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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-33678

NOVABAY PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**68-0454536**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2000 Powell Street, Suite 1150, Emeryville, CA 94608
(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (510) 899-8800

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	NBY	NYSE American

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☒	Smaller reporting company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 3, 2021, there were 41,782,584 shares of the registrant's common stock outstanding.

NOVABAY PHARMACEUTICALS, INC.

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Unless the context requires otherwise, all references in this report to "we," "our," "us," the "Company" and "NovaBay" refer to NovaBay Pharmaceuticals, Inc.

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NOVABAY PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value amounts)

	March 31, 2021	December 31, 2020
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,508	$ 11,952
Accounts receivable, net of allowance for doubtful accounts ($18 and $0 at March 31, 2021 and December 31, 2020, respectively)	1,038	1,106
Inventory, net of allowance for excess and obsolete inventory and lower of cost or estimated net realizable value adjustments ($201 and $236 at March 31, 2021 and December 31, 2020, respectively)	850	608
Prepaid expenses and other current assets	750	576
Total current assets	13,146	14,242
Operating lease right-of-use assets	350	436
Property and equipment, net	100	84
Other assets	476	476
TOTAL ASSETS	$ 14,072	$ 15,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable	$ 833	$ 302
Accrued liabilities	1,851	2,115
Operating lease liabilities	396	416
Total current liabilities	3,080	2,833
Operating lease liabilities-non-current	9	87
Total liabilities	3,089	2,920
Stockholders' equity:		
Preferred stock: 5,000 shares authorized; none issued and outstanding at March 31, 2021 and December 31, 2020	—	—
Common stock, $0.01 par value; 75,000 shares authorized, 41,782 shares issued and outstanding at March 31, 2021 and December 31, 2020	418	418
Additional paid-in capital	148,146	147,963
Accumulated deficit	(137,581)	(136,063)
Total stockholders' equity	10,983	12,318
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 14,072	$ 15,238

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

NOVABAY PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,	
	2021	**2020**
Sales:		
Product revenue, net	$ 1,801	$ 1,892
Other revenue, net	6	—
Total sales, net	1,807	1,892
Product cost of goods sold	455	581
Gross profit	1,352	1,311
Operating expenses:		
Research and development	5	9
Sales and marketing	1,680	1,560
General and administrative	1,187	1,277
Total operating expenses	2,872	2,846
Operating loss	(1,520)	(1,535)
Non-cash gain on changes in fair value of warrant liability	—	137
Non-cash gain on changes in fair value of embedded derivative liability	—	2
Other income (expense), net	2	(186)
Loss before provision for income taxes	(1,518)	(1,582)
Provision for income taxes	—	—
Net loss and comprehensive loss	$ (1,518)	$ (1,582)
Net loss per share attributable to common stockholders (basic and diluted)	$ (0.04)	$ (0.06)
Weighted-average shares of common stock used in computing net loss per share attributable to common stockholders (basic and diluted)	41,782	27,978

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

NOVABAY PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at December 31, 2020	41,782	$ 418	$ 147,963	$ (136,063)	$ 12,318
Net loss	—	—	—	(1,518)	(1,518)
Stock-based compensation expense related to employee and director stock options	—	—	130	—	130
Stock-based compensation expense related to non-employee stock options	—	—	53	—	53
Balance at March 31, 2021	41,782	$ 418	$ 148,146	$ (137,581)	$ 10,983

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at December 31, 2019	27,938	$ 279	$ 125,718	$ (125,024)	$ 973
Net loss	—	—	—	(1,582)	(1,582)
Issuance of common stock in connection with exercise of warrants, net of issuance cost	299	3	198	—	201
Vesting of employee restricted stock awards	2	—	2	—	2
Stock-based compensation expense related to employee and director stock options	—	—	45	—	45
Stock-based compensation expense related to non-employee stock options	—	—	12	—	12
Balance at March 31, 2020	28,239	$ 282	$ 125,975	$ (126,606)	$ (349)

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

NOVABAY PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2021	**2020**
Operating activities:		
Net loss	$ (1,518)	$ (1,582)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9	14
Stock-based compensation expense for options and stock issued to employees and directors	130	45
Stock-based compensation expense for options and stock issued to non-employees	53	12
Issuance of RSUs to employees	—	2
Non-cash gain on changes in fair value of warrant liability	—	(137)
Non-cash gain on changes in fair value of embedded derivative liability	—	(2)
Interest expense related to amortization of debt issuance and debt discount	—	105
Interest expense related to amortization of debt issuance related to related party notes payable	—	1
Changes in operating assets and liabilities:		
Accounts receivable	68	113
Inventory	(242)	(59)
Prepaid expenses and other current assets	(174)	223
Operating lease right-of-use assets	86	224
Other assets	—	1
Accounts payable and accrued liabilities	267	384
Operating lease liabilities	(98)	(252)
Related party notes payable	—	47
Long-term obligations	—	(4)
Net cash used in operating activities	(1,419)	(865)
Investing activities:		
Purchases of property and equipment	(25)	—
Net cash used in investing activities	(25)	—
Financing activities:		
Proceeds from exercise of warrants	—	201
Payment on the convertible note	—	(565)
Net cash used in financing activities	—	(364)
Net decrease in cash, cash equivalents, and restricted cash	(1,444)	(1,229)
Cash, cash equivalents and restricted cash, beginning of year	12,427	7,412
Cash, cash equivalents and restricted cash, end of year	$ 10,983	$ 6,183

	Three Months Ended March 31,	
	2021	**2020**
Supplemental disclosure of cash flow information:		
Interest paid	$ —	$ 35

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

NOTE 1. ORGANIZATION

NovaBay Pharmaceuticals, Inc. (the "Company") is a medical device company predominantly focused on eye care. A majority of our revenue comes from Avenova®, an FDA cleared product sold in the United States that has proven in laboratory testing to have broad antimicrobial properties as it removes foreign material including microorganisms and debris from skin around the eye, including the eyelid. Avenova is formulated with our proprietary, stable and pure form of hypochlorous acid. Avenova is available directly to consumers through our online sales channel and is also often prescribed and dispensed by eyecare professionals for blepharitis and dry-eye disease.

We continue to promote Avenova through all four of our primary distribution channels: (1) our over-the-counter direct-to-consumer model, allowing customers to purchase online or off-the-shelf at retailers and forego time-consuming doctor visits and pharmacy wait times; (2) retail pharmacies, selling to consumers through local pharmacies across 50 states; (3) our Partner Pharmacy Program, providing a consistent patient experience at contracted pricing; and (4) our physician dispensed channel, allowing patients to buy Avenova during office visits to their preferred eye care specialist. We achieved record overall Avenova unit sales in 2020 despite the global COVID-19 pandemic and general economic conditions that challenged many businesses throughout 2020.

Avenova was launched as an over-the-counter product during the second quarter of 2019. By creating a product that does not require a doctor's prescription, we made Avenova available to many more potential customers and broadened our addressable market. Over-the-counter Avenova also capitalizes on a trend to sell pharmaceutical products directly to consumers in response to increased cost shifting to consumers through high-deductible health plans and adds convenience by allowing customers to forego a time-consuming doctor visit and trip to the pharmacy.

The launch of over-the-counter Avenova online proved to be especially fortuitous during the COVID-19 pandemic as it allowed consumers to order Avenova on-line without a prescription and without leaving their homes.

Over-the-counter Avenova is now our leading product by unit sales and net revenue despite having a lower average net selling price than prescription Avenova. This sales performance reflects our ongoing focus and increasing spend on digital marketing and public relations initiatives to promote Avenova directly to the end consumer. Avenova is available on Amazon.com, Walmart.com, and Avenova.com. Late in 2020, we also began working with CVS, one of the nation's largest retail chains to make Avenova available at CVS store locations throughout the U.S. and on CVS.com beginning in late February 2021.

Although we expect the online sales channel to continue to be our fastest-growing channel, support for Avenova from the medical community is important to maintaining its reputation as a preferred product. The "doctor recommended" halo effect around our brand remains strong due in part to our continued promotion of prescription Avenova.

Late in 2020, we also launched a rebranded CelleRx® into the beauty industry as CelleRx® Clinical Reset™. Prior to this rebranding, our marketing of CelleRx focused on medical professionals only. Clinical Reset is formulated with NovaBay's patented, pure, prescription-grade hypochlorous acid (HOCl), the same molecule produced by the human body's immune system to fight infection and heal wounds. It keeps the skin's natural barrier intact, which when out of balance can allow acne, rosacea and infection to set in. Clinical Reset is complementary to a daily beauty regime for use on clean skin or over makeup. Prior to this relaunch, our marketing of CelleRx focused on medical professionals only. With the rebranding, we intend to leverage new consumer focused messaging and the product's pharmaceutical pedigree in robust social media and print advertising campaigns marketing CelleRx Clinical Reset in the beauty industry.

Beyond Avenova and CelleRx, we have developed additional products containing our proprietary, stable and pure form of hypochlorous acid, including NeutroPhase® and PhaseOne® for the wound care market.

On March 31, 2021 we also announced the availability of our new warm eye compress as a complement to Avenova and NovaWipes on Amazon.com and on Avenova.com.

In addition to our proprietary products, we responded to the national need for protective personal equipment (PPE) in the first half of 2020 by tapping into our international supply network and launching the sale of KN95 Masks and other PPE. Although sales from the KN95 Masks were significant in the second quarter of 2020, we experienced a significant decrease in PPE sales in the third and fourth quarters of 2020 as supply shortages narrowed, prices declined and distribution competition increased. We have returned our focus to our core business in eyecare and we do not anticipate dedicating significant future Company resources toward the sale of PPE and we do not expect significant future revenue from PPE sales.

Liquidity

Based primarily on the funds available at March 31, 2021, management believes that the Company's existing cash and cash equivalents and cash flows generated from product sales will be sufficient to enable the Company to meet its planned operating expenses at least through May 6, 2022. However, changing circumstances may cause the Company to expend cash significantly faster than currently anticipated, and the Company may need to spend more cash than currently expected because of circumstances beyond its control. Additionally, our future results, cash expenditures and ability to obtain additional external financing could be adversely affected by the COVID-19 pandemic and general adverse economic conditions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed 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.

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 contract liabilities related to product sales, useful lives for property and equipment and related depreciation calculations, assumptions for valuing options and warrants, income taxes and other contingencies. Actual results could differ from those estimates.

Unaudited Interim Financial Information

The accompanying unaudited interim condensed consolidated financial statements and related disclosures have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the results of operations for the periods presented.

The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. The condensed consolidated results of operations for any interim period are not necessarily indicative of the results to be expected for the full year or for any other future year or interim period.

Cash, Cash Equivalents, and Restricted Cash

The Company considers all highly-liquid instruments with a stated maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value. As of March 31, 2021 and December 31, 2020, the Company's cash and cash equivalents were held in a highly-rated, major financial institution in the United States.

The following table provides a reconciliation of the cash, cash equivalents, and restricted cash reported in the condensed consolidated balance sheets that sum to the total of the same reported in the condensed consolidated statements of cash flows (in thousands):

	March 31, 2021	December 31, 2020
Cash and cash equivalents	$ 10,508	$ 11,952
Restricted cash included in other assets	475	475
Total cash, cash equivalents, and restricted cash in the condensed consolidated statements of cash flows	$ 10,983	$ 12,427

The restricted cash amount included in other assets on the condensed consolidated balance sheets represents amounts held as certificates of deposit for long-term financing and lease arrangements as contractually required by our financial institution and landlord.

Concentrations of Credit Risk and Major Partners

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash, cash equivalents and restricted cash. The Company maintains deposits of cash, cash equivalents and restricted cash with a highly-rated, major financial institution in the United States.

Deposits in this bank may exceed the amount of federal insurance provided on such deposits. The Company does not believe it is exposed to significant credit risk due to the financial position of the financial institution in which the deposits are held.

During the three months ended March 31, 2021 and 2020, revenues were derived primarily from sales of Avenova. Avenova is sold directly to consumers through Amazon.com, Avenova.com, Walmart.com and in CVS stores. Avenova is also sold with a prescription through local pharmacies via three major distribution partners, at eye care specialist offices and through a limited number of partner pharmacies.

During the three months ended March 31, 2021 and 2020, revenues from each product were as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Avenova	$ 1,575	$ 1,539
KN95 Masks	8	173
NeutroPhase	—	173
Other products	218	7
Total product revenue, net	1,801	1,892
Other revenue, net	6	—
Total sales, net	$ 1,807	$ 1,892

During the three months ended March 31, 2021 and 2020, sales of Avenova via Amazon comprised 65% and 49% of total Avenova net revenue, respectively. No other individual distributor comprised greater than 10% of total Avenova net revenue during the three months ended March 31, 2021 and 2020.

As of March 31, 2021 and December 31, 2020, accounts receivable from our major distribution partners greater than 10% were as follows:

Major distribution partner	March 31, 2021	December 31, 2020
Distributor A	19%	14%
Amazon	19%	11%
Distributor B	18%	18%
Chongqing Pioneer Pharma Holdings Limited	13%	16%
Distributor C	11%	14%

The Company relies on two contract manufacturers to produce its products. The Company does not own any manufacturing facilities and intends to continue to rely on third parties for the supply of finished goods. Contract manufacturers may or may not be able to meet the Company's needs with respect to timing, quantity or quality. In particular, it is possible that we may suffer from unexpected supply chain delays in light of the ongoing COVID-19 pandemic.

Fair Value of Financial Assets and Liabilities

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued liabilities. The Company's cash and cash equivalents, accounts receivable, 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 Company follows Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, with respect to assets and liabilities that are measured at fair value on a recurring basis and nonrecurring basis. Under this standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. 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; and
Level 3 – inputs that are unobservable (for example, cash flow modeling inputs based on assumptions).

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Allowance for Doubtful Accounts

The Company charges bad debt expense and records an allowance for doubtful accounts when management believes it to be unlikely that specific invoices will be collected. Management identifies amounts due that are in dispute and it believes are unlikely to be collected. At March 31, 2021, management reserved $18 thousand for accounts receivable. Management recorded a nominal reserve for accounts receivable at December 31, 2020.

Inventory

Inventory is comprised of (1) raw materials and supplies, such as bottles, packaging materials, labels, boxes and pumps; (2) goods in progress, which are normally filled but unlabeled bottles; and (3) finished goods. We utilize contract manufacturers to produce our products and the price paid to these manufacturers is included in inventory. Inventory is stated at the lower of cost or estimated net realizable value determined by the first-in, first-out method. At both March 31, 2021 and December 31, 2020, management had recorded an allowance for excess and obsolete inventory and lower of cost or estimated net realizable value adjustments of $0.2 million.

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 computer equipment and software, and seven years for furniture and fixtures. Leasehold improvements are amortized over the lease term.

The costs of normal maintenance, repairs, and minor replacements are expensed as incurred.

Leases

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company utilizes its incremental borrowing rate, which is the rate incurred to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use assets may be required for items such as initial direct costs paid or incentives received.

The Company has elected to combine lease and non-lease components as a single component for all leases in which it is a lessee or a lessor. The lease expense is recognized over the expected term on a straight-line basis. Operating leases are recognized on the balance sheet as right-of-use assets, operating lease liabilities current and operating lease liabilities non-current. As a result, as of the effective date, the Company no longer recognizes deferred rent on the consolidated balance sheets.

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.

Revenue Recognition

Revenue generated through the Company’s webstores, Avenova.com and CelleRx.com, for Avenova and CelleRx (as well as the KN95 Masks) is recognized upon receipt by the customer through multiple third-party carriers. Shipping and handling costs are expensed as incurred and included in cost of goods sold in the consolidated statements of operations and comprehensive loss. We present revenue net of sales taxes and refunds.

Revenue generated through Amazon.com and Walmart.com is recognized upon fulfillment, which generally occurs upon delivery of the related products to a third-party carrier or, in the case of a delivery by Amazon or Walmart, to the customer. We present revenue net of commissions and any related fulfillment and shipping fees charged by these partners. Fees paid to partners for promoting our products are expensed as incurred and are included in sales and marketing expenses within the operating expenses in the consolidated statements of operations and comprehensive loss.

The Company also generates Avenova product revenue through product sales to its major distribution partners. Product supply of Avenova is the only performance obligation contained in these arrangements, and the Company recognizes product revenue upon transfer of control to its major distribution partners at the amount of consideration that the Company expects to be entitled to, generally upon shipment to the distributor on a “sell-in” basis. Upon recognition of product sales, contract liabilities are recorded for invoiced amounts that are subject to significant reversal, including product revenue allowances for cash consideration paid to customers for services, discounts, rebate programs, and product returns. The Company derives its rate of return from historical data and updates its return rate assumption quarterly. Payment for product supply is typically due 30 days after control transfers to the distributor.

Revenue generated through the Company’s partner pharmacies is recognized when control of the product transfers to the end customer. Revenue for product sales to CVS is recognized upon transfer of control to CVS, net of estimated future product returns.

Cost of Goods Sold

Cost of goods sold includes third-party manufacturing costs, shipping and handling costs, and other costs associated with products sold. Cost of goods sold also includes any necessary allowance for excess and obsolete inventory along with lower of cost and estimated net realizable value.

Research and Development Costs

The Company charges research and development costs to expense as incurred. These costs include all costs associated with research, development and regulatory activities, including submissions to the Food and Drug Administration (“FDA”).

Patent Costs

Patent costs, including legal expenses, are expensed in the period in which they are incurred. Patent expenses are included in general and administrative expenses in the condensed consolidated statements of operations and comprehensive loss.

Advertising Costs

Advertising costs are expensed in the period in which the costs are incurred. Advertising expenses were $0.7 million and $0.4 million for the three months ended March 31, 2021 and 2020, respectively.

Stock-Based Compensation

The Company's stock-based compensation includes grants of stock options and restricted stock units ("RSUs") to employees, consultants and non-employee directors. The expense associated with these grants is recognized in the Company's condensed consolidated statements of stockholders' equity (deficit) based on their fair values as they are earned under the applicable vesting terms. For stock options granted, the fair value of the stock options is estimated using a Black-Scholes option pricing model. See Note 13, "Equity-Based Compensation" for further information regarding stock-based compensation expense and the assumptions used in estimating that expense. The Company accounts for RSUs issued to employees and non-employees (consultants and advisory board members) based on the fair market value of the Company's common stock as of the date of issuance.

Income Taxes

The Company accounts 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 Liability

The Company accounts for common stock purchase warrants issued in connection with its equity offerings in accordance with the provisions of ASC 480, *Distinguishing Liabilities from Equity*, and ASC 815, *Derivatives and Hedging*.

The Company accounts for common stock purchase warrants issued in connection with share-based compensation arrangements in accordance with the provisions of ASC 718, *Stock Compensation,* which encompasses the provisions of ASC 480, *Distinguishing Liabilities from Equity*.

The Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). Additionally, for common stock purchase warrants accounted for in accordance with ASC 718, *Stock Compensation,* the Company classifies as liabilities any contracts where it believes the warrants are deemed to be probable of issuance.

For warrants that are classified as liabilities, the Company records the fair value of the warrants at each balance sheet date and records changes in the estimated fair value as a non-cash gain or loss in the consolidated statements of operations and comprehensive loss. The fair values of these warrants are determined using the Black-Scholes option pricing model, the Binomial Lattice ("Lattice") valuation model, or the Monte Carlo simulation model where deemed appropriate. These values are subject to a significant degree of management's judgment.

Net Loss Per Share

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

Basic EPS is computed by dividing net loss available to common stockholders 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 warrants, using the treasury stock method. In computing diluted EPS, the average stock price for the period is used to determine 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 because their effect would be anti-dilutive.

During the three months ended March 31, 2021 and 2020, there was no difference between basic and diluted EPS in each period due to the Company's net loss.

The following table sets forth the calculation of basic EPS and diluted EPS (in thousands, except per share amounts):

	Three Months Ended March 31,	
Numerator	**2021**	**2020**
Net loss	$ (1,518)	$ (1,582)
Denominator		
Weighted average shares of common stock outstanding, basic and diluted	41,782	27,978
Net loss per share attributable to common stockholders, basic and diluted	$ (0.04)	$ (0.06)

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

	As of March 31,	
	2021	**2020**
Stock options	3,138	2,099
Stock warrants	7,082	8,247
	10,220	10,346

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The amendments in ASU 2016-13 require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. ASU 2016-13 is effective for the Company for annual and interim reporting periods beginning January 1, 2023. The Company will adopt the new standard effective January 1, 2023. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes. The Company adopted the new standard effective January 1, 2021, and the adoption of this guidance did not have a material impact on our consolidated financial statements.

In August 2020, FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for convertible instruments by removing the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. As a result, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost. ASU 2020-06 also requires the application of the if-converted method for calculating diluted earnings per share and the treasury stock method will be no longer available. The new guidance is effective for fiscal years beginning after December 15, 2021, with early adoption permitted no earlier than fiscal years beginning after December 15, 2020. ASU 2020-06 is effective for the Company in our first quarter of fiscal 2023. We are currently evaluating the impact of ASU 2020-06 on our consolidated financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS

The Company follows ASC 820, *Fair Value Measurements and Disclosures*, with respect to assets and liabilities that are measured at fair value on a recurring basis and nonrecurring basis. Under this standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The Company's cash equivalents are classified within Level 1 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 and certificates of deposit.

The following table presents the Company's assets measured at fair value on a recurring basis as of March 31, 2021(in thousands):

		Fair Value Measurements Using		
	Balance at March 31, 2021	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Restricted cash held as a certificate of deposit	$ 324	$ 324	$ —	$ —
Deposit held as a certificate of deposit	151	151	—	—
Total assets	$ 475	$ 475	$ —	$ —

The following table presents the Company's assets measured at fair value on a recurring basis as of December 31, 2020 (in thousands):

		Fair Value Measurements Using		
	Balance at December 31, 2020	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Restricted cash held as a certificate of deposit	$ 324	$ 324	$ —	$ —
Deposit held as a certificate of deposit	151	151	—	—
Total assets	$ 475	$ 475	$ —	$ —

There were no liabilities measured at fair value on a recurring basis as of March 31, 2021 or December 31, 2020.

NOTE 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Insurance claim receivable	$ 321	$ —
Prepaid insurance	77	165
Prepaid sales rebates	68	144
Prepaid inventory	68	—
Prepaid security deposit for lease	—	65
Prepaid dues and subscription	54	53
Prepaid patents	31	47
Other	131	102
Total prepaid expenses and other current assets	$ 750	$ 576

NOTE 5. INVENTORY

Inventory consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Raw materials and supplies	$ 193	$ 159
Finished goods	858	685
Less: Reserve for excess and obsolete inventory	(201)	(236)
Total inventory, net	$ 850	$ 608

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Office and laboratory equipment	$ 20	$ 20
Furniture and fixtures	157	157
Computer equipment and software	390	365
Production equipment	65	65
Leasehold improvements	79	79
Total property and equipment, at cost	711	686
Less: accumulated depreciation and amortization	(611)	(602)
Total property and equipment, net	$ 100	$ 84

Depreciation and amortization expense was $9 thousand and $14 thousand for the three months ended March 31, 2021 and 2020, respectively.

NOTE 7. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Avenova contract liabilities	$ 862	$ 730
Employee payroll and benefits	265	632
Sublease security deposit	175	198
Consulting services	153	98
Audit services	122	—
Inventory purchases	—	181
Other	274	276
Total accrued liabilities	$ 1,851	$ 2,115

NOTE 8. COMMITMENTS AND CONTINGENCIES

Directors and Officers Indemnification

As permitted under Delaware law and in accordance with its bylaws, the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is or was serving at the Company's 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, the Company has a director and officer insurance policy that limits its exposure and may enable it to recover a portion of any future payments. The Company believes the fair value of these indemnification agreements is minimal. Accordingly, it has not recorded any liabilities for these agreements as of March 31, 2021.

In the normal course of business, the Company provides indemnification of varying scope under its agreements with other companies, typically its clinical research organizations, investigators, clinical sites, suppliers and others. Pursuant to these agreements, it generally indemnifies, holds harmless, and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified parties in connection with the use or testing of its 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 its products. The term of these indemnification agreements is generally perpetual. The potential future payments the Company could be required to make under these indemnification agreements is unlimited. Historically, costs related to these indemnification provisions have been immaterial. The Company also maintains various liability insurance policies that limit its exposure. As a result, it believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has not recorded any liabilities for these agreements as of March 31, 2021.

Legal Matters

On July 29, 2019, Mr. John McGovern, the Company's former Interim President & Chief Executive Officer and Chief Financial Officer, submitted a demand for arbitration in connection with his separation from service with the Company. The arbitration was settled in December 2020. Mr. McGovern released the Company from all outstanding obligations upon settlement.

During the first quarter of 2021, the Company's insurance carrier determined that the Company was entitled to a $0.3 million reimbursement for litigation costs incurred in conjunction with the McGovern matter. The balance was recorded in the prepaid expenses and other current assets in the unaudited condensed consolidated balance sheet as of March 31, 2021 (see Note 4, "Prepaid Expenses and Other Current Assets").

As of March 31, 2021, there were no other matters that, in the opinion of management, would ultimately result in liability that would have a material adverse effect on the Company's financial position, results of operations or cash flows.

Leases

The Company leases office space for its corporate headquarters located in Emeryville, California. The initial lease term is through February 28, 2022. The Company has the option to extend the term of the lease for one five (5)-year period upon written notice to the landlord. The Company intends to exercise the renewal option for this lease.

The Company also had a lease commitment for laboratory facilities and office space at EmeryStation North in Emeryville, California ("EmeryStation") under an operating lease. In July 2016, the Company subleased the EmeryStation space (the "Sublease Agreement"). The Sublease Agreement commenced September 8, 2016. The EmeryStation lease and Sublease Agreement were terminated as of August 31, 2020 pursuant to a sublease termination agreement executed on July 31, 2020.

The components of lease expense for the three months ended March 31, 2021 and 2020 were as follows (in thousands):

Lease Costs	**Three Months Ended March 31,**	
	2021	**2020**
Operating lease cost	$ 99	$ 264
Sublease income	—	(158)
Net lease cost	$ 99	$ 106
Other information		
Operational cash flow used for operating leases	$ 113	$ 296

The Company has measured its operating lease liabilities at its incremental borrowing rate over the remaining term for each operating lease. The weighted average remaining lease term and the weighted average discount rate are summarized as follows:

	Three Months Ended March 31,	
	2021	**2020**
Weighted-average remaining lease term (in years)	1.0	1.5
Weighted-average discount rate	12%	12%

Future lease payments under non-cancelable leases as of March 31, 2021 were as follows (in thousands):

2021	$	341
2022		88
Thereafter		—
Total future minimum lease payments		429
Less imputed interest		(24)
Total	$	405
Reported as:		
Operating lease liability	$	396
Operating lease liability- non-current		9
Total	$	405

Contracts

On May 13, 2020, the Company entered into an agreement with TLF Bio Innovation Lab LLC ("TLF Bio Innovation") to manage the relaunch of the Company's CelleRx product (the "TLF Agreement") which was further amended on September 4, 2020 and subsequently terminated on February 4, 2021. TLF Bio Innovation was granted warrants exercisable for 15,000 shares of the Company's common stock with an exercise price of $0.6718 on January 15, 2021.

On April 16, 2020, the Company entered into an international distribution agreement with Shenzhen Microprofit Biotech Co., LTD ("Microprofit") (the "Microprofit Agreement"). In accordance with the Microprofit Agreement, the Company assisted Microprofit in applying for approval of Microprofit's SARS-CoV-2 IgG and IgM Antibody Combined Test Kit ("Test Kits") by the FDA. Under the terms of the Microprofit Agreement, if such approvals were granted, the Company would issue warrants to certain Microprofit officers exercisable for an aggregate number of shares of the Company's common stock equivalent to 12% of the Company's outstanding common stock on the date of approval. If FDA approval were received, the Microprofit Agreement would grant the Company exclusive rights to distribute the Test Kits in the United States through December 31, 2021. As of March 31, 2021, the Company has determined that the issuance of warrants under this agreement is not probable.

In connection with the Microprofit Agreement, on April 16, 2020, the Company entered into an intermediary distribution agreement with Chongqing Pioneer Pharma Holdings Limited ("Chongqing Pioneer"), a related party, which was subsequently amended on June 29, 2020. The amended agreement provides that the Company will purchase all Test Kits from Chongqing Pioneer as an intermediary.

NOTE 9. RELATED PARTY NOTE PAYABLE

On February 27, 2019, the Company issued a $1.0 million promissory note payable to Pioneer Pharma (Hong Kong) Company Ltd. ("Pioneer Pharma"), which was amended on June 25, 2019 and May 14, 2020 (the "Promissory Note"). The Promissory Note provided for an interest payment of $0.2 million which was initially amended to a payment of $0.3 million and subsequently amended to the delivery of 65,178 units of NeutroPhase (40ml) to Pioneer Pharma. The second amendment to the Promissory Note also provided the Company with the right to repay the note at any time. On May 14, 2020, the Company repaid the $1.0 million principal balance of the Promissory Note using proceeds raised through the at-the-market offering and equity program ("ATM Program") (see Note 12, "Stockholders' Equity"). The Company settled the accrued interest through two separate shipments of NeutroPhase in 2020. Upon full repayment of principal and interest during the year ended December 31, 2020, the Company was released from the Promissory Note with Pioneer Pharma.

In connection with the Promissory Note, the Company paid China Kington a 2% fee for brokering the transaction and entered into a consulting agreement with China Kington for a term of one year, which expired on March 1, 2020. Bob Wu, acting in a dual role as a member of the Company's Board of Directors and as principal of China Kington, was paid $0.1 million pursuant to such consulting agreement. Upon the expiration of the original consulting agreement, the parties entered into a new consulting agreement, in which no cash compensation will be paid. Debt issuance costs associated with the issuance of the Promissory Note of $20 thousand was recognized and recorded as an offset to the related party note payable in the consolidated balance sheets.

The interest expense recognized, including amortization of the issuance costs, was $48 thousand during the three months ended March 31, 2020. There was no comparable expense during the three months ended March 31, 2021.

NOTE 10. CONVERTIBLE NOTE

On March 26, 2019, the Company entered into a Securities Purchase Agreement with Iliad Research and Trading, L.P. (the "Lender"), pursuant to which the Company issued a Secured Convertible Promissory Note (the "Convertible Note") to the Lender dated as of March 26, 2019. The Convertible Note had an original principal amount of $2.2 million, bore interest at a rate of 10% per annum and matured on September 26, 2020, unless earlier paid, redeemed or converted in accordance with its terms. The Company received net proceeds of $2.0 million after deducting an original issue discount of $0.2 million and debt issuance cost of Lender's transaction fees of $15 thousand. The Company recognized an additional $0.2 million of debt issuance costs associated with the issuance of the Convertible Note. The Convertible Note was repaid in full during the third quarter of 2020. Upon full repayment, the Company was released from the Iliad Securities Purchase Agreement with Lender.

During the three months ended March 31, 2020, the Company recorded a gain of $2 thousand in the unaudited condensed consolidated statements of operations and comprehensive loss. There was no comparable gain or loss during the three months ended March 31, 2021.

During the three months ended March 31, 2020, the effective interest rate on the Convertible Note was 54% and interest expense recognized, including amortization of the debt discount and issuance costs, was $0.1 million. There was no comparable expense during the three months ended March 31, 2021.

NOTE 11. WARRANT LIABILITY

July 2011 Warrants

The Company issued the July 2011 Warrants (as defined in Note 12, "Stockholders' Equity") in the third quarter of 2011. The terms of the July 2011 Warrants required registered shares to be delivered upon warrant exercise and potential cash-settlement in the event of a specified fundamental transaction. Under ASC 480, *Distinguishing Liabilities from Equity*, the warrants were classified as liabilities because the Company's potential obligation to deliver registered shares and cash-settle the warrants were deemed to be beyond the Company's control. The fair value of outstanding July 2011 Warrants was determined at each reporting date using a Lattice model with changes in fair value recorded in the consolidated statements of operations and comprehensive loss.

On March 6, 2020, the remaining 35,107 July 2011 Warrants expired unexercised. There were no July 2011 Warrants outstanding as of March 31, 2021.

October 2015 Warrants

The Company issued the October 2015 Warrants (as defined in Note 12, "Stockholders' Equity") in the third quarter of 2015. The terms of the October 2015 Warrants required potential cash-settlement in the event of a specified fundamental transaction. Under ASC 480, *Distinguishing Liabilities from Equity*, the warrants were classified as liabilities because the Company's potential obligation to cash-settle the warrants was deemed to be beyond the Company's control. The fair value of outstanding October 2015 Warrants was determined at each reporting date using a Lattice model with changes in fair value recorded in the consolidated statements of operations and comprehensive loss.

During the fourth quarter of 2020, a total of 22,680 October 2015 Warrants were exercised, resulting in gross proceeds of $5 thousand. The liability associated with these warrants was adjusted to fair value of $12 thousand as of the date of exercise, with the change in fair value recorded in the consolidated statements of operations and comprehensive loss. The fair value was then transferred to equity.

On October 27, 2020, 15,320 October 2015 expired unexercised. There were no October 2015 Warrants outstanding as of March 31, 2021.

2019 Domestic, Foreign & Ladenburg Warrants

As further described in Note 12, "Stockholders' Equity", the Company issued the 2019 Domestic Warrants, the 2019 Foreign Warrants and the 2019 Ladenburg Warrants in the third quarter of 2019. The terms of the 2019 Domestic Warrants, 2019 Foreign Warrants and 2019 Ladenburg Warrants all required potential cash-settlement in the event of a specified fundamental transaction. Under ASC 480, *Distinguishing Liabilities from Equity*, the warrants were classified as liabilities because the Company's potential obligation to cash-settle the warrants was deemed to be beyond the Company's control. The fair value of outstanding warrants was determined at each reporting date using a Black-Scholes option pricing model with the changes in fair value recorded in the consolidated statements of operations and comprehensive loss.

Upon issuance, the fair value of the 2019 Domestic Warrants, 2019 Foreign Warrants and 2019 Ladenburg Warrants was determined to be $3.1 million, $2.0 million and $0.1 million, respectively.

In the third quarter of 2020, as further described in Note 12, "Stockholders' Equity", the 2019 Domestic Warrants and 2019 Foreign Warrants were exercised at reduced exercise prices. The warrant liabilities associated with these warrants was adjusted to their fair values as of the date of exercise, with the change in fair values recorded in the consolidated statements of operations and comprehensive loss. The fair values were then transferred to equity. As of the date of exercise, the fair value of the 2019 Domestic Warrants and 2019 Foreign Warrants was determined to be $4.9 million and $4.2 million, respectively, in accordance with the following key assumptions:

Assumptions	2019 Domestic Warrants	2019 Foreign Warrants
Expected price volatility	178%	178%
Expected term (in years)	4.57	4.57
Risk-free interest rate	0.25%	0.27%
Dividend yield	0.00%	0.00%
Weighted-average fair value of warrant	$ 1.18	$ 1.54

There were no 2019 Domestic Warrants or 2019 Foreign Warrants outstanding as of March 31, 2021.

In the third quarter of 2020, as further described in Note 12, "Stockholders' Equity", the Company amended the 2019 Ladenburg Warrants. The Company's potential obligation to cash-settle the warrants if a specified fundamental transaction occurred was amended to apply only in situations within the Company's control. Pursuant to this change, the 2019 Ladenburg Warrants were no longer classified as liabilities. The warrant liability associated with these warrants was adjusted to fair value as of the date of the amendment, with the change in fair value recorded in the consolidated statements of operations and comprehensive loss. The fair value was then transferred to equity. The fair value of the 2019 Ladenburg Warrants was determined to be $0.2 million on the date of amendment in accordance with the following key assumptions:

Expected price volatility	186%
Expected term (in years)	4.05
Risk-free interest rate	0.22%
Dividend yield	0.00%
Weighted-average fair value of warrants	$ 1.17

The 2019 Ladenburg Warrants will no longer be adjusted to fair value in reporting periods after the amendment. All 2019 Ladenburg Warrants remained outstanding as of March 31, 2021.

NOTE 12. STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of preferred stock with rights and preferences as may be approved by its Board of Directors under its Amended and Restated Certificate of Incorporation. There were no shares of preferred stock outstanding as of March 31, 2021 and December 31, 2020.

Common Stock

April 2020 At the Market Offering

In the second quarter of 2020, the Company established the ATM Program with Ladenburg Thalmann & Co. Inc. ("Ladenburg"). For additional information regarding the offering and equity program, see the Company's Current Reports on Form 8-K filed with the SEC on April 27, 2020 and June 15, 2020. During the second quarter of 2020, 5,836,792 shares of common stock were issued under the ATM Program for total net proceeds of $5.6 million, net of offering costs of $0.4 million.

TLF Bio Innovation Stock Purchase

On May 13, 2020, TLF Bio Innovation purchased 1,000 shares of the Company's common stock for total proceeds of $1 thousand in conjunction with the services agreement described in Note 8, "Commitments and Contingencies".

Common Stock Warrants

July 2011 Warrants

In the third quarter of 2011, the Company issued 139,520 common stock purchase warrants exercisable for 139,520 shares of common stock in connection with a registered direct financing (the "July 2011 Warrants"). The July 2011 Warrants were issued with an exercise price of $33.25 and an expiration date of July 5, 2016. In October 2015, in connection with a separate financing event, the exercise price of outstanding July 2011 Warrants was reduced to $5.00 per share and the expiration date extended to March 6, 2020. In February 2016 and May 2019, the exercise price of outstanding July 2011 Warrants was reduced to $1.81 and $0.2061 per share, respectively, pursuant to price protection provisions of the warrants.

In March 2020, a total of 35,107 July 2011 Warrants expired unexercised. As of March 31, 2021, there were no July 2011 Warrants outstanding.

March 2015 Warrants

In the first quarter of 2015, the Company issued 649,133 common stock purchase warrants exercisable for 649,133 shares of common stock in connection with private placement offering (the "March 2015 Warrants"). The exercise price of individual March 2015 Warrants varied between $15.00 and $16.25 per share at the time of issuance. The Company issued 278,200 of the March 2015 Warrants with an expiration date of March 6, 2020 and the remaining 370,933 March 2015 Warrants with an expiration date of June 6, 2015. In October 2015, in connection with a separate financing event, the exercise price of all outstanding March 2015 Warrants was reduced to $5.00 per share and the expiration date of all outstanding warrants expiring on June 6, 2015 was extended to March 6, 2020. In February 2016 and May 2019, the exercise price of all outstanding July 2011 Warrants was reduced to $1.81 and $0.2061 per share, respectively, pursuant to price protection provisions of the warrants.

During the first quarter of 2020, a total of 70,000 March 2015 Warrants were exercised, resulting in gross proceeds of $14 thousand.

In the first quarter of 2020, all remaining 7,419 March 2015 Warrants expired unexercised. As of March 31, 2021, there were no March 2015 Warrants outstanding.

October 2015 Warrants

In the fourth quarter of 2015, the Company issued 442,802 common stock purchase warrants exercisable for 442,802 shares of common stock in connection with a public offering (the "October 2015 Warrants"). The warrants were issued with an exercise price of $5.00 and an expiration date of October 27, 2020. In February 2016 and May 2019, the exercise price of outstanding October 2015 Warrants was reduced to $1.81 and $0.2061 per share, respectively, pursuant to price protection provisions of the warrants.

During the fourth quarter of 2020, a total of 22,680 October 2015 Warrants were exercised, resulting in gross proceeds of $5 thousand.

During the fourth quarter of 2020, all remaining 15,320 October 2015 Warrants expired unexercised. As of March 31, 2021, there were no October 2015 Warrants outstanding.

June 2019 Private Placement and June 2019 Warrants

During the second quarter of 2019, the Company entered into a private placement agreement to sell 1,371,427 shares of common stock and 1,371,427 common stock purchase warrants exercisable for 1,371,427 shares of common stock (the "June 2019 Warrants") for an aggregate subscription price of $2.4 million. Three accredited investors, Messrs. Xiao Rui Liu, Hai Dong Pang and Ping Huang, subscribed to the private placement for $1.0 million, $0.4 million and $1.0 million, respectively. China Kington served as placement agent in exchange for a commission equal to six percent (6%) of the gross proceeds, totaling $0.1 million. The Company also paid other offering costs of $27 thousand.

The June 2019 Warrants were issued with an exercise price of $0.87 and an expiration date of June 17, 2020. The June 2019 Warrants were callable by the Company if the closing price of the Company's common stock, as reported on the NYSE American, was $1.00 or greater.

During the first quarter of 2020, a total of 228,571 June 2019 Warrants were exercised, resulting in gross proceeds of $199 thousand. The Company paid China Kington a fee of $12 thousand, or six percent (6%) of the gross proceeds, for brokering the exercise transaction.

During the second quarter of 2020, a total of 571,428 June 2019 Warrants were exercised, resulting in gross proceeds of $497 thousand. The Company paid China Kington a fee of $29 thousand, or six percent (6%) of the gross proceeds, for brokering the exercise transaction.

During the second quarter of 2020, all remaining 571,428 June 2019 Warrants expired unexercised. As of March 31, 2021, there were no June 2019 Warrants outstanding.

August 2019 Common Stock Purchase Agreement, 2019 Domestic Warrants, 2019 Ladenburg Warrants and 2019 Foreign Warrants

In the third quarter of 2019, the Company entered into a purchase agreement for the sale of (i) 4,198,566 shares of common stock and (ii) 4,198,566 common stock purchase warrants exercisable for 4,198,566 shares of common stock (the "2019 Domestic Warrants") for gross proceeds of $4.2 million. The 2019 Domestic Warrants were issued with an exercise price of $1.15 and an expiration date of February 13, 2025.

The Company allocated the proceeds between the common stock and 2019 Domestic Warrants by applying the fair value allocation methodology. The Company first allocated $3.1 million to the 2019 Domestic Warrants, with the residual amount allocated to the common stock. See Note 11, "Warrant Liability" for further discussion of the key assumptions used to value the 2019 Domestic Warrants.

Ladenburg served as the placement agent for the transaction in exchange for a commission representing six percent (6%) of the gross proceeds, totaling $0.3 million, and 167,942 common stock purchase warrants exercisable for 167,942 shares of common stock with an exercise price of $1.25 per share and an expiration date of August 8, 2024 (the "2019 Ladenburg Warrants"). In addition, the Company reimbursed the Placement Agent $60 thousand for certain expenses. The Company also incurred and paid other offering costs of $0.3 million.

The Company incurred total issuance costs of $0.5 million in conjunction with the securities purchase agreement. The Company allocated $0.2 million of the issuance costs to the warrant liability which was expensed in the Company's consolidated statements of operations and comprehensive loss during the period. The remaining $0.3 million was recorded as a reduction of additional paid-in capital in the Company's consolidated balance sheets. As the 2019 Ladenburg Warrants were accounted for as a stock issuance cost, $59 thousand was allocated to the warrant liability and expensed during the period and $65 thousand was recorded as a reduction to additional paid-in capital in the Company's consolidated balance sheets. See Note 11, "Warrant Liability" for a discussion of the key assumptions used to value the 2019 Ladenburg Warrants.

During the third quarter of 2020, the Company and the holders of the 2019 Domestic Warrants and the 2019 Foreign Warrants entered into exercise agreements which resulted in the cash exercise of the warrants at a reduced exercise price of $0.99. The Company received aggregate gross proceeds of approximately $6.8 million from the exercises. The Company incurred and paid other offering costs of $0.2 million. The Company also incurred and paid a $0.2 million fee to China Kington for brokering the transaction, which equaled six percent (6%) of the gross proceeds from the 2019 Foreign Warrants.

During the third quarter of 2020, the Company and all holders of the 2019 Domestic Warrants and 2019 Foreign Warrants entered into warrant repricing letter agreements. Pursuant to the agreement, in consideration for the exercise in full of the 2019 Domestic Warrants and 2019 Foreign Warrant, the Company agreed to: (1) reduce the exercise price of the 2019 Domestic Warrants and the 2019 Foreign Warrants to $0.99 per share prior to exercise, and (2) in a private placement, issue new common stock purchase warrants (the "New Warrants") to purchase up to a number of shares of common stock, equal to 100% of the number of 2019 Domestic Warrants and 2019 Foreign Warrants currently held by such holders upon the holders exercising their warrants.

The New Warrants became exercisable six months after their issuance, for an aggregate of 6,898,566 shares of common stock. The New Warrants have an exercise price of $1.65 per share and will expire five and a half years after their issuance. The Company determined that the common stock issued from exercise of the 2019 Domestic and 2019 Foreign Warrants, and the New Warrants to be one unit of account, and therefore did not allocate the proceeds between the common stock and the New Warrants as, the proceeds, even if allocated, would be both recognized in additional paid-in capital.

During the third quarter of 2020, the Company also entered into a reprice agreement with Ladenburg which reduced the exercise price to $0.99 per share and amended certain terms of the 2019 Ladenburg Warrants. The Company's potential obligation to cash-settle the warrants if a specified fundamental transaction occurred was amended to apply only in situations within the Company's control. As further described in Note 11, "Warrant Liability", the 2019 Ladenburg Warrants were no longer classified as a liability as a result of this amendment.

TLF Bio Innovation 2021 Warrants

On January 15, 2021, TLF Bio Innovation was granted warrants exercisable for 15,000 shares of the Company's common stock with an exercise price of $0.6718 (the "TLF Warrants"). The TLF Warrants will expire five years after their issuance. The TLF Warrants are classified as equity.

The details of all outstanding warrants as of March 31, 2021 were as follows:

	Warrants (in thousands)		Weighted-Average Exercise Price
Outstanding at December 31, 2020	7,067	$	1.63
Warrants granted	15	$	0.67
Warrants exercised	—	$	—
Warrants expired	—	$	—
Outstanding at March 31, 2021	7,082	$	1.63

NOTE 13. EQUITY-BASED COMPENSATION

Equity Compensation Plans

In October 2007, the Company adopted the 2007 Omnibus Incentive Plan (the "2007 Plan") to provide for the granting of equity 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 (the "Board"). The 2007 Plan expired on March 15, 2017. Upon expiration, new awards cannot be issued pursuant to the 2007 Plan, but outstanding awards continue to be governed by its terms. Stock options granted under the 2007 Plan expire no later than ten years from the date of grant. All stock options outstanding under the 2007 Plan were fully vested as of December 31, 2020.

In March 2017, the Company adopted the 2017 Omnibus Incentive Plan (the "2017 Plan"), which was approved by stockholders on June 2, 2017, to provide for the granting of equity awards, such as nonqualified stock options ("NQSOs"), incentive stock options ("ISOs"), restricted stock, performance shares, stock appreciation rights ("SARs"), RSUs and other share-based awards to employees, directors, and consultants, as determined by the Board. The 2017 Plan does not affect awards previously granted under the 2007 Plan. Upon adoption, the 2017 Plan allowed for awards of up to 2,318,486 shares of the Company's common stock, plus an automatic annual increase in the number of shares authorized for awards on the first day of each of the Company's fiscal years beginning January 1, 2018 through January 1, 2027 equal to (i) 4% of the number of shares of common stock outstanding on the last day of the immediately preceding fiscal year or (ii) such lesser number of shares of common stock than provided for in Section 4(a)(i) of the 2017 Plan as determined by the Board. On January 15, 2021, the number of shares available for future awards under the 2017 Plan was increased by 1,671,303 shares. As of March 31, 2021, there were 3,646,727 shares available for future awards under the 2017 Plan.

Under the terms of the 2017 Plan, the exercise price of NQSOs, ISOs and SARs may not be less than 100% of the fair market value of the common stock on the date of grant and, if ISOs are granted to an owner of more than 10% of the Company's stock, then not less than 110% of the fair market value of the common stock on the date of grant. The term of awards will not be longer than ten years, or in the case of ISOs, not longer than five years with respect to holders of more than 10% of the Company's stock. 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. The Company issues new shares to satisfy option exercises under the 2007 Plan and the 2017 Plan.

Stock Option Summary

The following table summarizes information about the Company's stock options and restricted stock outstanding at March 31, 2021 and activity during the period ended March 31, 2021:

(in thousands, except years and per share data)	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2020	3,165	$ 2.05	7.6	$ 189
Options granted	55	$ 1.09		
Restricted stock units granted	-	$ —		
Options exercised	-	$ —		
Restricted stock units vested	-	$ —		
Options forfeited/cancelled	(82)	$ 3.97		
Restricted stock units cancelled	-	$ —		
Outstanding at March 31, 2021	3,138	$ 1.98	7.4	$ 309
Vested and expected to vest at March 31, 2021	2,797	$ 2.12	7.2	$ 254
Vested at March 31, 2021	1,459	$ 3.21	5.3	$ 64
Exercisable at March 31, 2021	1,459	$ 3.21	5.3	$ 64

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 American as of March 31, 2021 for options that have a quoted market price in excess of the exercise price. There were no stock option awards exercised during the three months ended March 31, 2021 and 2020. The Company received no cash payments for the exercise of stock options during the three months ended March 31, 2021 and 2020.

As of March 31, 2021, total unrecognized compensation cost related to unvested stock options and restricted stock units was approximately $0.9 million. This amount is expected to be recognized as stock-based compensation expense in the Company's unaudited condensed consolidated statements of operations and comprehensive loss over the remaining weighted average vesting period of 2.62 years.

Stock Option Awards to Employees and Directors

The Company grants options to purchase common stock to 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 stock option awards as of the date of grant by applying the Black-Scholes option pricing 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, "Summary of Significant Account Policies," for a description of the accounting policies that the Company applied to value its stock-based awards.

During the three months ended March 31, 2021 and 2020, the Company granted options to employees and directors to purchase an aggregate of 55,000 and 20,000 shares of common stock, respectively.

The weighted-average assumptions used in determining the value of options are as follows:

	Three Months Ended March 31,	
Assumption	2021	2020
Expected price volatility	164.44%	143.83%
Expected term (in years)	6.19	6.46
Risk-free interest rate	1.09%	0.99%
Dividend yield	0.00%	0.00%
Weighted-average fair value of options granted during the period	$ 1.04	$ 0.53

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.

Expected Term—This is the period of time over which the options granted are expected to remain outstanding. The expected life assumption is based on the Company's historical data.

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.

In addition, during the three months ended March 31, 2021 and 2020, the Company did not grant restricted stock to employees.

For the three months ended March 31, 2021 and 2020, the Company recognized stock-based compensation expense of $130 thousand and $45 thousand, respectively, for stock-based awards to employees and directors.

Stock-Based Awards to Non-Employees

During the three months ended March 31, 2021 and March 31, 2020, the Company did not grant options exercisable for shares of common stock to non-employees in exchange for advisory and consulting services.

When the Company grants stock options, the stock options are recorded at their fair value on the grant date and recognized over the respective service or vesting period. The fair value of the stock options that are granted is calculated using the Black-Scholes-Merton option pricing model as discussed above.

In addition, during the three months ended March 31, 2021 and 2020, the Company did not grant restricted stock to non-employees.

For the three months ended March 31, 2021 and 2020, the Company recognized stock-based compensation expense of $53 thousand and $12 thousand, respectively, related to non-employee stock option grants.

Summary of Stock-Based Compensation Expense

A summary of the stock-based compensation expense included in results of operations for the options and restricted stock awards discussed above is as follows (in thousands):

	Three Months Ended March 31,	
	2021	**2020**
Research and development	$ 4	$ 7
Sales and marketing	31	9
General and administrative	148	41
Total stock-based compensation expense	$ 183	$ 57

NOTE 14. LICENSE, COLLABORATION AND DISTRIBUTION AGREEMENTS

Transactions under the Company's major distribution agreements are recognized upon transfer of control of product sold to its major distribution partners at the amount of consideration that the Company expects to be entitled to. The Company records contract liabilities for the amounts that are estimated to be subject to significant reversal, including allowances for services, discounts, rebate programs, and product returns.

The following table presents changes in the Company's contract assets and liabilities for the three months ended March 31, 2021 (in thousands):

	Balance at December 31, 2020	**Additions**	**Deductions**	**Balance at March 31, 2021**
Contract Liabilities: Deferred Revenue	$ 2	$ 1	$ (2)	$ 1
Contract Liabilities: Accrued Liabilities	573	573	(352)	794
Total	$ 575	$ 574	$ (354)	$ 795

During the three months ended March 31, 2021 and 2020, the Company recognized the following revenue (in thousands):

	Three Months Ended March 31,	
	2021	2020
Revenue recognized in the period from:		
Amounts included in contract liabilities at the beginning of the period:		
Performance obligations satisfied	$ 575	$ 434
New activities in the period:		
Performance obligations satisfied	1,232	1,458
	$ 1,807	$ 1,892

Avenova Distribution Agreements and Specialty Pharmacies

Prescription Avenova is made available in local pharmacies and major pharmacy retail chains under nationwide distribution agreements with McKesson Corporation, Cardinal Health and AmerisourceBergen. We have also entered into direct agreements with preferred pharmacy networks as part of our Partner Pharmacy Program. During the three months ended March 31, 2021 and 2020, the Company earned $0.1 million and $0.6 million, respectively, in sales revenue for its Avenova product from these distribution and partner pharmacy agreements.

Under the prescription Avenova product distribution arrangements, the Company had a contract liability balance of $0.9 million and $0.7 million at March 31, 2021 and December 31, 2020, respectively. The contract liability is included in accrued liabilities in the consolidated balance sheets. The Company also recorded a prepayment of $68 thousand and $0.1 million for rebates related to these distribution agreements as of March 31, 2021 and December 31, 2020, respectively, that is recorded in the prepaid expenses and other current assets in the consolidated balance sheets (see Note 4, “Prepaid Expenses and Other Current Assets”).

Over-the-counter Avenova

Non-prescription Avenova was launched online on June 1, 2019 direct to U.S. customers. Over-the-counter Avenova is offered primarily for sale on Amazon.com, the Company’s website (Avenova.com) and Walmart.com as well as in CVS stores. Over-the-counter Avenova is the same strength hypochlorous formulation as our prescription Avenova product, but comes in a smaller size. This channel provides the Company with more stable pricing and provides customers with easy access to our product. During the three months ended March 31, 2021 and 2020, the revenue generated from over-the-counter Avenova was $1.2 million and $0.8 million, respectively.

NOTE 15. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan covering all eligible employees. The Company is not required to contribute to the plan and made no contributions during either the three months ended March 31, 2021 or 2020.

NOTE 16. RELATED PARTY TRANSACTIONS

Related Party Revenue

The following table summarizes information about the Company's related party revenue and cost of goods sold during the three months ended March 31, 2021 and 2020, respectively (in thousands):

	Three Months Ended March 31,	
	2021	2020
Related party revenue:		
NeutroPhase	$ —	$ 173
Total related party revenue	$ —	$ 173
Cost of goods sold		
NeutroPhase	$ —	$ 90
Total related party expenses	$ —	$ 90

Related party accounts receivable was $0.1 million and $0.2 million as of March 31, 2021 and December 31, 2020, respectively.

Other Related Party Expenses

During the three months ended March 31, 2021 and the year ended December 31, 2020, the Company purchased KN95 Masks through an affiliate of China Pioneer. As of March 31, 2021 and December 31, 2020, related party accounts payable was $10 thousand and $8 thousand, respectively.

The following table summarizes information about the Company's other related party expenses excluding stock-based compensation during the three months ended March 31, 2021 and 2020, respectively (in thousands):

	Three Months Ended March 31,	
	2021	2020
Commissions to China Kington related to:		
Exercise of June 2019 Warrants	$ —	$ 12
Total commissions to China Kington	—	12
Board Director Bob Wu consulting fee	—	50
Total related party expenses	$ —	$ 62

In connection with the Company's re-launch of CelleRx Clinical Reset, on November 17, 2020, the Company entered into a consulting agreement with Eric Wu (the "Consulting Agreement"). Eric Wu is Partner and Senior Vice President of China Kington and the brother of Bob Wu, who serves on the Company's Board of Directors. Pursuant to the Consulting Agreement, Eric Wu will act as a consultant to the Company in support of the CelleRx product re-launch as well as in potential financings and other transaction opportunities. The term of the Consulting Agreement is for twelve months. As consideration for his services, the Company granted Eric Wu options exercisable for 300,000 shares of the Company's common stock under the Company's 2017 Omnibus Incentive Plan with an exercise price equal to the Company's closing stock price on the date of the grant and vesting on the one year anniversary of the grant date. Stock-based compensation expense of $30 thousand was recorded for the three months ended March 31, 2021 related to Eric Wu's options.

NOTE 17. PAYCHECK PROTECTION PROGRAM

On May 6, 2020, the Company received loan proceeds in the amount of $0.9 million from Wells Fargo Bank, N.A. (the "PPP Loan") pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020.The terms of the PPP Loan were subsequently revised in accordance with the provisions of the Paycheck Protection Flexibility Act of 2020, or the PPP Flexibility Act, which was enacted on June 5, 2020. The PPP loan provides for an interest rate of 1.00% per year and matures two years after the date of initial disbursement, with initial principal and interest payments coming due late in fiscal 2021. The Note may be prepaid by the Company at any time prior to the maturity with no prepayment penalties. Funds from the PPP Loan may only be used for payroll costs, costs used to continue group health care benefits, rent and utilities incurred during the 24-week period after receiving the PPP Loan (collectively, "Qualifying Expenses") in order for the PPP Loan to be forgiven in whole or in part. The Company used the entire PPP Loan amount for the Qualifying Expenses and expects the PPP Loan to be forgiven in whole prior to repayment.

NOTE 18. SUBSEQUENT EVENTS

The disclosure set forth in Part II, Item 5 of this report regarding certain compensation related decisions by the Company's Board of Directors is incorporated herein by reference.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in Part I, Item 1 of this report, and with our consolidated financial statements and related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the Securities and Exchange Commission (the "SEC") on March 25, 2021. This discussion contains forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Words such as "expects," "anticipates," "intends," "will," "may," "could," "should," "goals," "potential," "plans," "believes," "estimates," "predicts," "projects," variations of these words, and similar expressions are intended to identify these forward-looking statements. These statements reflect our current views with respect to future events, are based on assumptions, estimates and facts as of the date hereof and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- *the ongoing trajectory of COVID-19 and the extent to which and speed at which the global economy recovers, the nature and extent of ongoing governmental measures to contain the pandemic, the speed and efficacy of the vaccine roll out, and our assumptions, estimates and beliefs regarding the possible effect of the COVID-19 pandemic on general economic conditions, public health and consumer demand, and the Company's results of operations, liquidity, capital resources and general performance in the future;*
- *the potential for forgiveness of the PPP Loan under the terms of the PPP;*
- *our history of losses and our ability to achieve or maintain sustained profitability;*
- *whether demand develops for our proprietary products;*
- *the impact of competitive or alternative products and pricing;*
- *our ability to obtain adequate financing in the future, as and when we need it;*
- *the adequacy of protections afforded to us by the patents that we own and the cost to us of maintaining, enforcing and defending those patents;*
- *our exposure to and ability to defend third-party claims and challenges to our patent and other intellectual property rights;*
- *our success at managing the risks involved in the foregoing items; and*
- *other factors discussed in this report and our other filings with the SEC.*

As a result of many factors, such as those listed above and set forth under the section entitled "Risk Factors" in Part II, Item 1A elsewhere in this report or otherwise described in our filings with the SEC, you should not place undue reliance on these forward-looking statements. You should read this report and the documents that we reference and have filed as exhibits thoroughly and with the understanding that forward-looking statements represent our management's beliefs and assumptions only as of the date of this report and our actual future results may be materially different from what we expect. Except as required by law, we assume no obligation to update these forward-looking statements publicly, even if new information becomes available in the future.

Overview

We are a medical device company predominantly focused on eye care. A majority of our revenue comes from Avenova®, an FDA cleared product sold in the United States that has proven in laboratory testing to have broad antimicrobial properties as it removes foreign material including microorganisms and debris from skin around the eye, including the eyelid. Avenova is formulated with our proprietary, stable and pure form of hypochlorous acid. Avenova is available directly to consumers through our online sales channel and is also often prescribed and dispensed by eyecare professionals for blepharitis and dry-eye disease.

We continue to promote Avenova through all four of our primary distribution channels: (1) our over-the-counter direct-to-consumer model, allowing customers to purchase online or off-the-shelf at retailers and forego time-consuming doctor visits and pharmacy wait times; (2) retail pharmacies, selling to consumers through local pharmacies across 50 states; (3) our Partner Pharmacy Program, providing a consistent patient experience at contracted pricing; and (4) our physician dispensed channel, allowing patients to buy Avenova during office visits to their preferred eye care specialist. We achieved record overall Avenova unit sales in 2020 despite the global COVID-19 pandemic and general economic conditions that challenged many businesses throughout 2020.

Avenova was launched as an over-the-counter product during the second quarter of 2019. By creating a product that does not require a doctor's prescription, we made Avenova available to many more potential customers and broadened our addressable market. Over-the-counter Avenova also capitalizes on a trend to sell pharmaceutical products directly to consumers in response to increased cost shifting to consumers through high-deductible health plans and adds convenience by allowing customers to forego a time-consuming doctor visit and trip to the pharmacy.

The launch of over-the-counter Avenova online proved to be especially fortuitous during the COVID-19 pandemic as it allowed consumers to order Avenova on-line without a prescription and without leaving their homes.

Over-the-counter Avenova is now our leading product by unit sales and net revenue despite having a lower average net selling price than prescription Avenova. This sales performance reflects our ongoing focus and increasing spend on digital marketing and public relations initiatives to promote Avenova directly to the end consumer. Avenova is available on Amazon.com, Walmart.com, and Avenova.com. Late in 2020, we also began working with CVS, one of the nation's largest retail chains to make Avenova available at CVS store locations throughout the U.S. and on CVS.com beginning in late February 2021.

Although we expect the online sales channel to continue to be our fastest-growing channel, support for Avenova from the medical community is important to maintaining its reputation as a preferred product. The "doctor recommended" halo effect around our brand remains strong due in part to our continued promotion of prescription Avenova.

Late in 2020, we also launched a rebranded CelleRx® into the beauty industry as CelleRx® Clinical Reset™. Prior to this rebranding, our marketing of CelleRx focused on medical professionals only. Clinical Reset is formulated with NovaBay's patented, pure, prescription-grade hypochlorous acid (HOCl), the same molecule produced by the human body's immune system to fight infection and heal wounds. It keeps the skin's natural barrier intact, which when out of balance can allow acne, rosacea and infection to set in. Clinical Reset is complementary to a daily beauty regime for use on clean skin or over makeup. Prior to this relaunch, our marketing of CelleRx focused on medical professionals only. With the rebranding, we intend to leverage new consumer focused messaging and the product's pharmaceutical pedigree in robust social media and print advertising campaigns marketing CelleRx Clinical Reset in the beauty industry.

Beyond Avenova and CelleRx, we have developed additional products containing our proprietary, stable and pure form of hypochlorous acid, including NeutroPhase® and PhaseOne® for the wound care market.

On March 31, 2021 we also announced the availability of our new warm eye compress as a complement to Avenova and NovaWipes on Amazon.com and on Avenova.com.

In addition to our proprietary products, we responded to the national need for protective personal equipment (PPE) in the first half of 2020 by tapping into our international supply network and launching the sale of KN95 Masks and other PPE. Although sales from the KN95 Masks were significant in the second quarter of 2020, we experienced a significant decrease in PPE sales in the third and fourth quarters of 2020 as supply shortages narrowed, prices declined and distribution competition increased. We have returned our focus to our core business in eyecare and we do not anticipate dedicating significant future Company resources toward the sale of PPE and we do not expect significant future revenue from PPE sales.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. In preparing these condensed consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. On an ongoing basis, we evaluate our estimates and judgments related to revenue recognition, research and development costs, patent costs, stock-based compensation, income taxes and other contingencies. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates.

While our significant accounting policies are more fully described in Note 2, “Summary of Significant Accounting Policies” to the Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, we believe that the following accounting policies are most critical to fully understanding and evaluating our reported financial results.

Allowance for Doubtful Accounts

The Company charges bad debt expense and records an allowance for doubtful accounts when management believes it to be unlikely that specific invoices will be collected. Management identifies amounts due that are in dispute and it believes are unlikely to be collected. At March 31, 2021, management reserved $18 thousand for accounts receivable. Management recorded a nominal reserve for accounts receivable at December 31, 2020.

Inventory

Inventory is comprised of (1) raw materials and supplies, such as bottles, packaging materials, labels, boxes and pumps; (2) goods in progress, which are normally filled but unlabeled bottles; and (3) finished goods. We utilize contract manufacturers to produce our products and the price paid to these manufacturers is included in inventory. Inventory is stated at the lower of cost or estimated net realizable value determined by the first-in, first-out method. At both March 31, 2021 and December 31, 2020, management had recorded an allowance for excess and obsolete inventory and lower of cost or estimated net realizable value adjustments of $0.2 million.

Leases

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company utilizes its incremental borrowing rate, which is the rate incurred to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use assets may be required for items such as initial direct costs paid or incentives received.

The Company has elected to combine lease and non-lease components as a single component for all leases in which it is a lessee or a lessor. The lease expense is recognized over the expected term on a straight-line basis. Operating leases are recognized on the balance sheet as right-of-use assets, operating lease liabilities current and operating lease liabilities non-current. As a result, as of the effective date, the Company no longer recognizes deferred rent on the consolidated balance sheets.

Revenue Recognition

Revenue generated through the Company’s webstores, Avenova.com and CelleRx.com, for Avenova and CelleRx (as well as the KN95 Masks) is recognized upon receipt by the customer through multiple third-party carriers. Shipping and handling costs are expensed as fulfillment costs and are incurred and included in cost of goods sold in the consolidated statements of operations and comprehensive loss. We present revenue net of sales taxes and refunds.

Revenue generated through Amazon.com and Walmart.com for Avenova and other products is recognized upon fulfillment, which generally occurs upon delivery of the related products to a third-party carrier or, in the case of an Amazon or Walmart delivery, to the customer. We present revenue net of commissions and any related fulfillment and shipping fees charged by these partners. Fees paid to partners for promoting our product are expensed as incurred and are included in sales and marketing expenses within the operating expenses in the consolidated statements of operations and comprehensive loss.

The Company also generates Avenova product revenue through product sales to its major distribution partners. Product supply of Avenova is the only performance obligation contained in these arrangements, and the Company recognizes product revenue upon transfer of control to its major distribution partners at the amount of consideration that the Company expects to be entitled to, generally upon shipment to the distributor on a “sell-in” basis. Upon recognition of product sales, contract liabilities are recorded for invoiced amounts that are subject to significant reversal, including product revenue allowances for cash consideration paid to customers for services, discounts, rebate programs, and product returns. The Company derives its rate of return from historical data and updates its return rate assumption quarterly. Payment for product supply is typically due 30 days after control transfers to the distributor.

Revenue generated through the Company’s partner pharmacies is recognized when control of the product transfers to the end customer.

Revenue for product sales to CVS is recognized upon transfer of control to CVS, net of estimated future product returns.

The following table summarizes the activity in the accounts related to product revenue allowances (in thousands) during the three months ended March 31, 2021:

	Wholesaler/ Pharmacy fees	Cash discounts	Rebate	Returns	Total
Balance at December 31, 2020	$ (91)	$ (10)	$ 55	$ (527)	$ (573)
Current provision related to sales made during current period	(77)	(13)	(201)	(282)	(573)
Payments	44	13	133	162	352
Balance at March 31, 2021	$ (124)	$ (10)	$ (13)	$ (647)	$ (794)

Cost of Goods Sold

Cost of goods sold includes third-party manufacturing costs, shipping and handling costs, and other costs associated with products sold. Cost of goods sold also includes any necessary allowance for excess and obsolete inventory along with lower of cost and estimated net realizable value.

Research and Development Costs

The Company charges research and development costs to expense as incurred. These costs include all costs associated with research, development and regulatory activities, including submissions to the Food and Drug Administration ("FDA").

Advertising Costs

Advertising costs are expensed in the period in which the costs are incurred. Advertising expenses were $0.7 million and $0.4 million for the three months ended March 31, 2021 and 2020, respectively.

Stock-Based Compensation

The Company's stock-based compensation includes grants of stock options and restricted stock units ("RSUs") to employees, consultants and non-employee directors. The expense associated with these grants is recognized in the Company's consolidated statements of stockholders' equity based on their fair values as they are earned under the applicable vesting terms. For stock options granted, the fair value of the stock options is estimated using a Black-Scholes option pricing model. See Note 13, "Equity-Based Compensation" for further information regarding stock-based compensation expense and the assumptions used in estimating that expense. The Company accounts for RSUs issued to employees and non-employees (consultants and advisory board members) based on the fair market value of the Company's common stock as of the date of issuance.

Income Taxes

The Company accounts 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

The Company accounts for common stock purchase warrants issued in connection with its equity offerings in accordance with the provisions of ASC 480, *Distinguishing Liabilities from Equity*, and ASC 815, *Derivatives and Hedging*.

The Company accounts for common stock purchase warrants issued in connection with share-based compensation arrangements in accordance with the provisions of ASC 718, *Stock Compensation,* which encompasses the provisions of ASC 480, *Distinguishing Liabilities from Equity*.

The Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). Additionally, for common stock purchase warrants accounted for in accordance with ASC 718, *Stock Compensation,* the Company classifies as liabilities any contracts where it believes the warrants are deemed to be probable of issuance.

For warrants that are classified as liabilities, the Company records the fair value of the warrants at each balance sheet date and records changes in the estimated fair value as a non-cash gain or loss in the consolidated statements of operations and comprehensive loss. The fair values of these warrants are determined using the Black-Scholes option pricing model, the Binomial Lattice ("Lattice") valuation model, or the Monte Carlo simulation model where deemed appropriate. These values are subject to a significant degree of management's judgment.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" to the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for information on recent accounting pronouncements.

Results of Operations

Comparison of the Three Months Ended March 31, 2021 and 2020

	Three Months Ended March 31,		Dollar Change	Percent Change
	2021	2020		
Statement of Operations				
Sales:				
Product revenue, net	$ 1,801	$ 1,892	$ (91)	(5%)
Other revenue, net	6	—	6	100%
Total sales, net	1,807	1,892	(85)	(4%)
Product cost of goods sold	455	581	(126)	(22%)
Gross profit	1,352	1,311	41	3%
Research and development	5	9	(4)	(44%)
Sales and marketing	1,680	1,560	120	8%
General and administrative	1,187	1,277	(90)	(7%)
Total operating expenses	2,872	2,846	26	1%
Operating loss	(1,520)	(1,535)	15	(1%)
Non-cash gain on changes in fair value of warrant liability	—	137	(137)	(100%)
Non-cash gain on changes in fair value of embedded derivative liability	—	2	(2)	(100%)
Other income (expense), net	2	(186)	188	(101%)
Loss before provision for income taxes	(1,518)	(1,582)	64	(4%)
Provision for income taxes	—	—	—	—
Net loss and comprehensive loss	$ (1,518)	$ (1,582)	$ 64	(4%)

Sales, Product Cost of Goods Sold and Gross Profit

Product revenue, net, decreased by $0.1 million, or 5%, to $1.8 million for the three months ended March 31, 2021, from $1.9 million for the three months ended March 31, 2020. The change in product revenue, net, is primarily the result of an overall decrease in revenue generated from products other than Avenova during the three months ended March 31, 2021 when compared to the three months ended March 31, 2020. Avenova revenue increased by 2% to $1.6 million for the three months ended March 31, 2021 from $1.5 million for the three months ended March 31, 2020. The increase reflects continued higher number of over-the-counter units sold, partially offset by a decrease in the net number of units sold through our pharmacy channels. The increase in revenue due to unit sales was partially offset by the lower average net selling price associated with over-the-counter units.

Cost of goods sold decreased by $0.1 million, or 22%, to $0.5 million for the three months ended March 31, 2021, from $0.6 million for the three months ended March 31, 2020. The decrease was the net result of a decrease in the cost of products other than Avenova sold during the 2021 period which was partially offset by an increase in the relatively lower cost of Avenova products sold.

Gross profit increased by 3%, to $1.4 million for the three months ended March 31, 2021, from $1.3 million for the three months ended March 31, 2020. The increase was the net result of the changes in product revenue, net, and product costs of goods sold discussed above.

Sales and marketing

Sales and marketing expenses increased by $0.1 million, or 8%, to $1.7 million for the three months ended March 31, 2021, from $1.6 million for the three months ended March 31, 2020. The increase was primarily due to an increase in Avenova and CelleRx digital advertising and was partly off-set by a decrease in sales representative headcount.

General and administrative

General and administrative expenses decreased by $0.1 million, or 7%, to $1.2 million for the three months ended March 31, 2021, from $1.3 million for the three months ended March 31, 2020. The decrease was primarily the result of an insurance reimbursement for costs incurred in conjunction with an arbitration with the Company's former Interim President & Chief Executive Officer and Chief Financial Officer as further described in Note 8, "Commitments and Contingencies", to the Notes to Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

Non-cash gain on changes in fair value of warrant liability

The Company recorded a non-cash gain on a change in fair value of warrant liability of $0.1 million for the three months ended March 31, 2020. There was no comparable result for the three months ended March 31, 2021. For additional information regarding the warrants and their valuation, please see Note 11, "Warrant Liability", to the Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report.

Non-cash gain on changes in fair value of embedded derivative liability

The Company recorded a non-cash gain on a change in the fair value of embedded derivative liability of $2 thousand for the three months ended March 31, 2020. There was no comparable result for the three months ended March 31, 2021. For additional information, please see Note 10, "Convertible Note", to the Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report.

Other income (expense), net

Other income, net was $2 thousand for the three months ended March 31, 2021, compared to other expense, net, of $0.2 million for the three months ended March 31, 2020. The 2020 result was due primarily to interest due on the Promissory Note issued in February 2019 and the amortization of discount and issuance cost related to the Convertible Note issued in March 2019. For additional information regarding the Promissory Note and Convertible Note, please see Note 9, "Related Party Note Payable" and Note 10, "Convertible Note", to the Notes to Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

Financial Condition, Liquidity and Capital Resources

As of March 31, 2021, our cash and cash equivalents were $10.5 million, compared to $12.0 million as of December 31, 2020. Based primarily on the funds available at March 31, 2021, management believes that the Company's existing cash and cash equivalents and cash flows generated from product sales will be sufficient to enable the Company to meet its planned operating expenses at least through May 6, 2022. However, changing circumstances may cause the Company to expend cash significantly faster than currently anticipated, and the Company may need to spend more cash than currently expected because of circumstances beyond its control. Additionally, our future results, cash expenditures and ability to obtain additional external financing could be adversely affected by the COVID-19 pandemic and general adverse economic conditions.

Net Cash Used in Operating Activities

Net cash used in operating activities was $1.4 million for the three months ended March 31, 2021, which consisted primarily of a net loss of $1.5 million, adjusted by stock-based compensation expenses of $0.2 million, and a net change of $0.1 million in our net operating assets and liabilities.

Net cash used in operating activities was $0.9 million for the three months ended March 31, 2020, which consisted primarily of a net loss of $1.6 million, adjusted by non-cash gain of $0.1 million on the change in fair value of warrant liability, stock-based compensation expenses of $0.1 million, non-cash interest expense related to amortization of debt issuance cost and debt discount of $0.1 million, and a net change of $0.7 million in our net operating assets and liabilities.

Net Cash Used in Investing Activities

For the three months ended March 31, 2021, net cash used in investing activities for the purchase of property and equipment was $25 thousand, with no comparable result for the three months ended March 31, 2020.

Net Cash Used in Financing Activities

Net cash used in financing activities was $0.4 million for the three months ended March 31, 2020. The Company received an additional $0.2 million from the exercise of warrants, which was offset by repayments of $0.6 million on the Convertible Note issued to Iliad Research and Trading L.P. during the first quarter of 2020.

There was no cash used in, or provided by, financing activities during the three months ended March 31, 2021.

Net Operating Losses and Tax Credit Carryforwards

As of December 31, 2020, we had net operating loss carryforwards for federal and state income tax purposes of $117.3 million and $96.2 million, respectively. The federal net operating loss carryforwards consist of $100.1 million generated before January 1, 2018, which will begin to expire in 2024 and $17.2 million that will carryforward indefinitely but are subject to an 80% limitation for years following December 31, 2020. The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") changed net loss carryforward provisions, allowing a full utilization of net operating loss carryforwards through December 31, 2020. The state net operating loss carryforwards will begin to expire in 2028. The state net operating loss carryforwards will begin to expire in 2028. As of December 31, 2020, we also had tax credit carryforwards for federal income tax purposes of $1.3 million and $0.3 million for state tax purposes. If not utilized, the federal tax credits will begin expiring in 2026. The state tax credits have an indefinite carryover period.

Current federal and California tax laws include substantial restrictions on the utilization of net operating loss carryforwards in the event of an ownership change of a corporation. Accordingly, our ability to utilize net operating loss carryforwards may be limited as a result of such ownership changes. Such a limitation could result in the expiration of carryforwards before they are utilized.

Inflation

We do not believe that inflation has had a material impact on our business and operating results during the periods presented, and we do not expect it to have a material impact in the near future, although there can be no assurances that our business will not be affected by inflation in the future.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2021.

Seasonality

Consistent with our peers in the United States pharmaceutical industry, our business experiences seasonality with the first quarter of each year typically being the lowest revenue quarter. This annual phenomenon is due to consumers facing the need to satisfy health insurance deductibles and changes to copays as each new insurance year begins.

Contractual Obligations

Our contractual cash commitments as of March 31, 2021 were as follows (in thousands):

Contractual Obligations	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Facility leases	$ 404	$ —	$ —	$ —	$ 404
Equipment leases	16	9	—	—	25
Total	$ 420	$ 9	$ —	$ —	$ 429

Our commitments as of March 31, 2021 consisted primarily of a facility operating lease and an operating lease for two copiers.

The total commitment for the facility lease as of March 31, 2021 was $0.4 million due over the lease term, compared to $0.5 million as of December 31, 2020.

We had an operating lease for 2 copiers as of March 31, 2021. The total commitment for the lease as of March 31, 2021 was $25 thousand due over the lease terms, compared to $29 thousand as of December 31, 2020.

See Note 8, “Commitments and Contingencies” to the Notes to Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report for further information regarding these leases.

Recent Events

The disclosure set forth in Part II, Item 5 of this report regarding certain compensation related decisions by the Company’s Board of Directors is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk consists principally of interest rate risk on our cash and cash equivalents.

With most of our focus on Avenova in the domestic U.S. market, we do not have any material exposure to foreign currency rate fluctuations.

ITEM 4. 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").

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.

Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level 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.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended March 31, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The "Legal Matters" section of Note 8. "Commitments and Contingencies" to the Notes to Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

For information regarding factors that could affect our business, results of operations, financial condition and liquidity, see the risk factors discussed under Part I, Item 1A included in our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 25, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable.

ITEM 5. OTHER INFORMATION

On May 4, 2021, the Compensation Committee of the Board of Directors of NovaBay Pharmaceuticals, Inc. (the "Company") (1) approved the annual base salaries and target bonus percentages for 2021 for certain named executive officers of the Company, (2) awarded performance restricted stock units ("Performance RSUs") to certain named executive officers of the Company, and (3) approved certain updates to the 2021 Non-Employee Director Compensation Plan. The following disclosure updates the information previously made available in the Company's 2021 Annual Proxy Statement, as filed with the Securities and Exchange Commission on April 7, 2021, which disclosed compensation information prior to the decisions described herein being made.

The Compensation Committee retained Pay Governance LLC (the "Compensation Consultant") to conduct a survey (the "Pay Governance Survey") of the Company's executive compensation program and board compensation program and recommend any appropriate changes for 2021, which it presented to the Compensation Committee in April 2021. The Pay Governance Survey benchmarks the Company's compensation practices as compared to the Company's peer group. The Company's peer group was approved by the Compensation Committee on May 4, 2021 and is comprised of the following 17 comparably-sized pharmaceutical companies:

AcelRx Pharmaceuticals, Inc.	Cipher Pharmaceuticals Inc.	Jaguar Health, Inc.
Adamis Pharmaceuticals Corporation	Cumberland Pharmaceuticals Inc.	Neos Therapeutics, Inc.
Alimera Sciences, Inc.	DURECT Corporation	Otonomy, Inc.
Anika Therapeutics, Inc.	EyeGate Pharmaceuticals, Inc.	Plus Therapeutics, Inc.
Aytu BioScience, Inc.	EyePoint Pharmaceuticals, Inc.	Sonoma Pharmaceuticals, Inc.
BioDelivery Sciences International, Inc.	Harrow Health, Inc.	

The Pay Governance Survey found that while the Company is positioned slightly above the 25th percentile of the peer group on a revenue basis, the Company's overall compensation to Messrs. Hall and Jones was below the peer median, particularly (1) the Company's base salary amount and target bonus amount for Mr. Hall, which was below the market 25th percentile, (2) the Company's base salary amount and target bonus amount for Mr. Jones, which was below the regressed revenue median, and (3) the Company's long-term incentive equity grants for both Messrs. Hall and Jones, which were below the market 25th percentile. As a result of the Pay Governance Survey and based on the Compensation Consultant's recommendations, the Compensation Committee recommended increases to Messrs. Hall's and Jones' annual base salary and target bonus amounts as well as Performance RSUs being granted to Messrs. Hall and Jones.

(i) *Executive Annual Base Salaries and Target Bonus Amounts*

The Compensation Committee approved increases to annual base salaries and target bonus amounts for 2021 for certain named executive officers, with the annual base salaries to be effective as of May 1, 2021. The base salary of Mr. Justin Hall, the Company's Chief Executive Officer and General Counsel, increased from $286,000 to $350,000 and his target bonus percentage of base salary increased from 40% to 50%. The base salary of Mr. Andrew Jones, the Company's Chief Financial Officer, increased from $275,000 to $300,000 and his target bonus percentage of base salary increased from 30% to 35%.

(ii) *Performance Restricted Stock Units*

The Compensation Committee granted Performance RSUs under the Company's 2017 Omnibus Incentive Plan to Messrs. Hall and Jones in the amount of 500,000 Performance RSUs and 250,000 Performance RSUs, respectively.

The Performance RSUs are designed to align each executive's total direct compensation with the long-term interests of the Company and its stockholders by further linking compensation to performance. In doing so, the Compensation Committee designed the Performance RSUs as described herein. The Performance RSUs represent the right to receive a number of shares of the Company's common stock on a one-to-one basis with the number of Performance RSUs granted, subject to the Company's achievement of certain performance goals set forth in the award agreement. Under the Performance RSUs, the awards will vest based on the achievement of three performance goals as determined by the Compensation Committee at the end of a three-year performance period ending December 31, 2023.

The Performance RSUs are tied to three categories of performance goals to be achieved during the performance period, which will be equally weighted at the end of the performance period: (1) 1/3 of the Performance RSUs will be earned if the Company's revenue meets a threshold amount for a trailing 12 month period; (2) 1/3 of the Performance RSUs will be earned if the Company achieves a threshold amount of cash flow for at least two consecutive quarters; and (3) 1/3 of the Performance RSUs will be earned if the Company achieves a threshold market capitalization for twenty consecutive trading days.

The Performance RSUs will only vest upon the achievement of the performance goals as determined by the Compensation Committee at the end of the performance period, subject, in general, to the executive's continuous employment with the Company through the end of the performance period; provided, however, an executive will be entitled to a pro-rated portion of the award in the event that his employment ceases upon his death or permanent disability. Further, if a change in control of the Company occurs, the Performance RSUs will immediately vest, even if the performance goals have not been met, and be settled in the form of consideration consistent with the terms of the change in control.

The Performance RSUs are subject to the terms and conditions of the award agreements evidencing the grants and the Company's 2017 Omnibus Incentive Plan. The foregoing summary of the Performance RSUs does not purport to be complete and is qualified in its entirety by reference to the full text of the Performance RSUs for Messrs. Hall and Jones, which are filed herewith as Exhibit 10.1 and Exhibit 10.2, respectively, and are incorporated herein by reference.

(iii) *Non-Employee Director Compensation Plan*

The Pay Governance Survey also found that the Company's 2021 Non-Employee Director Compensation Plan was below the market 25th percentile of the Company's peers. As a result of the Pay Governance Survey and the Compensation Consultant's recommendations, the Board of Directors, upon the recommendation of the Compensation Committee, also revised the previously adopted 2021 Non-Employee Director Compensation Plan to be effective as of July 1, 2021 and provide for the following compensation:

Board Meetings	Chairman of Committee for Committee Meetings	All Other Members for Committee Meetings
Chairman of the Board: Annual cash compensation of $52,000 per year. *Member of the Board*: The annual fee consists of: (i) $40,000 in cash and (ii) 30,000 restricted stock units granted. The restricted stock units are granted at the Company's Annual Meeting of Stockholders, and vest on the one year anniversary of the grant date.	*Chairman of the Audit Committee*: Annual cash compensation of $17,500 per year. *Chairman of the Compensation Committee*: Annual cash compensation of $13,000 per year. *Chairman of the N&CG Committee*: Annual cash compensation of $10,000 per year. *Lead Independent Director (if different from Chairman of the Board)*: Annual cash compensation of $30,000 per year.	*Member of the Audit Committee*: Annual cash compensation of $7,500 per year. *Member of the Compensation Committee*: Annual cash compensation of $6,000 per year for each committee. *Member of the N&CG Committee*: Annual cash compensation of $5,000 per year for each committee.

In comparison to the previously adopted plan, the updates include: (1) increasing the director's annual cash retainer from $30,000 to $40,000, (2) changing the director's annual grant of 20,000 stock options to 30,000 restricted stock units (to fully vest on the one-year grant date anniversary), (3) increasing the annual cash compensation of the chair of the Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee to $17,500, $13,000 and $10,000, respectively (from $12,000, $10,000 and $8,000, respectively), and (4) increasing the annual cash compensation for members of the Audit Committee and Compensation Committee to $7,500 and $6,000 (from $6,000 and $5,000, respectively) with the annual cash compensation for the Nominating & Corporate Governance Committee remaining the same at $5,000. Further, while the annual cash compensation for the Chairman of the Board remains at $52,000, the annual cash compensation for the Lead Independent Director if different from the Chairman of the Board (to the extent the Company's Board of Directors has such a position in the future) was increased from $20,000 to $30,000.

The foregoing summary of the 2021 Non-Employee Director Compensation Plan does not purport to be complete and is qualified in its entirety by reference to the full text of the 2021 Non-Employee Director Compensation Plan, which is filed herewith as Exhibit 10.3, and is incorporated herein by reference.

ITEM 6. EXHIBITS

The following exhibits are filed with or incorporated by reference into this report.

EXHIBIT INDEX

		Incorporation by Reference				Filed Herewith
Exhibit Number	**Exhibit Description**	**Form**	**File Number**	**Exhibit/ Form 8-K Item Reference**	**Filing Date**	
3.1	Amended and Restated Certificate of Incorporation of NovaBay Pharmaceuticals, Inc.	10-K	001-33678	3.1	3/21/2018	
3.2	Amendment to the Amended and Restated Certificate of Incorporation	8-K	001-33678	3.1	6/04/2018	
3.3	Amendment to the Amended and Restated Certificate of Incorporation, as amended	8-K	001-33678	3.1	5/28/2020	
3.4	Bylaws	8-K	001-33678	3.2	6/29/2010	
4.1	Form of Warrant pursuant to the Services Agreement with TLF Bio Innovation Lab, LLC, dated May 13, 2020	8-K	001-33678	4.1	5/18/2020	
4.2	Form of July 2020 Warrant	8-K	001-33678	4.1	7/21/2020	
10.1	Performance Restricted Stock Unit Award Agreement with Mr. Justin Hall +†					X
10.2	Performance Restricted Stock Unit Award Agreement with Mr. Andrew Jones +†					X
10.3	2021 Non-Employee Director Compensation Plan					X
31.1	Certification of the Principal Executive Officer of NovaBay Pharmaceuticals, Inc., as required by Rule 13a-14(a) or Rule 15d-14(a)					X
31.2	Certification of the Principal Financial Officer of NovaBay Pharmaceuticals, Inc., as required by Rule 13a-14(a) or Rule 15d-14(a)					X
32.1	Certification by the Chief Executive Officer of NovaBay Pharmaceuticals, Inc., as required by Rule 13a-14(b) or 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)					X
32.2	Certification by the Chief Financial Officer of NovaBay Pharmaceuticals, Inc., as required by Rule 13a-14(b) or 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

+ Indicates a management contract or compensatory plan or arrangement

† Certain confidential portions of this exhibit were omitted by means of marking such portions with brackets because the confidential portions (i) are not material and (ii) would be competitively harmful if publicly disclosed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 6, 2021

NOVABAY PHARMACEUTICALS, INC.

/s/ Justin Hall
Justin Hall
Chief Executive Officer, General Counsel and Director
(principal executive officer)

Date: May 6, 2021

/s/ Andrew Jones
Andrew Jones
Chief Financial Officer
(principal financial officer)

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. THE REDACTED TERMS HAVE BEEN MARKED WITH THREE ASTERISKS [***]

NOVABAY PHARMACEUTICALS, INC.
PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

This PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT (this "*Agreement*"), dated as of May 4, 2021(the "*Effective Date*"), is between NovaBay Pharmaceuticals, Inc., a Delaware corporation (the "*Company*"), and the participant named below ("*Participant*"). This equity award is granted under the NovaBay Pharmaceuticals, Inc. 2017 Omnibus Incentive Plan (the "*2017 Plan*") and is subject to the terms of the 2017 Plan. A copy of the 2017 Plan will be furnished upon the request of Participant. This Agreement represents the Company's unfunded and unsecured promise to issue common stock of the Company, $0.01 par value ("*Common Stock*"), at a future date, subject to the terms of this Agreement and the 2017 Plan. All capitalized terms used in this Agreement and not otherwise defined in this Agreement shall have the meanings assigned to them in the 2017 Plan, unless specifically set forth herein.

1. Award. You have been selected to receive, subject to the terms and conditions of this Agreement and the 2017 Plan, a grant of performance Restricted Stock Units (the "*PSU Award*") as specified below.

Participant Name:	Justin M. Hall
Date of Grant:	May 4, 2021
Number of Performance Restricted Stock Units Granted:	500,000 (the "*PSUs*")
Performance Period:	January 1, 2021 – December 31, 2023
Purchase Price:	None

This PSU Award represents the right to receive the Shares after the end of the Performance Period only if and when, and with respect to the number of PSUs to which, the PSU Award has vested (the "*Vested PSUs*") on the basis of one (1) Share multiplied by the number of Vested PSUs earned (as determined by the Committee as provided in Section 3 below).

2. Service with the Company. Except as may otherwise be provided in Sections 4 and 7 below, the PSU Award granted hereunder is granted on the condition that Participant remains in the Service of the Company and/or any of its Affiliates.

3. Performance Vesting Conditions. Subject to the terms and conditions of this Agreement and the 2017 Plan, the PSU Award shall vest and the PSUs will be converted into an equivalent number of Shares that will be delivered to Participant, subject to applicable withholding taxes, only upon the Committee's determination, after completion of the Performance Period, of the level of achievement of the applicable Performance Goals identified in **Exhibit A** to this Agreement.

4. Termination; Forfeiture.

(a) Except as provided in subsection (b) below, Participant's rights under this Agreement with respect to the PSU Award shall terminate at the earlier of (i) the date on which such PSU Award is settled in Shares after the Committee's determination, after the end of the Performance Period, of the level of achievement of the applicable Performance Goals, or (ii) the termination of Participant's Service. Upon termination of this Agreement in accordance with clause (ii) above, Participant's rights to the PSU Award shall, except as otherwise provided in an employment agreement between the Company and Participant, be immediately and irrevocably forfeited and Participant will retain no rights with respect to the forfeited PSU Award.

(b) Notwithstanding the provisions of clause (ii) of Section 4(a) above, in the event of termination of Participant's Service as a result of Participant's death or Permanent Disability prior to the end of the Performance Period, Participant will receive a pro-rated portion of the Shares that Participant would have received had Participant's Service not terminated, based upon the Committee's determination, after completion of the Performance Period, of the level of achievement of the applicable Performance Goals identified in **Exhibit A** to this Agreement. The pro-rated portion will be determined by calculating the total number of Shares that Participant would have received if Participant's Service had not so terminated, and multiplying that number by a fraction, the numerator of which is the number of full and partial months of Service that Participant completed during the Performance Period, and the denominator which is thirty-six (36).

5. Restrictions on Transfer of PSU Award. During the lifetime of Participant, this PSU Award cannot be sold, assigned, transferred, gifted, pledged, hypothecated or in any manner encumbered or disposed of at any time prior to delivery of the Shares, other than by will or the laws of descent and distribution. If any transfer, whether voluntary or involuntary, of this PSU Award is made, any purported attachment, execution, garnishment, or lien issued against or placed upon this PSU Award shall be void and unenforceable against the Company, Participant's right to this PSU Award shall be immediately forfeited by Participant to the Company, and this Agreement shall lapse.

6. Beneficiary Designation. Participant may, from time to time, name any beneficiary or beneficiaries to whom any benefit under this Agreement is to be paid in case of Participant's death before Participant receives any settlement of the PSU Award as a result of the level of achievement of the applicable Performance Goals identified in **Exhibit A** determined by the Committee after the end of the Performance Period. Each such designation shall revoke all prior designations by Participant, shall be in a form prescribed by the Company, and will be effective only when filed by Participant in writing with the Company during Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at Participant's death shall be paid to Participant's estate.

7. Change in Control.

(a) If there is a Change in Control (as defined below) of the Company, the PSU Award shall vest immediately prior to such Change in Control occurring, even if the Performance Goals identified in **Exhibit A** have not been met. To the extent that the holders of Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation (or its parent) may with the Participant's consent, in connection with the assumption of this PSU Award, substitute one (1) or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control.

(b) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

(c) For purposes of this Agreement, "*Change in Control*" shall mean a change in ownership or control of the Company effected through any of the following transactions: (i) a merger, consolidation or other reorganization unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately prior to such transaction; (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets; or (iii) the acquisition, directly or indirectly by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholder.

8. Capital Adjustments and Reorganization. Should any change be made to the Common Stock by reason of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, appropriate adjustments shall be made to the PSUs subject to this PSU Award in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

9. Conversion of PSU Award to Shares; Responsibility for Taxes.

(a) Provided Participant has satisfied the requirements of Section 9(b) below, after the vesting of the PSU Award with respect to Vested PSUs, the Shares delivered in payment of such Vested PSUs will be distributed to Participant or, in the event of Participant's death, to Participant's legal representative or beneficiary(ies), within two and one-half (2½) months following the date of vesting of the PSU Award. The distribution to Participant, or in the case of Participant's death, to Participant's legal representative or beneficiary(ies), of such Shares shall be evidenced by a Common Stock certificate, appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company, or other appropriate means as determined by the Company. No fractional share of Common Stock shall be issued.

(b) (i) In order to comply with all applicable federal or state income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal or state payroll, withholding, income or other taxes, which are the sole and absolute responsibility of Participant (or, in the event of Participant's death, Participant's legal representative or beneficiary(ies)), are withheld or collected from Participant (or, as applicable, such legal representative or beneficiary(ies)).

(ii) In accordance with the terms of the 2017 Plan, and such rules as may be adopted by the Committee under the 2017 Plan, Participant may elect to satisfy Participant's federal and state income tax withholding obligations arising from the receipt of, or the lapse of restrictions relating to, the Shares, by (i) delivering cash (including bank check, personal check or money order payable to the Company), (ii) having the Company withhold a portion of the Shares otherwise to be delivered having a Fair Market Value equal to the amount of such taxes, or (iii) delivering to the Company shares of Common Stock already owned by Participant having a Fair Market Value equal to the amount of such taxes. The Company will not deliver any fractional Shares but will pay, in lieu thereof, the Fair Market Value of such fractional Shares. Participant's election must be made on or before the date that the amount of tax to be withheld is determined.

10. Miscellaneous.

(a) Entire Agreement; 2017 Plan Provisions Control. This Agreement (and any addendum or amendment hereto) and the 2017 Plan constitute the entire agreement between the parties hereto with regard to the subject matter hereof. In the event that any provision of this Agreement conflicts with or is inconsistent in any respect with the terms of the 2017 Plan, the terms of the 2017 Plan shall control. All decisions of the Committee with respect to any question or issue arising under the 2017 Plan or this Agreement shall be binding on all persons having an interest in this PSU Award.

(b) 2017 Plan Termination, Amendment or Modification. The Committee may terminate, amend, or modify the 2017 Plan; *provided*, *however*, that no such termination, amendment, or modification of the 2017 Plan may in any material way adversely impair Participant's rights under this Agreement, without the written consent of Participant.

(c) No Rights of Stockholders. Until such time as the PSU Award is paid out in Shares, and until receipt by Participant, Participant's legal representative or Participant's beneficiary(ies), of Shares related to Vested PSUs as provided in this Agreement, neither Participant, Participant's legal representative, nor Participant's beneficiary(ies) of the PSU Award, shall have voting or other rights with respect to Shares. No dividend shall be paid on any PSU Award.

(d) No Right to Service. The grant of this PSU Award shall not be construed as giving Participant the right to be retained in the Service of the Company or an Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate such Participant's Service at any time, with or without cause.

(e) Governing Law. The validity, construction and effect of the 2017 Plan and this Agreement, and any rules and regulations relating to the 2017 Plan and this Agreement, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Delaware.

(f) Severability. If any provision of this Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any court of competent jurisdiction, the remaining provisions of this Agreement shall not be affected by such holding, and the remainder of this Agreement shall remain in full force and effect.

(g) Notices. Any notice required to be given or delivered to the Company under the terms of this Agreement shall be addressed to the Company at its principal corporate offices. Any notice required to be given or delivered to Participant shall be addressed to Participant at the address indicated below Participant's signature line at the end of this Agreement or at such other address as Participant may designate by ten (10) days' advance written notice to the Company. Any notice required to be given under this Agreement shall be in writing and shall be deemed to have been delivered upon receipt when delivered personally or by overnight courier, or three (3) business days after being deposited in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice, or when actually received, if sent by email or other electronic transmission device.

(h) Conditions Precedent to Issuance of Shares. Shares shall not be issued pursuant to this PSU Award unless such issuance and delivery of the applicable Shares pursuant hereto complies with all relevant provisions of law, including, without limitation, applicable federal securities laws and the rules and regulations promulgated thereunder, blue sky or state securities laws, the requirements of any stock exchange or market upon which the Company's shares are then listed and/or traded, and the Delaware General Corporation Law. As a condition to the issuance of the Shares relating to Vested PSUs, the Company may require that Participant receiving such Shares represent and warrant that the Shares are being acquired only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation and warranty is required by law.

(i) Consultation with Professional Tax and Investment Advisors. Participant acknowledges that the grant and vesting with respect to this PSU Award, and the sale or other taxable disposition of the Shares, may have tax consequences pursuant to the Internal Revenue Code of 1986, as amended, or under local, state or international tax laws. Participant further acknowledges that Participant is relying solely and exclusively on Participant's own professional tax and investment advisors with respect to any and all such matters (and is not relying, in any manner, on the Company or any of its employees or representatives). Participant understands and agrees that any and all tax consequences resulting from the PSU Award and its grant and vesting, and the sale or other taxable disposition of Shares, is solely and exclusively the responsibility of Participant without any expectation or understanding that the Company or any of its employees or representatives will pay or reimburse Participant for such taxes or other items.

(j) Participant Compliance with Laws. Participant agrees to take all steps necessary to comply with all applicable provisions of federal and state securities laws in exercising his or her rights under this Agreement.

(k) Agreement Subject to Laws/Approvals. This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(l) Successors. All obligations of the Company under the 2017 Plan and this Agreement with respect to the PSU Award shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company and Participant have executed this Agreement on the date set forth in the first paragraph.

NOVABAY PHARMACEUTICALS, INC.

By: _____
Name: _____
Title: _____

PARTICIPANT:

By: _____
Name: _____
Address: _____
Email: _____

EXHIBIT A
TO
PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

Company's Revenue During Performance Period
(33 1/3% Weighting)[1]

Goal To Be Achieved Within Performance Period

At least $**[***]** for trailing 12 months

Company's Cash Flow During Performance Period
(33 1/3% Weighting)[2]

For At Least Two
Consecutive Quarters

At least **[***]**

Company's Market Cap During Performance Period
(33 1/3% Weighting)[3]

Amount

At least $**[***]** closing market value for 20 consecutive trading days

1 Revenue Goal: Determined by Committee after end of Performance Period
2 Cash Flow Goal: Determined by Committee after end of Performance Period
3 Market Cap Goal: Determined by Committee after end of Performance Period

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. THE REDACTED TERMS HAVE BEEN MARKED WITH THREE ASTERISKS [***]

NOVABAY PHARMACEUTICALS, INC.
PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

This PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT (this "*Agreement*"), dated as of May 4, 2021(the "*Effective Date*"), is between NovaBay Pharmaceuticals, Inc., a Delaware corporation (the "*Company*"), and the participant named below ("*Participant*"). This equity award is granted under the NovaBay Pharmaceuticals, Inc. 2017 Omnibus Incentive Plan (the "*2017 Plan*") and is subject to the terms of the 2017 Plan. A copy of the 2017 Plan will be furnished upon the request of Participant. This Agreement represents the Company's unfunded and unsecured promise to issue common stock of the Company, $0.01 par value ("*Common Stock*"), at a future date, subject to the terms of this Agreement and the 2017 Plan. All capitalized terms used in this Agreement and not otherwise defined in this Agreement shall have the meanings assigned to them in the 2017 Plan, unless specifically set forth herein.

1. Award. You have been selected to receive, subject to the terms and conditions of this Agreement and the 2017 Plan, a grant of performance Restricted Stock Units (the "*PSU Award*") as specified below.

Participant Name:	Andrew Jones
Date of Grant:	May 4, 2021
Number of Performance Restricted Stock Units Granted:	250,000 (the "*PSUs*")
Performance Period:	January 1, 2021 – December 31, 2023
Purchase Price:	None

This PSU Award represents the right to receive the Shares after the end of the Performance Period only if and when, and with respect to the number of PSUs to which, the PSU Award has vested (the "*Vested PSUs*") on the basis of one (1) Share multiplied by the number of Vested PSUs earned (as determined by the Committee as provided in Section 3 below).

2. Service with the Company. Except as may otherwise be provided in Sections 4 and 7 below, the PSU Award granted hereunder is granted on the condition that Participant remains in the Service of the Company and/or any of its Affiliates.

3. Performance Vesting Conditions. Subject to the terms and conditions of this Agreement and the 2017 Plan, the PSU Award shall vest and the PSUs will be converted into an equivalent number of Shares that will be delivered to Participant, subject to applicable withholding taxes, only upon the Committee's determination, after completion of the Performance Period, of the level of achievement of the applicable Performance Goals identified in **Exhibit A** to this Agreement.

4. Termination; Forfeiture.

(a) Except as provided in subsection (b) below, Participant's rights under this Agreement with respect to the PSU Award shall terminate at the earlier of (i) the date on which such PSU Award is settled in Shares after the Committee's determination, after the end of the Performance Period, of the level of achievement of the applicable Performance Goals, or (ii) the termination of Participant's Service. Upon termination of this Agreement in accordance with clause (ii) above, Participant's rights to the PSU Award shall, except as otherwise provided in an employment agreement between the Company and Participant, be immediately and irrevocably forfeited and Participant will retain no rights with respect to the forfeited PSU Award.

(b) Notwithstanding the provisions of clause (ii) of Section 4(a) above, in the event of termination of Participant's Service as a result of Participant's death or Permanent Disability prior to the end of the Performance Period, Participant will receive a pro-rated portion of the Shares that Participant would have received had Participant's Service not terminated, based upon the Committee's determination, after completion of the Performance Period, of the level of achievement of the applicable Performance Goals identified in **Exhibit A** to this Agreement. The pro-rated portion will be determined by calculating the total number of Shares that Participant would have received if Participant's Service had not so terminated, and multiplying that number by a fraction, the numerator of which is the number of full and partial months of Service that Participant completed during the Performance Period, and the denominator which is thirty-six (36).

5. Restrictions on Transfer of PSU Award. During the lifetime of Participant, this PSU Award cannot be sold, assigned, transferred, gifted, pledged, hypothecated or in any manner encumbered or disposed of at any time prior to delivery of the Shares, other than by will or the laws of descent and distribution. If any transfer, whether voluntary or involuntary, of this PSU Award is made, any purported attachment, execution, garnishment, or lien issued against or placed upon this PSU Award shall be void and unenforceable against the Company, Participant's right to this PSU Award shall be immediately forfeited by Participant to the Company, and this Agreement shall lapse.

6. Beneficiary Designation. Participant may, from time to time, name any beneficiary or beneficiaries to whom any benefit under this Agreement is to be paid in case of Participant's death before Participant receives any settlement of the PSU Award as a result of the level of achievement of the applicable Performance Goals identified in **Exhibit A** determined by the Committee after the end of the Performance Period. Each such designation shall revoke all prior designations by Participant, shall be in a form prescribed by the Company, and will be effective only when filed by Participant in writing with the Company during Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at Participant's death shall be paid to Participant's estate.

7. Change in Control.

(a) If there is a Change in Control (as defined below) of the Company, the PSU Award shall vest immediately prior to such Change in Control occurring, even if the Performance Goals identified in **Exhibit A** have not been met. To the extent that the holders of Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation (or its parent) may with the Participant's consent, in connection with the assumption of this PSU Award, substitute one (1) or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control.

(b) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

(c) For purposes of this Agreement, "*Change in Control*" shall mean a change in ownership or control of the Company effected through any of the following transactions: (i) a merger, consolidation or other reorganization unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately prior to such transaction; (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets; or (iii) the acquisition, directly or indirectly by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholder.

8. Capital Adjustments and Reorganization. Should any change be made to the Common Stock by reason of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, appropriate adjustments shall be made to the PSUs subject to this PSU Award in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

9. Conversion of PSU Award to Shares; Responsibility for Taxes.

(a) Provided Participant has satisfied the requirements of Section 9(b) below, after the vesting of the PSU Award with respect to Vested PSUs, the Shares delivered in payment of such Vested PSUs will be distributed to Participant or, in the event of Participant's death, to Participant's legal representative or beneficiary(ies), within two and one-half (2½) months following the date of vesting of the PSU Award. The distribution to Participant, or in the case of Participant's death, to Participant's legal representative or beneficiary(ies), of such Shares shall be evidenced by a Common Stock certificate, appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company, or other appropriate means as determined by the Company. No fractional share of Common Stock shall be issued.

(b) (i) In order to comply with all applicable federal or state income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal or state payroll, withholding, income or other taxes, which are the sole and absolute responsibility of Participant (or, in the event of Participant's death, Participant's legal representative or beneficiary(ies)), are withheld or collected from Participant (or, as applicable, such legal representative or beneficiary(ies)).

(ii) In accordance with the terms of the 2017 Plan, and such rules as may be adopted by the Committee under the 2017 Plan, Participant may elect to satisfy Participant's federal and state income tax withholding obligations arising from the receipt of, or the lapse of restrictions relating to, the Shares, by (i) delivering cash (including bank check, personal check or money order payable to the Company), (ii) having the Company withhold a portion of the Shares otherwise to be delivered having a Fair Market Value equal to the amount of such taxes, or (iii) delivering to the Company shares of Common Stock already owned by Participant having a Fair Market Value equal to the amount of such taxes. The Company will not deliver any fractional Shares but will pay, in lieu thereof, the Fair Market Value of such fractional Shares. Participant's election must be made on or before the date that the amount of tax to be withheld is determined.

10. Miscellaneous.

(a) Entire Agreement; 2017 Plan Provisions Control. This Agreement (and any addendum or amendment hereto) and the 2017 Plan constitute the entire agreement between the parties hereto with regard to the subject matter hereof. In the event that any provision of this Agreement conflicts with or is inconsistent in any respect with the terms of the 2017 Plan, the terms of the 2017 Plan shall control. All decisions of the Committee with respect to any question or issue arising under the 2017 Plan or this Agreement shall be binding on all persons having an interest in this PSU Award.

(b) 2017 Plan Termination, Amendment or Modification. The Committee may terminate, amend, or modify the 2017 Plan; *provided*, *however*, that no such termination, amendment, or modification of the 2017 Plan may in any material way adversely impair Participant's rights under this Agreement, without the written consent of Participant.

(c) No Rights of Stockholders. Until such time as the PSU Award is paid out in Shares, and until receipt by Participant, Participant's legal representative or Participant's beneficiary(ies), of Shares related to Vested PSUs as provided in this Agreement, neither Participant, Participant's legal representative, nor Participant's beneficiary(ies) of the PSU Award, shall have voting or other rights with respect to Shares. No dividend shall be paid on any PSU Award.

(d) No Right to Service. The grant of this PSU Award shall not be construed as giving Participant the right to be retained in the Service of the Company or an Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate such Participant's Service at any time, with or without cause.

(e) Governing Law. The validity, construction and effect of the 2017 Plan and this Agreement, and any rules and regulations relating to the 2017 Plan and this Agreement, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Delaware.

(f) Severability. If any provision of this Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any court of competent jurisdiction, the remaining provisions of this Agreement shall not be affected by such holding, and the remainder of this Agreement shall remain in full force and effect.

(g) Notices. Any notice required to be given or delivered to the Company under the terms of this Agreement shall be addressed to the Company at its principal corporate offices. Any notice required to be given or delivered to Participant shall be addressed to Participant at the address indicated below Participant's signature line at the end of this Agreement or at such other address as Participant may designate by ten (10) days' advance written notice to the Company. Any notice required to be given under this Agreement shall be in writing and shall be deemed to have been delivered upon receipt when delivered personally or by overnight courier, or three (3) business days after being deposited in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice, or when actually received, if sent by email or other electronic transmission device.

(h) Conditions Precedent to Issuance of Shares. Shares shall not be issued pursuant to this PSU Award unless such issuance and delivery of the applicable Shares pursuant hereto complies with all relevant provisions of law, including, without limitation, applicable federal securities laws and the rules and regulations promulgated thereunder, blue sky or state securities laws, the requirements of any stock exchange or market upon which the Company's shares are then listed and/or traded, and the Delaware General Corporation Law. As a condition to the issuance of the Shares relating to Vested PSUs, the Company may require that Participant receiving such Shares represent and warrant that the Shares are being acquired only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation and warranty is required by law.

(i) Consultation with Professional Tax and Investment Advisors. Participant acknowledges that the grant and vesting with respect to this PSU Award, and the sale or other taxable disposition of the Shares, may have tax consequences pursuant to the Internal Revenue Code of 1986, as amended, or under local, state or international tax laws. Participant further acknowledges that Participant is relying solely and exclusively on Participant's own professional tax and investment advisors with respect to any and all such matters (and is not relying, in any manner, on the Company or any of its employees or representatives). Participant understands and agrees that any and all tax consequences resulting from the PSU Award and its grant and vesting, and the sale or other taxable disposition of Shares, is solely and exclusively the responsibility of Participant without any expectation or understanding that the Company or any of its employees or representatives will pay or reimburse Participant for such taxes or other items.

(j) Participant Compliance with Laws. Participant agrees to take all steps necessary to comply with all applicable provisions of federal and state securities laws in exercising his or her rights under this Agreement.

(k) Agreement Subject to Laws/Approvals. This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(l) Successors. All obligations of the Company under the 2017 Plan and this Agreement with respect to the PSU Award shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company and Participant have executed this Agreement on the date set forth in the first paragraph.

NOVABAY PHARMACEUTICALS, INC.

By: _____
Name: _____
Title: _____

PARTICIPANT:

By: _____
Name: _____
Address: _____
Email: _____

Exhibit 10.3

NON-EMPLOYEE DIRECTOR COMPENSATION PLAN
January 1, 2021

1. Purpose. The purpose of NovaBay Pharmaceuticals, Inc. (hereinafter referred to as "NovaBay" or the "Company) Non-Employee Director Compensation Plan (the "Plan") is to advance the interests of NovaBay and its stockholders by closely aligning the interests of the Non-Employee Directors with the Company and its stockholders. This Plan requires the payment of the annually established compensation payable to Non-Employee Directors for their service to be in cash and restricted stock units that vest into the Company's Common Stock ("RSUs"). RSUs issuable under this Plan shall be from the stockholder approved 2017 Omnibus Incentive Plan.

2. Administration. The Compensation Committee of the Board (the "Committee") shall administer the Plan. The Committee shall, subject to the provisions of the Plan, have the power to construe the Plan, to determine all questions arising thereunder, and to adopt and amend such rules and regulations for the administration of the Plan, as it may deem desirable. Any decisions of the Committee in the administration of the Plan, as described herein, shall be final and conclusive. The Committee may authorize any one or more of its members or any officer of the Company to execute and deliver documents on behalf of the Committee. No member of the Committee shall be liable for anything done or omitted to be done by him or her or by any other member of the Board in connection with the Plan, except for his or her own willful misconduct or as expressly provided by statute.

3. Participation; Amount of Non-Employee Director Compensation. The Committee shall annually approve the amount of compensation payable for services to be performed by Non-Employee Directors. Effective January 1, 2021 such fees shall be payable only in cash as follows:

a. **Cash Compensation**

Status	Compensation	Comment
Non-Employee Director	$40,000 per year	Paid Quarterly
Non-Employee Chairman of the Board of Directors	$52,000 per year	Paid Quarterly
Chairman of the Comp Committee	$13,000 per year	Paid Quarterly
Chairman of the Audit Committee	$17,500 per year	Paid Quarterly
Chairman of the N&CG Committee	$10,000 per year	Paid Quarterly
Member of the Audit Committee	$7,500 per year	Paid Quarterly
Member of the Comp Committee	$6,000 per year	Paid Quarterly
Member of the N&CG Committee	$5,000 per year	Paid Quarterly

4. Payment of Non-Employee Director Compensation.

Each Non-Employee Director shall be paid the cash compensation payable to such Non-Employee Director as determined pursuant to Section 3 above on the first business day of the calendar quarter for such quarter.

In addition to the above cash compensation, each Non-Employee Director shall receive an annual restricted stock unit grant of 30,000 shares, granted at the Company's Annual Meeting of Stockholders. To be eligible to receive the annual grant of RSUs, the director must be a current member of the Board. Newly elected, or re-elected members, are eligible for the annual grant. If a Board member is retiring or is not re-elected at the Annual Meeting, he/she is not eligible for the annual grant. Vesting of the RSUs shall be on the one year anniversary of the grant date.

5. Miscellaneous Provisions.

(a) Neither the Plan nor any action taken hereunder shall be construed as giving any Non-Employee Director any right to be elected or re-elected as a director of the Company.

(b) A participant's rights and interest under the Plan may not be assigned or transferred, hypothecated, or encumbered in whole or in part either directly or by operation of law or otherwise (except in the event of a participant's death, by will, or the laws of descent and distribution), including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy, or in any other manner, and no such right or interest of any participant in the Plan shall be subject to any obligation or liability of such participant.

(c) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of the Non-Employee Director's compensation.

(d) The provisions of this Plan shall be governed by and construed in accordance with the laws of the State of California.

(e) Headings are given to the sections of this Plan solely as a convenience to facilitate reference. Such headings, numbering, and paragraphing shall not in any case be deemed in any way material or relevant to the construction of this Plan or any provisions thereof. The use of the singular shall also include within its meaning the plural, where appropriate, and vice versa.

6. Termination. This Plan shall terminate upon the earlier of the following dates or events to occur:

(a) upon the adoption of a resolution of the Committee and approved by the Board terminating the Plan; or

(b) December 31, 2021.

Exhibit 31.1

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Justin Hall, certify that:

1. I have reviewed this Form 10-Q of NovaBay Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Justin Hall
Justin Hall
Chief Executive Officer, General Counsel and Director
(principal executive officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew Jones, certify that:

1. I have reviewed this Form 10-Q of NovaBay Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Andrew Jones
Andrew Jones
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of NovaBay Pharmaceuticals, Inc. (the Company) on Form 10-Q for the quarter ended March 31, 2021 (the Report), I, Justin Hall, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2021

/s/ Justin Hall
Justin Hall
Chief Executive Officer, General Counsel and Director

This Certification is made solely for the purpose of 18 USC Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of NovaBay Pharmaceuticals, Inc. (the Company) on Form 10-Q for the quarter ended March 31, 2021 (the Report), I, Andrew Jones, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2021

/s/ Andrew Jones
Andrew Jones
Chief Financial Officer

This Certification is made solely for the purpose of 18 USC Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.