—	—	25
Loss on disposal of property and equipment	12	—	—	133
Stock-based compensation expense for options and stock issued to employees and directors	1,110	1,129	920	4,744
Compensation expense for warrants issued for services	—	7	88	162
Stock-based compensation expense for options, warrants and stock issued to non-employees	111	263	273	999
Non-cash loss on increase in fair value of warrants	732	—	—	732
Taxes paid by LLC	—	—	—	1
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	497	3,250	(3,750	(3)
(Increase) decrease in prepaid expenses and other assets	125	47	(221	(375)
Increase (decrease) in accounts payable and accrued liabilities	345	(319)	(70	1,553
Increase (decrease) in deferred revenue	(1,439)	1,522	(2,000	2,249
Net cash provided by (used in) operating activities	(3,142)	2,028	(1,648	(21,387)
Cash flows from investing activities:				
Purchases of property and equipment	(119)	(203)	(731	(3,213)

Proceeds from disposal of property and equipment	—	—	2	46
Purchases of short-term investments	(7,581)	(2,446)	(3,975	(108,546)
Proceeds from maturities and sales of short-term investments	3,035	1,455	3,635	102,972
Cash acquired in purchase of LLC	—	—	—	516
Net cash used in investing activities	(4,665)	(1,194)	(1,069	(8,225)
Cash flows from financing activities:				
Proceeds from preferred stock issuances, net	—	—	—	11,160
Proceeds from common stock issuances, net	—	—	—	17
Proceeds from exercise of options and warrants	103	81	74	2,019
Initial public offering costs, net	—	—	—	17,077
Proceeds from shelf offering, net	4,633	(2)	1,944	6,575
Proceeds from stock subscription receivable	—	—	—	873
Proceeds from issuance of notes	—	—	—	405
Principal payments on capital lease	—	(7)	(42	(157)
Proceeds from short-term borrowing	88	—	—	88
Principal payments on short-term borrowing	(17)	—	—	(17)
Proceeds from borrowings under equipment loan	—	—	—	1,216
Principal payments on equipment loan	(106)	(364)	(366	(1,216)
Net cash provided by (used in) financing activities	4,701	(292)	1,610	38,040
Net increase (decrease) in cash and cash equivalents	(3,106)	542	(1,107	8,428
Cash and cash equivalents, beginning of period	11,534	10,992	12,099	—
Cash and cash equivalents, end of period	$ 8,428	$ 11,534	$ 10,992	$ 8,428

The accompanying notes are an integral part of these consolidated financial statements.

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NOVABAY PHARMACEUTICALS, INC.
(a development stage company)
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(in thousands)

	Year Ended December 31,			Cumulative Period from July 1, 2002 (inception) to December 31,
	2011	2010	2009	2011
Supplemental disclosure of non cash information				
Interest paid	$ 18	$ 32	$ 77	$ 273
Income taxes paid	$ 23	$ 52	$ —	$ 75
Non-cash financing and investing activities				
Property and equipment acquired under capital lease obligations	$ —	$ —	$ —	$ 219
Issuance of stock options and warrants for stock option costs	—	—	$ 1,086	$ 1,887

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NOVABAY PHARMACEUTICALS, INC.
(a development stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

NovaBay Pharmaceuticals is a clinical-stage biotechnology company focused on addressing the large unmet therapeutic needs of the global anti-infective market with its two distinct categories of products.

Aganocide® Compounds
NovaBay's first-in-class Aganocide® compounds, led by NVC-422, are patented, synthetic molecules with a broad spectrum of activity against bacteria, viruses and fungi. Mimicking the mechanism of action that human white blood cells use against infections, Aganocides possess a reduced likelihood that bacteria or viruses will be able to develop resistance, which is critical for advanced anti-infectives. Having demonstrated therapeutic proof-of-concept in three Phase 2 clinical studies, these compounds are well suited to treat and prevent a wide range of local, non-systemic infections. NovaBay is currently focused in three large therapeutic markets:

- Dermatology - Partnered with Galderma, a leading dermatology company, the companies are developing a gel formulation of NVC-422 for treating the highly contagious skin infection, impetigo. Current product offerings give rise to resistance and not effective against methicillin-resistant S. aureus, or MRSA. A Phase 2b clinical study is planned for 2012.

- Ophthalmology - NovaBay is developing an eye drop formulation of NVC-422 for treating viral conjunctivitis, for which there is currently no FDA-approved treatment. The company expects to launch a global Phase 2b clinical study in this indication in the second quarter of 2012.

- Urology – NovaBay's irrigation solution containing NVC-422 is currently in Phase 2 clinical studies, with the goal of reducing the incidence of urinary catheter blockage and encrustation (UCBE) and the associated urinary tract infections. The company reported positive data from Part A of this study and expects to announce top-line results from Part B of this study in the second quarter of 2012.

NeutroPhase®
NovaBay is also developing another class of molecule, NeutroPhase®, which is an FDA 510(k)-cleared product for advanced wound care. With a distinct mechanism of action from Aganocides, we believe that NeutroPhase is the only patented pure hypochlorous acid solution available and has the potential to be best suited to treat the six-million-patients in the U.S. who suffer from chronic non-healing wounds, such as pressure, venous stasis and diabetic ulcers.

NovaBay has begun securing commercial partnerships for NeutroPhase. In January 2012, NovaBay announced it had entered into a strategic marketing agreement with Pioneer Pharma Co., Ltd., a Shanghai-based company that markets high-end pharmaceutical products into China. NovaBay expects to announce additional marketing agreements in select geographic markets around the world during 2012.

The Company was incorporated under the laws of the State of California on January 19, 2000 as NovaCal Pharmaceuticals, Inc. We had no operations until July 1, 2002, on which date we acquired all of the operating assets of NovaCal Pharmaceuticals, LLC, a California limited liability company. In February 2007, we changed our name from NovaCal Pharmaceuticals, Inc. to NovaBay Pharmaceuticals, Inc. In August 2007, we formed two subsidiaries—NovaBay Pharmaceuticals Canada, Inc., a wholly-owned subsidiary incorporated under the laws of British

Columbia (Canada), which may conduct research and development in Canada, and DermaBay, Inc., a wholly-owned U.S. subsidiary, which may explore and pursue dermatological opportunities. In June 2010, we changed the state in which we are incorporated (the Reincorporation), and are now incorporated under the laws of the State of Delaware. All references to "we," "us," "our," or "the Company" herein refer to the California corporation prior to the date of the Reincorporation, and to the Delaware corporation on and after the date of the Reincorporation. We currently operate in one business segment.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and are expressed in U.S. dollars. The financial statements have been prepared under the guidelines for Development Stage Entities. A development stage enterprise is one in which planned principal operations have not commenced, or if its operations have commenced, there have been no significant revenues therefrom. As of December 31, 2011, we continued to conduct clinical trials and had not commenced our planned principal operations.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, NovaBay Pharmaceuticals Canada, Inc. and DermaBay, Inc. All inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates include useful lives for property and equipment and related depreciation calculations, estimated amortization period for payments received from product development and license agreements as they relate to revenue recognition, assumptions for valuing options and warrants, and income taxes. Actual results could differ from those estimates.

Cash and Cash Equivalents and Short-Term Investments

We consider all highly liquid instruments with a stated maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximate their fair value. As of December 31, 2011, our cash and cash equivalents were held in financial institutions in the U.S. and include deposits in money market funds, which were unrestricted as to withdrawal or use.

We classify all highly liquid investments with a stated maturity of greater than three months as short-term investments. Short-term investments generally consist of certificates of deposit and corporate debt securities. We have classified our short-term investments as available-for-sale. We do not intend to hold securities with stated maturities greater than twelve months until maturity. In response to changes in the availability of and the yield on alternative investments as well as liquidity requirements, we occasionally sell these securities prior to their stated maturities. These securities are carried at fair value, with the unrealized gains and losses reported as a component of other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis. A decline in the market value below cost of any available-for-sale security that is determined to be other than temporary results in a revaluation of its carrying amount to fair value and an impairment charge to earnings, resulting in a new cost basis for the security. No such impairment charges were recorded for the periods presented. The interest income and realized gains and losses are included in other income (expense), net within the consolidated statements of operations. Interest income is recognized when earned.

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NOVABAY PHARMACEUTICALS, INC.
(a development stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentrations of Credit Risk and Major Partners

Financial instruments which potentially subject us to significant concentrations of credit risk consist primarily of cash and cash equivalents and short-term investments. We maintain deposits of cash, cash equivalents and short-term investments with three highly-rated, major financial institutions in the United States.

Deposits in these banks may exceed the amount of federal insurance provided on such deposits. We do not believe we are exposed to significant credit risk due to the financial position of the financial institutions in which these deposits are held. Additionally, we have established guidelines regarding diversification and investment maturities, which are designed to maintain safety and liquidity.

During the years ended December 31, 2011, 2010 and 2009 our revenues were derived from two collaboration partners. At December 31, 2011 our accounts receivables was derived from one customer and at December 31, 2010, our accounts receivables was derived from a single collaboration partner.

Fair Value of Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents and short-term investments, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The fair value of capital lease obligations and equipment loans approximates their carrying amounts because the obligations bear market rates of interest.

The Company measures the fair value of financial assets and liabilities based on U.S. GAAP guidance which defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

Under U.S. GAAP, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is also established, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable;
Level 3 – inputs that are unobservable (for example cash flow modeling inputs based on assumptions).

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets of five to seven years for office and laboratory equipment, three years for software and seven years for furniture and fixtures. Leasehold improvements are depreciated over the shorter of seven years or the lease term. Depreciation of assets recorded under capital leases is included in depreciation expense.

The costs of normal maintenance, repairs, and minor replacements are charged to operations when incurred.

Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with U.S. GAAP, which requires that companies consider whether events or changes in facts and circumstances, both internally and externally, may indicate that an impairment of long-lived assets held for use are present. Management periodically evaluates the carrying value of long-lived assets and has determined that there was no impairment as of all periods presented. Determination of recoverability is based on the estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to cover the carrying amount of the asset, the assets are written down to their estimated fair values and the loss is recognized in the statements of operations.

NOVABAY PHARMACEUTICALS, INC.
(a development stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Comprehensive Income (Loss)

ASC 220, Comprehensive Income requires that an entity's change in equity or net assets during a period from transactions and other events from non-owner sources be reported. The Company reports unrealized gains and losses on its available-for-sale securities as other comprehensive income (loss).

Revenue Recognition

License and collaboration revenue is primarily generated through agreements with strategic partners for the development and commercialization of the Company's product candidates. The terms of the agreements typically include non-refundable upfront fees, funding of research and development activities, payments based upon achievement of certain milestones and royalties on net product sales. In accordance with revenue recognition criteria under U.S. GAAP, the Company analyzes its multiple element arrangements to determine whether the elements can be separated. The Company performs its analysis at the inception of the arrangement and as each product or service is delivered. If a product or service is not separable, the combined deliverables are accounted for as a single unit of accounting and revenue is recognized over the performance obligation period. Revenue is recognized when the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred and risk of loss has passed; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured.

Assuming the elements meet the revenue recognition guidelines the revenue recognition methodology prescribed for each unit of accounting is summarized below:

Upfront Fees—We defer recognition of non-refundable upfront fees if we have continuing performance obligations without which the technology licensed has no utility to the licensee. If we have performance obligations through research and development services that are required because our know-how and expertise related to the technology is proprietary to us, or can only be performed by us, then such up-front fees are deferred and recognized over the period of the performance obligations. We base the estimate of the period of performance on factors in the contract. Actual time frames could vary and could result in material changes to our results of operations.

Funded Research and Development— Revenue from research and development services is recognized during the period in which the services are performed and is based upon the number of full-time-equivalent personnel working on the specific project at the agreed-upon rate. This revenue approximates the cost incurred. Reimbursements from collaborative partners for agreed-upon direct costs including direct materials and outsourced, or subcontracted, pre-clinical studies are classified as revenue and recognized in the period the reimbursable expenses are incurred. Payments received in advance are recorded as deferred revenue until the research and development services are performed or costs are incurred.

Milestones—Substantive milestone payments are considered to be performance bonuses that are recognized upon achievement of the milestone only if all of the following conditions are met: the milestone payments are non-refundable; achievement of the milestone involves a degree of risk and was not reasonably assured at the inception of the arrangement; substantive effort is involved in achieving the milestone; the amount of the milestone is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and a reasonable amount of time passes between the up-front license payment and the first milestone payment as well as between each subsequent milestone payment. If any of these conditions are not met, the milestone payments are deferred and recognized as revenue over the term of the arrangement as we complete our performance obligations.

Royalties—We recognize royalty revenues from licensed products upon the sale of the related products.

Research and Development Costs

We charge research and development costs to expense as incurred. These costs include salaries and benefits for research and development personnel, costs associated with clinical trials managed by contract research organizations, and other costs associated with research, development and regulatory activities. We use external service providers to conduct clinical trials, to manufacture supplies of product candidates and to provide various other research and development-related products and services. Research and development expenses under the collaborative agreements approximate the revenue recognized, excluding milestone and upfront payments received under such arrangements.

NOVABAY PHARMACEUTICALS, INC.
(a development stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Patent Costs

We expense patent costs, including legal expenses, in the period in which they are incurred. Patent expenses are included in general and administrative expenses in our statements of operations.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of ASC 718, Compensation-Stock Compensation. Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date for all stock-based awards to employees and directors and is recognized as expense over the requisite service period, which is generally the vesting period. Non-employee stock-based compensation charges are amortized over the vesting period on a straight-line basis. For stock options granted, the fair value of the stock options is estimated using a Black-Scholes-Merton valuation model. See Note 9 for further information regarding stock-based compensation expense and the assumptions used in estimating that expense.

Income Taxes

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion or the entire deferred tax asset will not be recognized.

Common Stock Warrant Liabilities

For warrants where there is a deemed possibility that the Company may have to settle the warrants in cash, the Company records the fair value of the issued warrants as a liability at each balance sheet date and records changes in the estimated fair value as a non-cash gain or loss in the consolidated statement of operations. The fair values of these warrants have been determined using the Binomial Lattice (“Lattice”) valuation model, and the changes in the fair value are recorded in the consolidated statement of operations. The Lattice model provides for assumptions regarding volatility, call and put features and risk-free interest rates within the total period to maturity. These values are subject to a significant degree of judgment on the part of the Company.

Net Income (Loss) per Share

The Company computes net income (loss) per share by presenting both basic and diluted earnings (loss) per share (EPS).

Basic EPS is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options and stock warrants, using the treasury stock method, using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Potentially dilutive common share equivalents are excluded from the diluted EPS computation in net loss periods since their effect would be anti-dilutive. During 2011 and 2010, there is no difference between basic and diluted net loss per share due to the Company's net losses. The following table sets forth the reconciliation between basic EPS and diluted EPS:

	Year Ended December 31,		
(in thousands)	2011	2010	2009
Net income (loss)	$ (5,085)	$ (4,308)	$ 2,697
Basic shares	25,773	23,326	22,404
Add: shares issued upon assumed exercise of stock options	—	—	711
Diluted shares	25,773	23,326	23,115
Basic EPS	$ (0.20)	$ (0.18)	$ 0.12
Diluted EPS	$ (0.20)	$ (0.18)	$ 0.12

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NOVABAY PHARMACEUTICALS, INC.
(a development stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following outstanding stock options and stock warrants were excluded from the diluted EPS computation as their effect would have been anti-dilutive:

	Year Ended December 31,		
(in thousands)	2011	2010	2009
Stock options	5,299	4,968	3,436
Stock warrants	1,375	1,375	1,875

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). Under the amended guidance, all changes in the components of net income and the components of other comprehensive income are to be presented either in a single continuous statement of comprehensive income, or in two separate but consecutive financial statements. In December 2011, the FASB issued Accounting Standards Update No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12). ASU 2011-12 defers the effective date of the requirement in ASU 2011-05 to disclose on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. All other requirements of ASU 2011-05 are not affected by ASU 2011-12. The changes are effective January 1, 2012 with early adoption permitted. This change is not expected to have an impact to the consolidated financial results as it is a change in presentation only.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which amends the current fair value measurement and disclosure guidance. These changes will be effective January 1, 2012 on a prospective basis. Early application is not permitted. This change is not expected to have a material impact to the consolidated financial results.

In April 2010, the FASB issued ASU No. 2010-17 (Topic 605), Revenue Recognition—Milestone Method. This standard provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. The amendments in this update provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all applicable criteria. The amendments in this update were effective for the Company on a prospective basis for milestones achieved after December 31, 2010. The implementation of this standard did not have a significant impact on our financial position or results of operations.

NOTE 3. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2011 and 2010 consisted of the following:

December 31, 2011

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Corporate bonds	$ 3,054	$ —	$ (42)	$ 3,012
Certificates of deposit	2,700	—	(2)	2,698
	$ 5,754	$ —	$ (44)	$ 5,710

	December 31, 2010			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Corporate bonds	$ 767	$ 19	$ (14)	$ 772
Certificates of deposit	500	—	—	500
	$ 1,267	$ 19	$ (14)	$ 1,272

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All short-term investments at December 31, 2011 and 2010 mature in less than one year. During the years ended December 31, 2011, 2010 and 2009 we recognized a net realized loss of $23,000, $10,000 and $0, respectively.

NOTE 4. FAIR VALUE MEASUREMENTS

The Company measures the fair value of financial assets and liabilities based on authoritative guidance which defines fair value, establishes a framework consisting of three levels for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company's cash equivalents and investments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices in active markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of investments that are generally classified within Level 1 of the fair value hierarchy include money market securities. The types of investments that are generally classified within Level 2 of the fair value hierarchy include corporate securities, certificates of deposits and U.S. government securities.

The Company's warrant liabilities are classified within level 3 of the fair value hierarchy because the value is calculated using significant judgment based on our own assumptions in the valuation of these liabilities.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

		Fair Value Measurements Using		
(in thousands)	Balance at December 31, 2011	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents	$ 8,428	$ 8,428	$ —	$ —
Short-term investments:				
Corporate bonds	3,012	—	3,012	—
Certificates of deposit	2,698	—	2,698	—
Total short-term investments	5,710	—	5,710	—
Total assets	$ 14,138	$ 8,428	$ 5,710	$ —
Liabilities				
Warrant liability	$ 2,721	$ —	$ —	$ 2,721
Total liabilities	$ 2,721	$ —	$ —	$ 2,721

For the year ended December 31, 2011, as a result of the fair value adjustment of the warrant liability, the Company recorded a non-cash loss on an increase in the fair value of $732,000 in its consolidated statement of operations. See Note 8 for further discussion on the calculation of the fair value of the warrant liability.

(in thousands)		Warrant liability
Fair value of warrants at December 31, 2010	$	—
Fair value of warrants issued in connection with the registered direct offering on July 5, 2011		1,989
Adjustment to fair value at December 31, 2011		732
Total warrant liability at December 31, 2011	$	2,721

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NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(in thousands)	December 31, 2011	December 31, 2010
Office and laboratory equipment	$ 2,678	$ 2,620
Furniture and fixtures	113	113
Software	145	144
Leasehold improvement	149	149
Total property and equipment, at cost	3,085	3,026
Less: accumulated depreciation	(1,815)	(1,438)
Total property and equipment, net	$ 1,270	$ 1,588

Depreciation expense was $425,000, $427,000 and $373,000 for the years ended December 31, 2011, 2010 and 2009, respectively, and $1.9 million for the cumulative period from July 1, 2002 (inception) to December 31, 2011.

NOTE 6. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

(in thousands)	December 31, 2011	December 31, 2010
Research and development	$ 209	$ 103
Employee payroll and benefits	695	550
Professional fees	24	22
Other	133	51
Total accrued liabilities	$ 1,061	$ 726

NOTE 7. COMMITMENTS AND CONTINGENCIES

Operating Leases

We lease laboratory facilities and office space under an operating lease, which expires on October 31, 2015. Rent expense was $1.0 million, $1.1 million, and $878,000 for the years ended December 31, 2011, 2010 and 2009, respectively. The future minimum lease payments under this non-cancellable operating lease were as follows as of December 31, 2011:

(in thousands)	Lease Commitment
Year ending December 31:	
2012	$ 640
2013	658
2014	678
2015	579

Total lease commitment	$	2,555

The Company’s monthly rent payments fluctuate under the master lease agreement. In accordance with U.S. GAAP, the Company recognizes rent expense on a straight-line basis. The Company records deferred rent for the difference between the amounts paid and recorded as expense. At December 31, 2011 and 2010, the Company had $115,000 and $99,000 of deferred rent, respectively.

Directors and Officers Indemnity

As permitted under Delaware law and in accordance with our bylaws, we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer’s or director’s lifetime. The maximum amount of potential future indemnification is unlimited; however, we have a director or officer insurance policy that limits our exposure and may enable us to recover a portion of any future payments. We believe the fair value of these indemnification agreements is minimal. Accordingly, we have not recorded any liabilities for these agreements as of December 31, 2011.

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In the normal course of business, we provide indemnifications of varying scope under our agreements with other companies, typically our clinical research organizations, investigators, clinical sites, suppliers and others. Pursuant to these agreements, we generally indemnify, hold harmless, and agree to reimburse the indemnified parties for losses suffered or incurred by the indemnified parties in connection with use or testing of our products or product candidates or with any U.S. patent or any copyright or other intellectual property infringement claims by any third party with respect to our products. The term of these indemnification agreements is generally perpetual. The potential future payments we could be required to make under these indemnification agreements is unlimited. Historically, costs related to these indemnification provisions have been immaterial. We also maintain various liability insurance policies that limit our exposure. As a result, we believe the fair value of these indemnification agreements is minimal. Accordingly, we have not recorded any liabilities for these agreements as of December 31, 2011.

Legal Matters

From time to time, the Company may be involved in various legal proceedings arising in the ordinary course of business. There are no matters at December 31, 2011 that, in the opinion of management, would have a material adverse effect on our financial position, results of operations or cash flows.

NOTE 8. WARRANT LIABILITY

In July 2011, the Company sold common stock and warrants in a registered direct financing. As part of this transaction, 3,488,005 warrants were issued with an exercise price of $1.33 and are exercisable on January 1, 2012 and expire on July 5, 2016. The terms of the warrants require registered shares to be delivered upon each warrant's exercise and also require possible cash payments to the warrant holders (in lieu of the warrant's exercise) upon specified fundamental transactions involving the Company's common stock, such as in an acquisition of the Company. Under ASC 480, "Distinguishing Liabilities from Equity" ("ASC 480"), the Company's ability to deliver registered shares upon an exercise of the warrants and the Company's potential obligation to cash-settle the warrants if specified fundamental transactions occur are deemed to be beyond the Company's control. The warrants contain a provision where the warrant holder would have the option to receive cash, equal to the Black Scholes fair value of the remaining unexercised portion of the warrant, as cash settlement in the event that there is a fundamental transaction (contractually defined to include various merger, acquisition or stock transfer activities). Due to this provision, ASC 480 requires that these warrants be classified as liabilities. The fair values of these warrants have been determined using the Binomial Lattice ("Lattice") valuation model, and the changes in the fair value are recorded in the consolidated statement of operations. The Lattice model provides for assumptions regarding volatility and risk-free interest rates within the total period to maturity. In addition, after January 5, 2012, and if the closing bid price per share of the common stock on the principal market equals or exceeds $2.66 for any ten trading days (which do not have to be consecutive) in a period of fifteen consecutive trading days, the Company has the right to require the exercise of one-third of the warrants then held by the warrant holders, which would result in gross proceeds to the Company of approximately $1.5 million.

The key assumptions used to value the warrants were as follows:

Assumption	December 31, 2011

Expected price volatility	80%
Expected term (in years)	4.51
Risk-free interest rate	0.83%
Dividend yield	0.00%
Weighted-average fair value of warrants	$0.78

NOTE 9. STOCKHOLDERS' EQUITY

Preferred Stock

Under the Company's amended articles of incorporation, the Company is authorized to issue of up to 5,000,000 shares of preferred stock in such series and with such rights and preferences as may be approved by the board of directors. As of December 31, 2011, there were no shares of preferred stock outstanding.

Common Stock

Under the Company's amended articles of incorporation, the Company is authorized to issue 65,000,000 shares of $0.01 par value common stock. Each holder of common stock has the right to one vote but does not have cumulative voting rights. Shares of common stock are not subject to any redemption or sinking fund provisions, nor do they have any preemptive, subscription or conversion rights. Holders of common stock are entitled to receive dividends whenever funds are legally available and when declared by the board of directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid as of December 31, 2011.

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In August 2009, the Company sold and issued 1,225,000 units at a price of $2.00 per unit from a Shelf Registration Offering. Each unit consisted of one share of the Company's common stock and a warrant to purchase one share of the Company's common stock. The Company raised a total of $2.5 million from the Shelf Registration Offering, or $1.9 million in net proceeds after deducting underwriting commissions of $156,000 and other offering costs of $350,000.

On July 5, 2011 the Company closed a registered direct offering for the sale of 4,650,675 units (The "July 2011 Registered Direct Financing"), each unit consisting of (i) one share of common stock and (ii) one warrant to purchase 0.75 of a share of common stock (or a total of 3,488,005 shares), at a purchase price of $1.11 per unit. The warrants will be exercisable 180 days after issuance for $1.33 per share and will expire five years from the date of issuance. All of the shares of common stock and warrants issued in the offering (and the shares of common stock issuable upon exercise of the warrants) were offered pursuant to a shelf registration statement filed with, and declared effective by, the Securities and Exchange Commission. The shares of common stock and the warrants were immediately separable and were issued separately, but were purchased together in the July 2011 Registered Direct Financing. The Company raised a total of $5.2 million from the July 2011 Registered Direct Financing, or approximately $4.6 million in net proceeds after deducting underwriting commissions of $288,000 and other offering costs of $244,000.

Stock Warrants

At December 31, 2011, there were outstanding warrants to purchase 150,000 shares of common stock with an exercise price of $4.00 per share expiring on April 1, 2012 and outstanding warrants to purchase 1,225,000 shares of common stock with an exercise price of $2.75 per share expiring on August 21, 2014. These outstanding warrants were exercisable at December 31, 2011.

Additionally, 3,488,005 warrants were issued in connection with our July 2011 Registered Direct Financing. These warrants were issued with an exercise price of $1.33 and are exercisable 180 days after the closing of the offering on January 1, 2012 and expire on July 5, 2016. See Note 8 for further details on these warrants.

The following table summarizes information about the Company's warrants outstanding at December 31, 2011, 2010 and 2009 and activity during the three years then ended.

(in thousands, except per share data)	Warrants	Weighted-Average Exercise Price
Outstanding at December 31, 2008	650	$ 4.00
Warrants granted	1,225	$ 2.75
Outstanding at December 31, 2009	1,875	$ 3.18
Warrants expired	(500)	$ 4.00
Outstanding at December 31, 2010	1,375	$ 2.89
Warrants granted	3,488	$ 1.33
Outstanding at December 31, 2011	4,863	$ 1.77

NOTE 10. EQUITY-BASED COMPENSATION

Equity Compensation Plans

Prior to October 2007, the Company had two equity incentive plans in place: the 2002 Stock Option Plan and the 2005 Stock Option Plan. In October 2007, the Company adopted the 2007 Omnibus Incentive Plan (the 2007 Plan) to provide for the granting of stock awards, such as stock options, unrestricted and restricted common stock, stock units, dividend equivalent rights, and stock appreciation rights to employees, directors and outside consultants as determined by the board of directors. In conjunction with the adoption of the 2007 Plan, no further option awards may be granted from the 2002 or 2005 Stock Option Plans and any option cancellations or expirations from the 2002 or 2005 Stock Option Plans may not be reissued. At the inception of the 2007 Plan, 2,000,000 shares were reserved for issuance under the Plan.

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Beginning in January 2009, the number of shares of common stock authorized for issuance under the 2007 Plan increases annually in an amount equal to the lesser of (a) 1,000,000 shares or (b) 4% of the number of shares of the Company's common stock outstanding on the last day of the preceding year or (c) such lesser number as determined by the board of directors. Accordingly, an additional 935,665, 930,177 and 858,766 shares of common stock were authorized for issuance under the 2007 Plan in January 2011, 2010 and 2009, respectively. As of December 31, 2011, there were 294,119 shares available for future grant under the 2007 Plan.

Under the terms of the 2007 Plan, the exercise price of incentive stock options may not be less than 100% of the fair market value of the common stock on the date of grant and, if granted to an owner of more than 10% of the Company's stock, then not less than 110%. Stock options granted under the 2007 Plan expire no later than ten years from the date of grant. Stock options granted to employees generally vest over four years while options granted to directors and consultants typically vest over a shorter period, subject to continued service. All of the options granted prior to October 2007 include early exercise provisions that allow for full exercise of the option prior to the option vesting, subject to certain repurchase provisions. The Company issues new shares to satisfy option exercises under the plans.

Stock Options Summary

The following table summarizes information about the Company's stock options outstanding at December 31, 2011, 2010 and 2009 and activity during the three years then ended:

(in thousands, except per share data)	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	3,371	$ 1.70		
Options granted	1,196	$ 1.80		
Options exercised	(119)	$ 0.62		
Options forfeited/cancelled	(301)	$ 2.42		
Outstanding at December 31, 2009	4,147	$ 1.71		
Options granted	1,087	$ 1.90		
Options exercised	(105)	$ 0.85		
Options forfeited/cancelled	(161)	$ 1.80		
Outstanding at December 31, 2010	4,968	$ 1.78		
Options granted	1,357	$ 0.91		
Options exercised	(319)	$ 0.32		
Options forfeited/cancelled	(707)	$ 2.04		
Outstanding at December 31, 2011	5,299	$ 1.62	6.9	$ 1,265
Vested and expected to vest at December 31, 2011	5,187	$ 1.63	6.9	$ 1,233
Vested at December 31, 2011	3,273	$ 1.82	5.6	$ 645
Exercisable at December 31, 2011	3,273	$ 1.82	5.6	$ 645

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the closing market price of the Company's common stock as quoted on the NYSE Amex as of December 31, 2011, for options that have a quoted market price in excess of the exercise price ("in-the-money options"). The Company received cash payments for the exercise of stock options in the amount of $103,000, $81,000 and $74,000 during the years ended December 31, 2011, 2010 and 2009, respectively. The aggregate intrinsic value of stock option awards exercised was $317,000, $119,000 and $148,000 for the years ended December 31, 2011, 2010 and 2009, respectively, as determined at the date of option exercise.

Stock Option Awards to Employees and Directors

The Company grants options to purchase common stock to some of its employees and directors at prices equal to or greater than the market value of the stock on the dates the options are granted. The Company has estimated the value of certain stock option awards as of the date of the grant by applying the Black-Scholes-Merton option pricing valuation model using the single-option valuation approach. The application of this valuation model involves assumptions that are judgmental and subjective in nature. See Note 2 for a description of the accounting policies that the Company applied to value its stock-based awards.

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The weighted average assumptions used in determining the value of options granted and a summary of the methodology applied to develop each assumption are as follows:

	Year Ended December 31,		
Assumption	2011	2010	2009
Expected price volatility	90.60 %	89.70 %	87.10 %
Expected term (in years)	5.6	5.9	6.1
Risk-free interest rate	1.28 %	2.09 %	2.40 %
Dividend yield	0.00 %	0.00 %	0.00 %
Weighted-average fair value of options granted during the period	$ .85	$ 1.43	$ 1.31

Expected Price Volatility—This is a measure of the amount by which the stock price has fluctuated or is expected to fluctuate. The computation of expected volatility was based on the historical volatility of our own stock and comparable companies from a representative peer group selected based on industry and market capitalization data.

Expected Term—This is the period of time over which the options granted are expected to remain outstanding. The expected life assumption for 2011 is based on the Company's historical data. Because there was insufficient historical information available to estimate the expected term of the stock-based awards in prior years, we adopted the simplified method for estimating the expected term pursuant to SAB No. 107. On this basis, we estimated the expected term of options granted in 2010 and 2009 by taking the average of the vesting term and the contractual term of the option.

Risk-Free Interest Rate—This is the U.S. Treasury rate for the week of the grant having a term approximating the expected life of the option.

Dividend Yield—We have not made any dividend payments nor do we have plans to pay dividends in the foreseeable future.

Forfeitures are estimated at the time of grant and reduce compensation expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate. For the years ended December 31, 2011, 2010 and 2009, we applied an estimated forfeiture rate of 5% to employee grants and 0% to director grants.

For the years ended December 31, 2011, 2010 and 2009, we recognized stock-based compensation expense of $1.1 million, $1.1 million and $702,000, respectively, for option awards to employees and directors. As of December 31, 2011, total unrecognized compensation cost related to unvested stock options was $1.6 million. This amount is expected to be recognized as stock-based compensation expense in our statements of operations over the remaining weighted average vesting period of 2.6 years.

Common Stock Awards to Directors

In December 2009 the Company adopted a new plan to compensate the independent members of the Board of Directors for their services. Under the terms of the Director Compensation Plan, each independent member is entitled to a combination of cash and stock options, at their discretion, for their participation in the board and various committees. If the director elects to receive stock options these are issued to the director at the beginning of the year and vest over the term of the year. Cash payments are made quarterly at the beginning of each quarter. In accordance with this new compensation arrangement no common stock awards were issued to directors in 2011 or 2010.

In accordance with the provisions of the previous compensation agreement, the Company issued 130,000 shares of common stock to independent directors during the year ended December 31, 2009. These shares were issued out of the 2007 Plan. The fair market value of the stock issued to directors was recorded as expense in the period in which the meeting occurred, resulting in total compensation expense of $218,000 for common stock awards to directors during the year ended December 31, 2009.

Stock-Based Awards to Non-Employees

During the years ended December 31, 2011, 2010 and 2009, the Company granted options to purchase an aggregate of 55,000, 186,000 and 273,000 shares of common stock, respectively, to non-employees in exchange for advisory and consulting services. The stock options are recorded at their fair value on the measurement date and recognized over the respective service or vesting period. The fair value of the stock options granted was calculated using the Black-Scholes-Merton option pricing model based upon the following assumptions:

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	Year Ended December 31,		
Assumption	2011	2010	2009
Expected price volatility	90.39 %	90.86 %	87.20 %
Expected term (in years)	7.1	5.7	5.6
Risk-free interest rate	1.83 %	2.31 %	1.90 %
Dividend yield	0.00 %	0.00 %	0.00 %
Weighted-average fair value of options granted during the period	$ 1.37	$ 1.39	$ 1.42

For the years ended December 31, 2011, 2010 and 2009, the Company recognized stock-based compensation expense of $111,000, $263,000 and $273,000, respectively, related to non-employee option grants.

Stock-Based Compensation Expense

A summary of the stock-based compensation expense included in results of operations for the option and stock awards discussed above is as follows:

	Year ended December 31,		
(in thousands)	2011	2010	2009
Research and development	$ 352	$ 616	$ 565
General and administrative	869	776	628
Total stock-based compensation expense	$ 1,221	$ 1,392	$ 1,193

Since the Company has operating losses and net operating loss carryforwards, there are no tax benefits associated with stock-based compensation expense.

NOTE 11. COLLABORATION AND LICENSE AGREEMENTS

Galderma

In March, 2009, the Company announced that it entered into a license and collaboration agreement with Galderma S.A. to develop and commercialize the Company’s Aganocide compounds, which covers acne and impetigo and potentially other major dermatological conditions, excluding onychomycosis (nail fungus) and orphan drug indications. The Company amended this agreement on December 17, 2009 and again on December 2, 2010. This agreement is exclusive and worldwide in scope, with the exception of North America, where the Company has an option to exercise co-promotion rights, and Asian markets. Galderma will be responsible for the development costs of acne and other indications, except in Japan, in which Galderma has the option to request that we share such development costs. Galderma will also reimburse NovaBay for the use of its personnel in support of the collaboration. NovaBay retains the right to co-market products resulting from the agreement in Japan. In addition, NovaBay has retained all rights in other Asian markets outside Japan, and has the right to co-promote the products developed under the agreement in the hospital and other healthcare institutions in North America. Upon the termination of the agreement under certain circumstances, Galderma will grant NovaBay certain technology licenses which would require NovaBay to make royalty payments to Galderma for such licenses with royalty rates in the low- to mid-single digits.

Galderma will pay to NovaBay certain upfront fees, ongoing fees, reimbursements, and milestone payments related to achieving development and commercialization of its Aganocide compounds. If products are commercialized under the agreement, NovaBay's royalties will escalate as sales increase. The Company received a $1.0 million upfront technology access fee payment in the first quarter of 2009 and a $3.25 million continuation fee and a $500,000 fee to expand the license to include the Asia-Pacific Territory in December 2010. These fees were recorded as deferred revenues and recognized as earned on a straight-line basis over the Company's expected performance period. The initial upfront technology access fee was recognized over the initial 20 month funding term of the agreement through October 2010, and the continuation and license fees are being recognized over the additional three year funding term of the agreement through November 2013.

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Revenue has been recognized under the Galderma agreement as follows:

	Year Ended December 31,		
(in thousands)	2011	2010	2009
Amortization of Upfront Technology Access Fee, continuation fee and license fee	$ 1,259	$ 786	$ 500
On-going Research and Development	1,551	850	1,200
Materials, Equipment, and Contract Study Costs	2,609	470	1,063
Milestone payments	500	—	3,750
	$ 5,919	$ 2,106	$ 6,513

The Company had deferred revenue balances of $2.2 million and $3.7 million respectively, at December 31, 2011 and 2010, related to the Galderma agreement, which consisted of the unamortized balances on the upfront technology and access fee and the continuation and license fee and support for ongoing research and development. As of December 31, 2011, the Company has earned $4.25 million in milestone payments. As of December 31, 2011, the Company has not earned or received any royalty payments under the Galderma agreement.

Alcon Manufacturing, Ltd.

In August 2006, we entered into a collaboration and license agreement with Alcon Manufacturing, Ltd. (Alcon) to license to Alcon the exclusive rights to develop, manufacture and commercialize products incorporating the Aganocide compounds for application in connection with the eye, ear and sinus and for use in contact lens solution. This agreement was terminated in 2011. Under the terms of the agreement, we receive semi-annual payments to support on-going research and development activities over the term of the agreement. The research and development support payments include amounts to fund a specified number of personnel engaged in collaboration activities and to reimburse for qualified equipment, materials and contract study costs.

Revenue has been recognized as follows:

	Year Ended December 31,		
(in thousands)	2011	2010	2009
Amortization of Upfront Technology Access Fee	$ —	$ 1,667	$ 2,500
On-going Research and Development	2,828	5,419	4,322
Materials, Equipment, and Contract Study Costs	246	562	1,349
Milestone payment	—	—	1,000
Termination payment	2,000	—	—
	$ 5,074	$ 7,648	$ 9,171

At December 31, 2011, 2010 and 2009, we had deferred revenue balances of $0, $0 and $1.7 million, respectively, related to the Alcon agreement which amounts were comprised entirely of the upfront technology access fee.

NOTE 12. EMPLOYEE BENEFIT PLAN

We have a 401(k) plan covering all eligible employees. We are not required to contribute to the plan and have made no contributions through December 31, 2011.

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NOTE 13. INCOME TAXES

The federal and state income tax provision is summarized as follows (in thousands):

	Year Ending December 31		
(in thousands)	2011	2010	2009
Current			
Federal	$ —	$ —	$ —
State	2	50	7
Other	—	—	—
Total current tax expense	2	50	7
Deferred			
Federal	—	—	—
State	—	—	—
Other	—	—	—
Total deferred tax expense	—	—	—
Income tax provision	$ 2	$ 50	$ 7

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating losses and tax credit carryforwards.

The tax effects of significant items comprising the Company's deferred taxes as of December 31 are as follows:

	December 31	
(in thousands)	2011	2010
Deferred tax assets:		
Net operating losses	$ 10,008	$ 9,515
Accruals	260	268
Deferred revenue	755	—
Stock options	734	564
Other deferred tax assets	100	86
Total deferred tax assets	11,857	10,433
Deferred tax liabilities:		
Property and equipment	(355)	(376)
Total deferred tax liabilities	(355)	(376)
Valuation allowance	(11,502)	(10,057)

Net deferred taxes	$ —	$ —

The Company records the tax benefit of net operating loss carryfowards and temporary differences as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Because of the Company's recent history of operating losses, management believes that recognition of the deferred tax assets is currently not likely to be realized and, accordingly, has provided a valuation allowance.

The valuation allowance increased or (decreased) by the following amounts (in thousands):

2011	2010	2009
$ 1,445	$ 1,179	$ (1,130)

In accordance with ASC 718 Compensation – Stock Compensation, the Company has excluded from deferred tax assets benefits attributable to employee stock option exercises. Therefore, these amounts are not included in gross or net deferred tax assets. The benefit of these net operating loss carryforwards will only be recorded to equity when they reduce cash taxes payable.

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NOVABAY PHARMACEUTICALS, INC.
(a development stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net operating loss and tax credit carryforwards as of December 31, 2011 are as follows (in thousands):

		Amount	Expiration Years
Net operating losses, federal	$	25,403	2024 - 2031
Net operating losses, state	$	27,028	2018 - 2031
Tax credits, federal	$	—	2018
Tax credits, state	$	—	2018

Under U.S. federal tax law, the amount and availability of tax benefits are subject to a variety of interpretations and restrictive tests. Utilization of the net operating loss (NOL) carryforwards may be subject to a substantial annual limitation due to ownership changes that have occurred previously or that could occur in the future, as provided by Section 382 of the Internal Revenue Code of 1986, and similar state provisions. Ownership changes may limit the amount of NOL carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain shareholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. Since the Company's formation, the Company has raised capital through the issuance of capital stock on two occasions which, combined with the purchasing shareholders' subsequent disposition of those shares, may have resulted in one or more changes of control, as defined by Section 382. The Company has not currently completed a study to assess whether any change of control has occurred, or whether there have been multiple changes of control since the Company's formation, due to the significant complexity and cost associated with the study. If the Company has experienced a change of control at any time since its formation, its NOL carryforwards and tax credits may not be available, or their utilization could be subject to an annual limitation under Section 382. A full valuation allowance has been provided against the Company's NOL carryforwards, and if an adjustment is required, this adjustment would be offset by an adjustment to the valuation allowance. Accordingly, there would be no impact on the consolidated balance sheet or statement of operations if an adjustment is required.

The effective tax rate of the Company's provision (benefit) for income taxes differs from the federal statutory rate as follows:

	Year Ending December 31		
(in thousands)	2011	2010	2009
Income tax provision (benefit) at federal statutory rate	$ (1,728)	$ (1,320)	$ 950
State tax	(232)	(187)	152
ISO-related expense for GAAP	230	384	196
Change in valuation allowance	1,445	1,179	(1,130)
Revaluation of warrant liability	249	—	—
Tax credits	—	—	—
Other	38	(6)	(161)
Total	$ 2	$ 50	$ 7

Uncertain Income Tax Positions

We adopted the provisions of ASC 740-10, Accounting for Uncertainty in Income Taxes, on January 1, 2007. There was no impact on our consolidated financial position, results of operations and cash flows as a result of adoption. A reconciliation of the beginning and ending balances of the unrecognized tax benefits during the years ended December 31, 2011 and 2010 is as follows:

	Year ended December 31,	
(in thousands)	2011	2010
Unrecognized benefit - beginning of period	—	—
Gross increases - current period tax positions	—	—
Gross increases - prior period tax positions	475	—
Unrecognized benefit - end of period	$ 475	$ —

Our policy will be to recognize interest and penalties related to income taxes as a component of income tax expense. We are subject to income tax examinations for U.S. incomes taxes and state income taxes from 2004 forward. We do not anticipate that total unrecognized tax benefits will significantly change prior to December 31, 2012.

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NOVABAY PHARMACEUTICALS, INC.
(a development stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. SUBSEQUENT EVENTS

We evaluated subsequent events through the issuance date of the financial statements.

In January 2012 we announced that we had entered into a commercial partnership agreement with Pioneer Pharma Co., Ltd., a Shanghai-based company that markets high-end pharmaceutical products into China, for the commercialization of NeutroPhase in this territory. Under the terms of the agreement, we received an upfront payment of over $300,000, with the potential for additional payments totaling approximately $1 million that may be triggered by certain pre commercial launch regulatory milestones.

In March 2012 we announced that we had entered into a feasibility and option agreement with Virbac Animal Health for the development and potential commercialization of Aganocides for a number of veterinary uses. Under the terms of the agreement, NovaBay will receive an upfront payment plus additional support for research and development. Virbac will conduct veterinary studies using NovaBay’s Aganocide compounds in order to assess feasibility for treating several veterinary indications.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Assessing the costs and benefits of such controls and procedures necessarily involves the exercise of judgment by management. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Management’s Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Our management has concluded that, as of December 31, 2011, our internal control over financial reporting was effective based on these criteria.

Changes in Internal Control Over Financial Reporting

During the fourth quarter of 2011, there were no changes in our internal control over financial reporting which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On March 26, 2012, NovaBay entered into employment agreements with its four executive officers: Ron Najafi, Chief Executive Officer and President; Thomas J. Paulson, Chief Financial Officer and Treasurer; Behzad Khosrovi, Senior Vice President for Product Development; and Roy J. Wu, Senior Vice President, Business & Corporate Development. The employment agreements are effective as of January 1, 2012, and have a term ending on December

31, 2015 (December 31, 2013 in the case of Mr. Wu), unless earlier terminated pursuant to the terms of the agreements. The employment agreements provide that employment is "at will" meaning that NovaBay may terminate the employment of the executive officer at any time, subject to applicable laws.

The employment agreements provide for the terms of employment of the executive officers, which include:

1. For Dr. Najafi: base salary of $366,413 (which is reduced by 30% through September 30, 2012 because Dr. Najafi received a restricted stock award in 2011 for the reduction of his base salary to assist the company in conserving cash); five weeks paid vacation; severance benefits of 150% of base salary at the time of termination of employment (pro-rated for number of years of service if less than four years), plus full vesting of all options held, if Dr. Najafi's employment is terminated by NovaBay without "cause" or Dr. Najafi resigns his employment due to a "constructive termination"; and management transition benefits, if Dr. Najafi voluntarily terminates his employment after reaching the age of 65, equal to 150% of his base salary (which may be paid, at the discretion of the Board of Directors, in a combination of cash and stock, but no less than 25% cash), plus full vesting of his options and the extension of exercisability of his options to three years from the termination date (or the expiration of the option term, if earlier).

2. For Mr. Paulson: base salary of $257,313; five weeks paid vacation; severance benefits of 100% of base salary at the time of termination of employment (pro-rated for number of years of service if less than four years), plus full vesting of all options held, if Mr. Paulson's employment is terminated by NovaBay without "cause" or Mr. Paulson resigns his employment due to a "constructive termination"; and management transition benefits, if Mr. Paulson voluntarily terminates his employment after reaching the age of 65, equal to 100% of his base salary (which may be paid, at the discretion of the Board of Directors, in a combination of cash and stock, but no less than 25% cash), plus full vesting of his options and the extension of exercisability of his options to three years from the termination date (or the expiration of the option term, if earlier).

3. For Dr. Khosrovi: base salary of $244,961; five weeks paid vacation; severance benefits of 100% of base salary at the time of termination of employment (pro rated for number of years of service if less than four years), plus full vesting of all options held, if Dr. Khosrovi 's employment is terminated by NovaBay without "cause" or Dr. Khosrovi resigns his employment due to a "constructive termination"; and management transition benefits, if Dr. Khosrovi voluntarily terminates his employment after reaching the age of 65, equal to 100% of his base salary (which may be paid, at the discretion of the Board of Directors, in a combination of cash and stock, but no less than 25% cash), plus full vesting of his options and the extension of exercisability of his options to three years from the termination date (or the expiration of the option term, if earlier).

4. For Mr. Wu: base salary of $230,000; five weeks paid vacation; and severance benefits of 25% of base salary at the time of termination of employment if Mr. Wu's employment is terminated by NovaBay without "cause" or Mr. Wu resigns his employment due to a "constructive termination".

The agreements provide that any bonuses paid will be at the discretion of the Board of Directors.

For purposes of these agreements, a "termination without cause" is a termination of employment by NovaBay without "cause" (as defined in the agreement), and includes a termination of the executive officer's employment as a result of death, disability, termination of employment within 90 days prior to or one year following a change of control (other than a termination by NovaBay for "cause"), or a constructive termination. A "constructive termination" is a termination of employment by the executive officer due to any one of a number of specified actions taken by NovaBay negatively affecting the executive officer.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item with respect to Executive Officers may be found under the caption, "Executive Compensation and Other Information" appearing in the definitive Proxy Statement to be delivered to NovaBay's stockholders in connection with the solicitation of proxies for NovaBay's 2012 Annual Meeting of Stockholders (the Proxy Statement). The information required by this Item with respect to Directors, including information with respect to our audit committee, audit committee financial experts, risk management and procedures for Board nominations, is incorporated herein by reference from the information under the caption, "Proposal One: Election of Directors" and "Corporate Governance" appearing in the Proxy Statement.

Section 16(a) Beneficial Ownership Reporting Compliance

The information required by this Item with respect to compliance with Section 16(a) of the Exchange Act is incorporated herein by reference from the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" contained in the Proxy Statement.

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Code of Ethics and Business Conduct

The information required by this Item with respect to our code of ethics and business conduct is incorporated herein by reference from the section captioned “Corporate Governance” contained in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is set forth in the Proxy Statement under the caption, “Executive Compensation and Other Information.” Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item with respect to security ownership of certain beneficial owners and management is set forth in the Proxy Statement under the caption, “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information.” Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is set forth in the Proxy Statement under the headings “Proposal 1: Election of Directors” and “Certain Relationships and Related Transactions.” Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is set forth in the Proxy Statement under the heading “Fees Paid to Independent Registered Public Accounting Firm.” Such information is incorporated herein by reference.

Consistent with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002, we are responsible for listing the non-audit services approved by our Audit Committee to be performed by OUM & Co., LLP, our external auditor. Non-audit services are defined as services other than those provided in connection with an audit or a review of our financial statements

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) Financial Statements. The financial statements listed in the Index for Item 8 hereof are filed as part of this report.
(2) Financial Statement Schedules. All schedules have been omitted because they are not required or the required information is included in our consolidated financial statements and notes thereto.

(3) Exhibits. See the Exhibit Index which follows the signature page of this Annual Report on Form 10-K, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 26, 2012	NOVABAY PHARMACEUTICALS, INC.	
	By:	/S/ RAMIN NAJAFI Ramin (Ron) Najafi Chairman and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned officers and directors of NovaBay Pharmaceuticals, Inc., do hereby constitute and appoint Ramin (Ron) Najafi and Thomas J. Paulson, and each of them, our true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby, ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated:

Signature	Title	Date
/S/ RAMIN NAJAFI Ramin (Ron) Najafi	Chairman of the Board and Chief Executive Officer (principal executive officer)	March 26, 2012
/S/ THOMAS PAULSON Thomas J. Paulson	Chief Financial Officer and Treasurer (principal financial and accounting officer)	March 26, 2012
/S/ CHARLES J. CASHION Charles J. Cashion	Director	March 26, 2012
/S/ ANTHONY DAILLEY Anthony Dailley, DDS	Director	March 26, 2012
/S/ PAUL FREIMAN Paul E. Freiman	Director	March 26, 2012
/S/ ALEX MCPHERSON Alex McPherson, MD, Ph.D.	Director	March 26, 2012

/S/ ROBERT R. TUFTS Robert R. Tufts	Director	March 26, 2012
/S/ TONY WICKS Tony Wicks	Director	March 26, 2012
/S/ GAIL MADERIS Gail Maderis	Director	March 26, 2012

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EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger between NovaBay Pharmaceuticals, Inc., a California corporation, and NovaBay Pharmaceuticals, Inc., a Delaware corporation, dated as of June 25, 2010 (Incorporated by reference to Exhibit 2.1 from the Company's Post-Effective Amendment No. 2 to the registration statement on Form S-3 filed with the SEC on July 1, 2010 (File Nos. 333-159917)).
3.1	Certificate of Incorporation of NovaBay Pharmaceuticals, Inc., a Delaware corporation (Incorporated by reference to Exhibit 3.1 from the Company's current report on Form 8-K, as filed with the SEC on June 29, 2010 (SEC File No. 001-33678)).
3.2	Bylaws of NovaBay Pharmaceuticals, Inc., a Delaware corporation (Incorporated by reference to Exhibit 3.2 from the Company's current report on Form 8-K as filed with the SEC on June 29, 2010 (SEC File No. 001-33678)).
4.1*	Specimen common stock certificate.
4.2	Form of Form of Common Stock Purchase Warrant issued in August 2009. (Incorporated by reference to Exhibit 4.3 to the Company's current report on Form 8-K as filed with the SEC on August 21, 2009 (SEC File No. 001-33678).).
4.3	Form of Form of Common Stock Purchase Warrant issued in June 2011. (Incorporated by reference to Exhibit 4.3 to the Company's current report on Form 8-K as filed with the SEC on June 29, 2011 (SEC File No. 001-33678).).
10.1*+	2002 Stock Option Plan, and forms of agreements thereto.
10.2*+	2005 Stock Option Plan, and forms of agreements thereto.
10.3+	2007 Omnibus Incentive Plan, and forms of agreements thereto ((the Plan is incorporated by reference to Exhibit 10.1 from the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2008 as filed with the SEC on August 14, 2008 (SEC File No. 001-33678), and the forms of agreements thereto are incorporated by reference to the exhibit referencing the Plan from the Company's amendment to registration statement of Form S-1 (File No. 333-140714) filed with the Securities and Exchange Commission on May 29, 2007, as amended.).
10.4+	NovaBay Pharmaceuticals, Inc. Executive Officer Cash Bonus Structure.
10.5*	Office Lease dated June 3, 2004 by and between the Company and Emery Station Associates II, LLC, as amended.
10.6*	Fifth Amendment dated November 20, 2007 to Office Lease dated June 3, 2004 by and between the Company and Emery Station Associates II, LLC, as amended (Incorporated by reference to Exhibit 10.20 from the Company's annual report on Form 10-K for the year ended December 31, 2007 as filed with the SEC on March 14, 2008 (SEC File No. 001-33678).).
10.7*	

	Sixth Amendment to Lease between Emery Station Office II, LLC and Novacal Pharmaceuticals, Inc., effective September 1, 2008. (Incorporated by reference to Exhibit 10.1 from the Company's quarterly report on Form 10-Q/A for the quarter ended September 30, 2008 as filed with the SEC on November 14, 2008 (SEC File No. 001-33678)).
10.8†	Collaboration and License Agreement, by and between the Company and Galderma S.A., dated as of March 20, 2009 (Incorporated by reference to Exhibit 10.2 from the Company's quarterly report on Form 10-Q/A for the quarter ended March 31, 2009, as filed with the SEC on August 4, 2009 (SEC File No. 001-33678)).
10.9+	Director Compensation Plan (Incorporated by reference to Exhibit 10.14 from the Company's annual report on Form 10-K for the year end December 31, 2009 as filed with the SEC on March 30, 2010 (SEC File No. 001-33678)).
10.10*†	Collaboration and License Agreement dated August 29, 2006 by and between the Company and Alcon Manufacturing, Ltd.

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10.11* Master Security Agreement dated April 23, 2007 by and between the Company and General Electric Capital Corporation.

10.12† Amendment No. 1 to the Collaboration and License Agreement, dated as of December 1, 2009, between the Company and Galderma S.A. (Incorporated by reference to Exhibit 10.18 from the Company's annual report on Form 10-K for the year end December 31, 2009 as filed with the SEC on March 30, 2010 (SEC File No. 001-33678)).

10.13+ Executive Officer Cash Compensation Arrangements (Bonus structure is incorporated by reference to Exhibit 10.4 to this annual report; the 2010 bonus and 2011 salaries of the named executive officers are incorporated by reference to Exhibit 10.1 from the Company's quarterly report on Form 10-Q as filed with the SEC on May 16, 2011 (SEC File No. 001-33678), and 2011 bonus are incorporated by reference to the description in Item 5.02 of the Company's current report on Form 8-K as filed with the SEC on February 23, 2012 (SEC File No. 001-33678)).

10.14+ Form of Indemnification Agreement between NovaBay Pharmaceuticals, Inc. and its Directors and Officers. (Incorporated by reference to Exhibit 10.1 from the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2010, as filed with the SEC on August 12, 2010 (SEC File No. 001-33678).).

10.15† Amendment No. 2 to the Collaboration and License Agreement, dated as of December 2, 2010, between the Company and Galderma S.A. (Incorporated by reference to Exhibit 10.24 from the Company's annual report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 10, 2011 (SEC File No. 001-33678).).

10.16† Amendment No. 1 to the Collaboration and License Agreement dated November 18, 2010 by and between the Company and Alcon Manufacturing, Ltd. (Incorporated by reference to Exhibit 10.25 from the Company's annual report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 10, 2011 (SEC File No. 001-33678).

10.17 Termination Agreement of the Collaboration & License Agreement between NovaBay Pharmaceuticals, Inc. and Alcon Research Ltd. dated June 16, 2011 (Incorporated by reference to Exhibit 10.1 from the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2011, as filed with the SEC on August 10, 2011 (SEC File No. 001-33678).).

10.18†† Distribution Agreement, by and between the Company and Pioneer Pharma Co. Ltd., dated as of January 9, 2012.

10.19+ Employment Agreement dated February 17, 2012 by and between the Registrant and Ramin (Ron) Najafi.

10.20+ Employment Agreement dated February 17, 2012 by and between the Registrant and Thomas J. Paulson.

10.21+ Employment Agreement dated February 17, 2012 by and between the Registrant and Behzad Khosrovi.

10.22+ Employment Agreement dated February 17, 2012 by and between the Registrant and Roy Wu.

23.1 Consent of OUM & Co., LLP.

23.2 Consent of Davidson & Co, LLP.

24.1 Power of Attorney (included on the signature pages hereto).

31.1 Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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32.1 Certification of the chief executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of the chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

* Incorporated by reference to the exhibit of the same description from the Company’s registration statement of Form S-1 (File No. 333-140714) initially filed with the Securities and Exchange Commission on February 14, 2007, as amended.

+ Indicates a management contract or compensatory plan or arrangement

† NovaBay Pharmaceuticals, Inc. has been granted confidential treatment with respect to certain portions of this exhibit (indicated by asterisks), which have been separately filed with the Securities and Exchange Commission.

†† NovaBay Pharmaceuticals, Inc. has requested confidential treatment with respect to certain portions of this exhibit (indicated by asterisks), which have been separately filed with the Securities and Exchange Commission.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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