

PURE BIOSCIENCE, INC.  
Form 10-Q  
March 09, 2016  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934  
Commission File Number 001-14468

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PURE Bioscience, Inc.

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of incorporation or organization)

33-0530289  
(I.R.S. Employer Identification No.)  
92020

1725 Gillespie Way

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El Cajon, California

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (619) 596-8600

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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 March 9, 2016, there were 61,596,481 shares of the registrant's common stock, \$0.01 par value per share, outstanding.

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PURE Bioscience, Inc.

Form 10-Q

for the Quarterly Period Ended January 31, 2016

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## Item 1. Financial Statements

PURE Bioscience, Inc.

## Condensed Consolidated Balance Sheets

	January 31, 2016 (Unaudited)	July 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 6,706,000	\$ 1,321,000
Accounts receivable	106,000	189,000
Inventories, net	237,000	207,000
Restricted cash	75,000	75,000
Prepaid expenses	88,000	187,000
Total current assets	7,212,000	1,979,000
Property, plant and equipment, net	231,000	90,000
Patents, net	1,110,000	1,192,000
Total assets	\$ 8,553,000	\$ 3,261,000
Liabilities and stockholders' equity (deficit)		
Current liabilities		
Accounts payable	\$ 582,000	\$ 560,000
Restructuring liability	49,000	59,000
Accrued liabilities	201,000	246,000
Derivative liability	17,618,000	4,000
Total current liabilities	18,450,000	869,000
Deferred rent	7,000	9,000
Total liabilities	18,457,000	878,000
Commitments and contingencies (See Note 6)		
Stockholders' equity (deficit)		
Preferred stock, \$0.01 par value: 5,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value: 100,000,000 shares authorized, 60,175,975 shares issued and outstanding at January 31, 2016, and 41,859,297 shares issued and outstanding at July 31, 2015	602,000	420,000
Additional paid-in capital	92,064,000	90,811,000
Accumulated deficit	(102,570,000)	(88,848,000)
Total stockholders' equity (deficit)	(9,904,000)	2,383,000
Total liabilities and stockholders' equity (deficit)	\$ 8,553,000	\$ 3,261,000

See accompanying notes.



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PURE Bioscience, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

	Six Months Ended		Three Months Ended	
	January 31,		January 31,	
	2016	2015	2016	2015
Net product sales	\$ 362,000	\$ 390,000	\$ 176,000	\$ 273,000
Operating costs and expenses				
Cost of goods sold	102,000	156,000	48,000	111,000
Selling, general and administrative	2,472,000	2,524,000	1,386,000	1,201,000
Research and development	474,000	391,000	238,000	215,000
Share-based compensation	1,435,000	985,000	763,000	482,000
Total operating costs and expenses	4,483,000	4,056,000	2,435,000	2,009,000
Loss from operations	(4,121,000)	(3,666,000)	(2,259,000)	(1,736,000)
Other income (expense)				
Fair value of derivative liabilities in excess of proceeds	(1,867,000)	—	(859,000)	—
Change in derivative liability	(7,747,000)	4,000	(7,790,000)	5,000
Interest expense, net	(5,000)	(5,000)	(3,000)	(3,000)
Other income (expense), net	18,000	(3,000)	9,000	(2,000)
Total other income (expense)	(9,601,000)	(4,000)	(8,643,000)	—
Net loss	\$ (13,722,000)	\$ (3,670,000)	\$ (10,902,000)	\$ (1,736,000)
Basic and diluted net loss per share	\$ (0.27)	\$ (0.10)	\$ (0.19)	\$ (0.04)
Shares used in computing basic and diluted net loss per share	50,848,785	38,440,396	58,678,242	39,851,590

See accompanying notes.

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PURE Bioscience, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	January 31,	
	2016	2015
Operating activities		
Net loss	\$ (13,722,000)	\$ (3,670,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	1,435,000	985,000
Amortization of stock issued for services	106,000	44,000
Fair value of derivative liabilities in excess of proceeds	1,867,000	—
Depreciation and amortization	103,000	103,000
Change in fair value of derivative liability	7,747,000	(4,000)
Changes in operating assets and liabilities:		
Accounts receivable	83,000	7,000
Inventories	(30,000)	63,000
Prepaid expenses	(7,000)	(23,000)
Accounts payable and accrued liabilities	(33,000)	(1,008,000)
Deferred rent	(2,000)	(2,000)
Net cash used in operating activities	(2,453,000)	(3,505,000)
Investing activities		
Investment in patents	(8,000)	(6,000)
Purchases of property, plant and equipment	(154,000)	(68,000)
Net cash used in investing activities	(162,000)	(74,000)
Financing activities		
Net proceeds from the sale of common stock	8,000,000	7,401,000
Net cash provided by financing activities	8,000,000	7,401,000
Net increase in cash and cash equivalents	5,385,000	3,822,000
Cash and cash equivalents at beginning of period	1,321,000	86,000
Cash and cash equivalents at end of period	\$ 6,706,000	\$ 3,908,000
Supplemental disclosure of cash flow information		
Cash paid for taxes	\$ 2,000	\$ 1,600

See accompanying notes.





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PURE Bioscience, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the consolidated accounts of PURE Bioscience, Inc. and its wholly owned subsidiary, ETIH2O Corporation, a Nevada corporation. ETIH2O Corporation currently has no business operations and no material assets or liabilities and there have been no significant transactions related to ETIH2O Corporation during the periods presented in the condensed consolidated financial statements. All inter-company balances and transactions have been eliminated. All references to “PURE,” “we,” “our,” “us” and the “Company” refer to PURE Bioscience, Inc. and our wholly owned subsidiary.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information pursuant to the instructions to Form 10-Q and Article 10/Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended January 31, 2016 are not necessarily indicative of the results that may be expected for other quarters or the year ending July 31, 2016. The July 31, 2015 balance sheet was derived from audited financial statements but does not include all disclosures required by GAAP and included in our Annual Report on Form 10-K. For more complete information, these unaudited financial statements and the notes thereto should be read in conjunction with the audited financial statements for the year ended July 31, 2015 included in our Annual Report on Form 10-K covering such period filed with the Securities and Exchange Commission, or SEC, on October 28, 2015.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

2. Liquidity

Since our inception, we have financed our operations primarily through public and private offerings of securities, debt financing, and revenue from product sales and license agreements. We have a history of recurring losses, and as of January 31, 2016, we have incurred a cumulative net loss of \$102,570,000.

As of January 31, 2016, we had \$6,706,000 in cash and cash equivalents, and \$582,000 of accounts payable. As of January 31, 2016, we have no long-term debt.

Our future capital requirements depend on numerous forward-looking factors. These factors may include, but are not limited to, the following: the acceptance of, and demand for, our products; our success and the success of our partners in selling our products; our success and the success of our partners in obtaining regulatory approvals to sell our products; the costs of further developing our existing products and technologies; the extent to which we invest in new product and technology development; and the costs associated with the continued operation, and any future growth, of our business. The outcome of these and other forward-looking factors will substantially affect our liquidity and capital resources.

We expect that we will need to increase our liquidity and capital resources by one or more measures. These measures may include, but are not limited to, the following: reducing operating expenses; obtaining financing through the issuance of equity, debt, or convertible securities; entering into partnerships, licenses, or other arrangements with third parties; and reducing the exercise price of outstanding warrants. Any one of these measures could substantially reduce the value to us of our technology and its commercial potential. If we issue equity, debt or convertible securities to raise additional funds, our existing stockholders may experience dilution, and the new equity, debt or convertible securities may have rights, preferences and privileges senior to those of our existing stockholders. There is no guarantee that we would be able to obtain capital on terms acceptable to us, or at all.

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If we are unable to obtain sufficient capital, it would have a material adverse effect on our business and operations. It could cause us to fail to execute our business plan, fail to take advantage of future opportunities, or fail to respond to competitive pressures or customer requirements. It also may require us to delay, scale back or eliminate some or all of our research and development programs, to license to third parties the right to commercialize products or technologies that we would otherwise commercialize ourselves, or to reduce or cease operations. If adequate funds are not available when needed, we may be required to significantly modify our business model and operations to reduce spending to a sustainable level.

We believe our available cash on-hand, our current efforts to market and sell our products, and our ability to significantly reduce expenses, will provide sufficient cash resources to satisfy our needs over the next 12 months. However, we do not yet have, and we may never have, significant cash inflows from product sales or from other sources of revenue to offset our ongoing and planned investments in research and development projects, regulatory submissions, business development activities, and sales and marketing, among other investments. Some or all of our ongoing or planned investments may not be successful. In addition, irrespective of our cash resources, we may be contractually or legally obligated to make certain investments which cannot be postponed.

3. Net Loss Per Share

Basic net loss per common share is computed as net loss divided by the weighted average number of common shares outstanding for the period. Our diluted net loss per common share is the same as our basic net loss per common share because we incurred a net loss during each period presented, and the potentially dilutive securities from the assumed exercise of all outstanding stock options, restricted stock units, and warrants would have an anti-dilutive effect. As of January 31, 2016 and 2015, the number of shares issuable upon the exercise of stock options, the vesting of restricted stock units, and the exercise of warrants, none of which are included in the computation of basic net loss per common share, was 28,609,468 and 10,348,667, respectively.

4. Comprehensive Loss

Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources, including unrealized gains and losses on marketable securities and foreign currency translation adjustments. For the three and six months ended January 31, 2016 and 2015, our comprehensive loss consisted only of net loss.

5. Inventory

Inventories are stated at the lower of cost or net realizable value, and net of a valuation allowance for potential excess or obsolete material. Cost is determined using the average cost method. Depreciation related to manufacturing is systematically allocated to inventory produced, and expensed through cost of goods sold at the time inventory is sold.

Inventories consist of the following:

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	January 31, 2016	July 31, 2015
Raw materials	\$ 140,000	\$ 96,000
Finished goods	97,000	111,000
	\$ 237,000	\$ 207,000

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6. Commitments and Contingencies

Severance Agreement

On August 13, 2013, the Company entered into a Severance and Release Agreement with Dennis Brovarone, a former Board member. Mr. Brovarone will receive \$91,000, payable in 60 monthly installments of approximately \$1,600, commencing December 11, 2013 for amounts previously accrued as of July 31, 2013. Approximately \$49,000 remains payable under the agreement and is included in the accrued restructuring liability section of the condensed consolidated balance sheets as of January 31, 2016.

7. Impairment of Long-Lived Assets

In accordance with GAAP, if indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, we measure the amount of such impairment by comparing the carrying value of the asset to the fair value of the asset and we record the impairment as a reduction in the carrying value of the related asset and a charge to operating results. Estimating the undiscounted future cash flows associated with long-lived assets requires judgment, and assumptions could differ materially from actual results. During the three and six months ended January 31, 2016 and 2015, no impairment of long-lived assets was indicated or recorded.

8. Fair Value of Financial Instruments

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In connection with the October and November 2015 Private Placements and a prior Bridge Loan, we issued warrants with derivative features. These instruments are accounted for as derivative liabilities (See Note 9).

We used Level 3 inputs for the valuation methodology of the derivative liabilities. The estimated fair values were computed using a Monte Carlo option pricing model based on various assumptions. Our derivative liabilities are adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in other income or expense accordingly, as adjustments to the fair value of the derivative liabilities. Various factors are considered in the pricing models we use to value the warrants, including the Company's current stock price, the remaining life of the warrants, the volatility of the Company's stock price, and the risk free interest rate. Future changes in these factors will have a significant impact on the computed fair value of the warrant liability. As such, we expect future changes in the fair value of the warrants to vary significantly from quarter to quarter.



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The following table provides a reconciliation of the beginning and ending balances of the derivative liabilities for the six months ended January 31, 2016:

	Warrant Liability
Balance at July 31, 2015	\$ 4,000
Issuances	9,867,000
Settlement of warrant liability	—
Adjustments to estimated fair value	7,747,000
Balance at January 31, 2016	\$ 17,618,000

## 9. Derivative Liability

On October 23, 2015 (the “October Closing Date”), we completed a first closing of a private placement financing (the “Private Placement Financing”), where we issued an aggregate of 13,333,333 shares of our common stock (the “Common Stock”), a warrant to purchase up to an aggregate of 6,666,666 shares of common stock with a term of five years and a warrant to purchase up to an aggregate of 8,666,666 shares of common stock with a term of six months (See Note 10).

On November 23, 2015, we completed a second closing of the Private Placement Financing, where we issued 4,444,439 shares of Common Stock, warrants to purchase up to an aggregate of 2,222,217 shares of common stock with a term of five years and a warrant to purchase up to an aggregate of 2,820,670 shares of common stock with a term of six months (See Note 10).

We accounted for the combined 20,376,219 warrants issued in connection with the Private Placement Financings in accordance with the accounting guidance for derivatives. The applicable accounting guidance sets forth a two-step model to be applied in determining whether a financial instrument is indexed to an entity’s own stock, which would qualify such financial instruments for a scope exception. This scope exception specifies that a contract that would otherwise meet the definition of a derivative financial instrument would not be considered as such if the contract is both (i) indexed to the entity’s own stock and (ii) classified in the stockholders’ equity section of the entity’s balance sheet. We determined the warrants were ineligible for equity classification due to anti-dilution provisions set forth therein.

The estimated fair value of the derivative liabilities issued on the October Closing Date, as of the October Closing Date, and at January 31, 2016, was \$7,008,000 and \$13,229,000, respectively. The following assumptions were used as inputs to the Monte Carlo option pricing model at January 31, 2016: for the five year warrant, stock price of \$1.20 and a warrant exercise price of \$0.45 as of the valuation date; our historical stock price volatility of 90%; risk free interest rate on U.S. treasury notes of 1.3%; warrant expiration of 4.7 years; for the six month warrant, stock price of \$1.20 and a warrant exercise price of \$0.45 as of the valuation date; our historical stock price volatility of 90%; risk free interest rate on U.S. treasury notes of 0.3%; warrant expiration of 0.2 years.

The estimated fair value of the derivative liabilities issued on the November Closing Date, as of the November Closing Date, and at January 31, 2016, was \$2,859,000 and \$4,379,000, respectively. The following assumptions were used as inputs to the Monte Carlo option pricing model at January 31, 2016: for the five year warrant, stock price of \$1.20 and a warrant exercise price of \$0.45 as of the valuation date; our historical stock price volatility of 90%; risk free interest rate on U.S. treasury notes of 1.3%; warrant expiration of 4.8 years; for the six month warrant, stock price of \$1.20 and a warrant exercise price of \$0.45 as of the valuation date; our historical stock price volatility of 90%; risk free interest rate on U.S. treasury notes of 0.4%; warrant expiration of 0.3 years

Given that the fair value of the derivative liabilities issued on the October Closing Date exceeded the total proceeds of the private placement of \$6,000,000, as at the October Closing Date, no net amounts were allocated to the common stock. The \$1,008,000 amount by which the recorded liabilities exceeded the proceeds was charged to other expense at the October Closing Date. Given that the fair value of the derivative liabilities issued on the November Closing Date exceeded the total proceeds of the private placement of \$2,000,000, as at the November Closing Date, no net amounts were allocated to the common stock. The \$859,000 amount by which the recorded liabilities exceeded the proceeds was



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charged to other expense at the November Closing Date. We have revalued the derivative liability as of January 31, 2016, and will continue to do so on each subsequent balance sheet date until the securities to which to derivative liabilities relate are exercised or expire, with any changes in the fair value between reporting periods recorded as other income or expense.

As of January 31, 2016, we had a warrant liability of \$10,000 related to 132,420 warrants issued pursuant to a Bridge Loan financing that occurred during the fourth quarter of 2012. Currently there are 9,709 warrants outstanding issued in connection with the Bridge Loan. The following assumptions were used as inputs to the model at January 31, 2016: stock price of \$1.20 and a warrant exercise price of \$0.20 as of the valuation date; our historical stock price volatility of 82.32%; risk free interest rate on U.S. treasury notes of 0.3%; warrant expiration of 0.90 years.

On January 31, 2016, the total value of the derivative liabilities was \$17,618,000. The change in fair value of the warrant liability for the three and six months ended January 31, 2016, was an increase of \$7,790,000 and \$7,747,000, respectively, which was recorded as a change in derivative liability in the consolidated statement of operations.

## 10. Stockholders' Equity

### Private Placements

On October 23, 2015, we completed the initial closing of the Private Placement Financing pursuant to a securities purchase agreement (the "Securities Purchase Agreement"), providing for the issuance and sale by us to Franchise Brands, LLC (the "Investor") of (i) an aggregate of 13,333,333 shares (collectively, the "Purchase Shares") of our common stock (the "Common Stock") at a purchase price of \$0.45 per share, (ii) a warrant to purchase up to an aggregate of 6,666,666 shares of Common Stock with a term of five years (the "Five-Year Warrant") and (iii) a warrant to purchase up to an aggregate of 8,666,666 shares of Common Stock with a term of six months and only exercisable for cash (the "Six-Month Warrant"), for aggregate gross proceeds to us of \$6.0 million.

On November 23, 2015, we completed the second and final closing of the Private Placement Financing. We raised \$2.0 million in this closing providing for the issuance to various investors (i) an aggregate of 4,444,439 Purchase Shares at a purchase price of \$0.45 per share, (ii) Five-Year Warrants to purchase up to an aggregate of 2,222,217 shares of Common Stock (iii) Six-Month Warrants to purchase up to an aggregate of 2,820,670 shares of Common Stock (the "Six-Month Warrants," together with the Five-Year Warrants, the "Warrants" and the shares issuable upon exercise of the Warrants, collectively, the "Warrant Shares"). We did not engage a placement agent or investment banker to facilitate the Private Placement Financing. We intend to use the aggregate net proceeds of the Private Placement Financing primarily for working capital and general corporate purposes.

We offered the securities in the Private Placement Financing to the Company's existing investors who previously purchased securities in our private placement financings in August and September of 2014 (the "Prior Financings"). Tom Lee, a member of our board of directors and a participant in the Prior Financings, together with certain of his affiliates, invested approximately \$472,000 in the final closing of the Private Placement Financing on the same terms offered to the other Investors.

The Warrants issued in connection with the Private Placement Financing have an exercise price of \$0.45 per share, are exercisable immediately after their issuance and have a term of exercise equal to the earlier of (i) five years or six months, for the Five-Year Warrants and Six-Month Warrants, respectively, after their issuance date or (ii) the consummation of an Acquisition Event (as defined in the Warrants). The Warrants are subject to a broad-based anti-dilution adjustment in the event the Company issues shares of Common Stock without consideration or for

consideration per share less than the exercise price in effect immediately prior to such issuance; provided however, that such adjustment does not apply to an Excluded Issuance (as such term is defined in the Warrants). Additionally, the number of Warrant Shares issuable upon exercise of the Warrants and the applicable exercise price therefor are subject to adjustment in the event of a stock dividend, stock split or combination as set forth in the Warrants.

We also entered into a registration rights agreement with the Investors who participated in the Private Placement Financing (the "Registration Rights Agreement"), pursuant to which we will be obligated, upon request of Investors holding 75% of the Issuable Shares (as defined therein) and subject to certain conditions, to file with the Securities and

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Exchange Commission (the “Commission”) as soon as practicable, but in any event within 60 days after receiving such applicable request, a registration statement on Form S-1 (the “Resale Registration Statement”) to register the Purchase Shares and the Warrant Shares for resale under the Securities Act and other securities issued or issuable with respect to or in exchange for the Purchase Shares or Warrant Shares. We are obligated to use our commercially reasonable efforts to cause the Resale Registration Statement to be declared effective by the SEC as promptly as reasonably practicable after the filing of the Resale Registration Statement, but no monetary penalty or liquidated damages will be imposed upon the Company if the Registration Statement is not declared effective by the SEC.

During the six months ended January 31, 2015, we issued a total of 10,086,025 shares of common stock and warrants to purchase 4,652,312 shares of common stock for gross proceeds of \$7,493,000. After deducting fees of \$92,000, the net proceeds to us were \$7,401,000. The warrants issued during the six months ended January 31, 2015 have a five-year term, are exercisable immediately, and have exercise prices ranging from \$0.01 to \$0.75 per share. A fair value of \$4,397,000 was estimated for the warrants using the Black-Scholes valuation method using a volatility of 133.74%, an interest rate of 1.50% and a dividend yield of zero. We determined that the warrants issued in connection with the private placements were equity instruments and did not represent derivative instruments.

### Warrants

During the six months ended January 31, 2016, there was a net exercise on 28,000 warrants which resulted in the issuance of 13,906 shares of our common stock. As these warrants were net exercised, as permitted under the respective warrant agreement, we did not receive any cash proceeds. The warrants were issued in connection with a prior year private placement and were considered equity instruments.

### 11. Share-Based Compensation

During the three months ended January 31, 2016, the Compensation Committee of the Board of Directors issued 200,000 restricted stock units (“RSUs”) to Henry R. Lambert, our Chief Executive Officer. The RSUs vest based on performance conditions and expire July 31, 2018. If the performance conditions are not met, or expected to be met, no compensation cost will be recognized on the underlying RSUs. If the performance condition is expected to be met, the expense will be allocated over the performance period. The RSUs granted to Mr. Lambert were not granted pursuant to any compensatory, bonus, or similar plan maintained or otherwise sponsored by the Company.

In addition, during the three months ended January 31, 2016, we issued 612,500 RSUs to key employees. The RSUs vest based on performance and service conditions. If the performance conditions are not met, or expected to be met, no compensation cost will be recognized on the underlying RSUs. If the performance condition is expected to be met, the expense will be allocated over the performance period.

During the three and six months ended January 31, 2016, 506,250 and 525,000 RSUs vested based on service conditions that were satisfied during the period, resulting in the issuance of 506,250 and 525,000 shares of common stock, respectively. Of the 2,685,000 RSUs outstanding, we currently expect 1,900,000 to vest. As of January 31, 2016, there was \$332,000 of unrecognized non-cash compensation cost related to RSUs we expect to vest, which will be recognized over a weighted average period of 0.37 years. During the six months ended January 31, 2016, 812,500 RSUs were forfeited.

During the three months ended January 31, 2016, we issued options to purchase 110,000 shares of our common stock to key employees, at an exercise price of \$0.75, valued at \$46,000 (based on the Black-Scholes Option Pricing Model assuming no dividend yield, volatility of 96.60%, and a risk-free interest rate of 0.92%). The options vested on the date of grant and carry a five year term.

As of January 31, 2016, there was \$52,000 of unrecognized non-cash compensation cost related to unvested stock options, which will be recognized over a weighted average period of 0.87 years.

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For the three months ended January 31, 2016 and 2015, share-based compensation expense for outstanding RSUs and stock options was \$763,000 and \$482,000, respectively. For the six months ended January 31, 2016 and 2015, share-based compensation expense was \$1,435,000 and \$985,000, respectively.

12. Recent Accounting Pronouncements

No recent accounting pronouncements or other authoritative guidance have been issued that management considers likely to have a material impact on our consolidated financial statements.

13. Subsequent Events

None.

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### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

All references in this Item 2 and elsewhere in this Quarterly Report to “PURE,” “we”, “our,” “us” and the “Company” refer to PURE Bioscience, Inc., a Delaware corporation, and our wholly owned subsidiary, ETIH2O Corporation, a Nevada corporation. ETIH2O Corporation currently has no business operations and no material assets or liabilities and there have been no significant transactions related to ETIH2O Corporation during the periods presented in the consolidated financial statements contained elsewhere in this Quarterly Report.

The discussion in this section contains forward-looking statements. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology such as “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “show” or the negative of these terms or other comparable terminology, but their absence does not mean that a statement is not forward-looking. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, which could cause our actual results to differ from those projected in any forward-looking statements we make. Several risks and uncertainties we face are discussed in more detail under “Risk Factors” in Part II, Item 1A of this Quarterly Report or in the discussion and analysis below. You should, however, understand that it is not possible to predict or identify all risks and uncertainties and you should not consider the risks and uncertainties identified by us to be a complete set of all potential risks or uncertainties that could materially affect us. You should not place undue reliance on the forward-looking statements we make herein because some or all of them may turn out to be wrong. We undertake no obligation to update any of the forward-looking statements contained herein to reflect future events and developments, except as required by law. The following discussion should be read in conjunction with the consolidated financial statements and the notes to those financial statements included elsewhere in this Quarterly Report on Form 10-Q.

#### Overview

#### Company Overview

We are focused on developing and commercializing proprietary antimicrobial products that provide safe and cost-effective solutions to the health and environmental challenges of pathogen and hygienic control. Our technology platform is based on patented stabilized ionic silver, and our initial products contain silver dihydrogen citrate, or SDC. SDC is a broad-spectrum, non-toxic antimicrobial agent, which offers 24-hour residual protection and formulates well with other compounds. As a platform technology, we believe SDC is distinguished from existing products in the marketplace because of its superior efficacy, reduced toxicity and the inability of bacteria to form a resistance to it.

Our SDC-based technology platform has potential application in a number of industries. Our near-term focus is to offer products that address food safety risks across the food industry supply chain. In 2011, the Centers for Disease Control and Prevention (CDC) reported that foodborne illnesses affect more than 48 million people annually in the U.S., causing 128,000 hospitalizations and 3,000 fatalities. The CDC estimated that more than 9 million of these foodborne illnesses were attributed to major pathogens. The CDC reported that contaminated produce was responsible for approximately 46% of the foodborne illnesses caused by pathogens and 23% of the foodborne illness-related deaths in the US between 1998 and 2008. Among the top pathogens contributing to foodborne illness in the U.S. are Norovirus, Salmonella, Campylobacter, Staphylococcus, Shiga toxin-producing Escherichia coli and Listeria. Salmonella is the leading cause of hospitalization, followed by Norovirus, and is the leading cause of deaths related to foodborne illness.

Based on these statistics, we believe there is a significant market opportunity for our safe, non-toxic and effective SDC-based solutions. We currently offer PURE® Hard Surface as a food contact surface sanitizer and disinfectant to

restaurant chains and food processors. One of our customers is SUBWAY® Restaurants, which has approved PURE Hard Surface for use system-wide (27,000 U.S. stores). We also intend to offer PURE Control® as a direct food contact processing aid, which requires certain FDA and USDA approvals. We received the required FDA approvals to market PURE Control as a direct food contact processing aid for raw poultry and fresh produce in December 2015 and January 2016, respectively, and are preparing to launch PURE Control as a direct food contact processing aid for fresh produce. We intend to offer PURE Control as a direct food contact processing aid for raw poultry upon receipt of the required USDA approvals, which we expect as early as the second calendar quarter of 2016. We are currently testing and continuing development of PURE Control to allow us to seek regulatory approval to also utilize PURE Control as a direct food contact processing aid for raw meats, including beef and pork. In addition to our direct sales efforts with

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PURE Hard Surface and PURE Control, we market and sell our SDC-based products indirectly through third-party distributors.

### Business Strategy

Our goal is to become a sustainable company by commercializing the SDC-based products we have developed with our proprietary technology platform. We are focused on delivering leading antimicrobial products that address food safety risks across the food industry supply chain. Key aspects of our business strategy include:

- Expanding sales and distribution for our products into the food industry with a focus on a dual track of food safety market opportunities;
- Hard Surface Disinfectant - commercializing the current EPA registered PURE Hard Surface disinfectant and sanitizer for use in foodservice operations and food manufacturing.
- Direct Food Contact - commercializing FDA approved PURE Control as a direct food contact processing aid for fresh produce; commercialize, subject to USDA approval, the use of SDC as a food processing and intervention aid for food processors treating raw poultry; commercialize, subject to both FDA and USDA approval, the use of SDC as a food processing and intervention aid for food processors treating raw beef and pork.
- Establishing strategic alliances to maximize the commercial potential of our technology platform;
- Developing additional proprietary products and applications; and
- Protecting and enhancing our intellectual property.

In addition to our current products addressing food safety, we intend to continue to leverage our technology platform through licensing and distribution collaborations in order to develop new products and enter into new markets that could potentially generate multiple sources of revenue.

### Our Products

Our near-term focus is on delivering leading antimicrobial products that address food safety risks across the food industry supply chain. We currently offer PURE Hard Surface as a food contact surface sanitizer and disinfectant to restaurant chains and food processors. One of our customers is SUBWAY® Restaurants, which has approved PURE Hard Surface for use system-wide (27,000 U.S. stores). We received the required FDA approvals to market PURE Control as a direct food contact processing aid for raw poultry and fresh produce in December 2015 and January 2016, respectively, and are preparing to launch PURE Control as a direct food contact processing aid for fresh produce produce. We intend to offer PURE Control as a direct food contact process aid for raw poultry as soon as we receive the required approvals from the USDA, which we expect as early as the second calendar quarter of 2016. We are currently testing and continuing development of PURE Control to allow us to seek regulatory approval to utilize PURE Control as a direct food contact processing aid for raw meats, including beef and pork.

In addition to our direct sales efforts with PURE Hard Surface and PURE Control, we market and sell our SDC-based products indirectly through third-party distributors. In addition to PURE Hard Surface and PURE Control, we manufacture and sell (i) SDC-based products for end use, (ii) products preserved with SDC and (iii) SDC as a raw material ingredient for manufacturing use.

#### PURE® Hard Surface Disinfectant and Sanitizer (Ready to Use)

PURE Hard Surface is our SDC-based, patented and EPA-registered, ready-to-use hard surface disinfectant and food contact surface sanitizer. PURE Hard Surface combines high efficacy and low toxicity with bacterial and viral kill times as few as 30-seconds and 24-hour residual protection. The product completely kills resistant pathogens such as



MRSA and Carbapenem-resistant *Klebsiella pneumoniae* (NDM-1), and effectively eliminates dangerous fungi and viruses including HIV, Hepatitis B, Hepatitis C, Norovirus, Influenza A, Avian Influenza and H1N1. It also eradicates hazardous food pathogens such as *E. coli*, *Salmonella*, *Campylobacter* and *Listeria*. PURE Hard Surface delivers broad-spectrum

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efficacy yet remains classified as least-toxic by the EPA. The active ingredient, SDC, has been designated as “Generally Recognized as Safe,” or GRAS, for use on food processing equipment, machinery and utensils.

### PURE Control®

We have the necessary regulatory approvals to offer PURE Control as a direct food contact processing aid for fresh produce. We are currently in the process of developing and obtaining regulatory approval to offer PURE Control as a direct food contact processing aid for poultry, beef and pork.

**Poultry Processing Aid.** In December 2015, we received the required approvals from the FDA stating that our FCN (food contact notification) for SDC as a raw poultry processing aid is complete.

Receipt of the FDA’s approval enabled us to initiate the next step in the regulatory approval process: obtaining USDA approval. As part of that process, we are preparing to conduct in-plant trials with the authorization of the USDA. We anticipate receiving the required approvals to market PURE Control as a direct food contact processing aid for raw poultry as early as the second calendar quarter of 2016.

Testing data conducted by Dr. James Marsden at Kansas State University and submitted in support of our FCN showed that, SDC achieved an average reduction in Salmonella of 2.75 log<sub>10</sub> CFU/cm<sup>2</sup> when applied as an OLR (online reprocessing) spray and 6.28 log<sub>10</sub> CFU/cm<sup>2</sup> when combined with an immersion chilling process simulating current U.S. industry practices. We believe that testing by Dr. Marsden provides support to the following benefits of SDC for poultry processing:

- The use of SDC antimicrobial solution in poultry processing has the potential to enable plants to achieve non-detectable Salmonella levels post-chill process.
  - A sensory evaluation of SDC showed no difference in color, appearance or odor in treated poultry.
  - SDC offers a highly effective alternative to hazardous and difficult to blend chemicals currently used as treatments in raw poultry processing.
  - SDC is a significant improvement over current processing practices. The product is:
    - o Easier to handle and dilute;
    - o Non-corrosive to processing equipment;
    - o Does not create noxious fumes; and
    - o Poultry processors will also benefit from the highly stable solution, ease of use and improved worker safety.
- Produce Processing Aid.

In January 2016, we received the required approvals from the FDA stating that our FCN for SDC as a spray or dip on processed fruits and vegetables is complete. We are not required to obtain any approvals from the USDA to use PURE Control as a produce processing aid.

Testing data conducted by Dr. James Marsden at Kansas State University and submitted in support of our FCN for produce showed that, SDC achieved average reductions up to 2.36 log<sub>10</sub> CFU/cm<sup>2</sup> when applied alone as a spray and up to 3.10 log<sub>10</sub> CFU/cm<sup>2</sup> when combined with chlorine wash, simulating current processing practices. Sensory evaluations of produce treated with SDC indicated no difference in color, appearance or odor to untreated controls; and SDC had no effect on the nutritional composition of the produce.

Currently, produce processors target achieving only a 1 log<sub>10</sub> CFU/cm<sup>2</sup> reduction per intervention treatment. Data suggests that by incorporating SDC, processors can improve their results 100-fold with only one step. This represents a significant advantage to produce processors as well as improvement to the safety of processed produce going to the consumer.

Other Processing Aids Under Development. We are developing the use of SDC as an intervention in the processing of beef and pork. Subject to successful pilot testing results and development, we intend to submit for both FDA and USDA approval during 2016. In addition, we may identify other food processing opportunities for SDC.

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## Additional SDC-Based Products

In addition to PURE Hard Surface and PURE Control, we manufacture and sell (i) SDC-based products for end use, (ii) products preserved with SDC and (iii) SDC as a raw material ingredient for manufacturing use. These products include:

Product Name	Product Use	EPA Registration
PURE Complete Solution:		
PURE® Multi-Purpose and Floor Cleaner Concentrate	Cleaner	Not applicable
PURE® Multi-Purpose Hi-Foam Cleaner Concentrate	Cleaner	Not applicable
Axen® 30	Disinfectant	Axen30
Axenohl®	Raw material ingredient	Axenohl
SILVÉRIION®	Raw material ingredient	Not applicable
PURE Complete Solution		

Our PURE Complete Solution is comprised of PURE Hard Surface and concentrated cleaning products that were launched as companion products to PURE Hard Surface. The PURE Complete Solution offers a comprehensive, cost-effective and user-friendly cleaning, disinfecting and sanitizing product line to end-users including our targeted foodservice, food manufacturing and food processing customers. This product line can also be targeted to hospital and medical care facilities; janitorial service providers and the distributors that supply them.

## PURE® Multi-Purpose and Floor Cleaner Concentrate (End-User Dilutable)

PURE Multi-Purpose and Floor Cleaner, is an environmentally responsible cleaning product that is protected by SDC. SDC ensures the quality and safety of PURE Multi-Purpose and Floor Cleaner without human or environmental exposure to toxic chemical preservatives. PURE Multi-Purpose and Floor Cleaner is non-toxic and non-flammable and contains no EDTA, phosphates, ammonia or bleach as well as no VOCs or NPEs. This efficient cleaner provides professional strength cleaning in a concentrate formula that yields a 1:96 – 1:256 use dilution that is safe for use on all resilient surfaces, including floors, glass and food contact surfaces.

## PURE® Multi-Purpose Hi-Foam Cleaner Concentrate (End-User Dilutable)

PURE Multi-Purpose Hi-Foam Cleaner is an environmentally responsible, professional strength high foam forming cleaning product that is protected by SDC. SDC ensures the quality and safety of PURE Multi-Purpose Hi-Foam Cleaner without human or environmental exposure to toxic chemical preservatives. PURE Multi-Purpose Hi-Foam Cleaner is non-toxic and non-flammable and contains no EDTA, phosphates, ammonia or bleach as well as no VOCs or NPEs. PURE Multi-Purpose Hi-Foam Cleaner provides high foam cleaning in a concentrate formula that yields a 1:50 use dilution that is safe for use on stainless steel equipment, resilient floors, walls and painted surfaces.

## Axen® 30 (Ready-to-Use)

Axen30 is our patented and EPA-registered hard surface disinfectant and is a predecessor ready-to-use product to PURE Hard Surface. Axen30 is currently sold on a limited basis by distributors under their respective private labels.

## Axenohl® (Raw Material Ingredient)

Axenohl is our patented and EPA-registered SDC-based antimicrobial formulation for use as a raw material ingredient in the manufacturing of EPA-registered products. Axenohl is a colorless, odorless and stable solution that provides fast acting efficacy against bacteria, viruses and fungi when manufactured into consumer and commercial disinfecting and sanitizing products.

**SILVÉRIION® (Raw Material Ingredient)**

SILVÉRIION is our patented SDC-based antimicrobial formulation for use as a raw material ingredient in the manufacturing of personal care products. It can be used as either an active ingredient or a preservative. SILVÉRIION is a colorless, odorless and stable solution that provides ionic silver in a water-soluble form. It provides fast acting efficacy at low concentrations against a broad-spectrum of bacteria, viruses, yeast and molds. SILVÉRIION is currently sold domestically and outside of the United States in various personal care products.

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### Financial Overview

This financial overview provides a general description of our revenue and expenses.

#### Revenue

We contract manufacture and sell SDC-based products for end use, and as a raw material for manufacturing use. We also license our products and technology to development and commercialization partners. Revenue is recognized when realized or realizable and earned. Any amounts received prior to satisfying revenue recognition criteria are recorded as deferred revenue.

#### Cost of Goods Sold

Cost of goods sold for product sales includes direct and indirect costs to manufacture products, including materials consumed, manufacturing overhead, shipping costs, salaries, benefits, reserved inventory, and related expenses of operations. Depreciation related to manufacturing is systematically allocated to inventory produced, and expensed through cost of goods sold at the time inventory is sold.

#### Selling, General and Administrative

Selling, general and administrative expense consists primarily of salaries and other related costs for personnel in business development, sales, finance, accounting, information technology, and executive functions. Other selling, general and administrative costs include product marketing, advertising, and trade show costs, as well as public relations and investor relations, facility costs, and legal, accounting and other professional fees.

#### Research and Development

Our research and development activities are focused on leveraging our technology platform to develop additional proprietary products and applications. Research and development expense consists primarily of personnel and related costs, product registration expenses, and third-party testing. We expense research and developments costs as incurred.

#### Other Income (Expense)

We record interest income, interest expense, change in derivative liabilities, as well as other non-operating transactions, as other income (expense) in our consolidated statements of operations.

#### Results of Operations

##### Fluctuations in Operating Results

Our results of operations have fluctuated significantly from period to period in the past and are likely to continue to do so in the future. We anticipate that our results of operations will be affected for the foreseeable future by several factors that may contribute to these periodic fluctuations, including the demand for our products, the timing and amount of our product sales, and the progress and timing of expenditures related to sales and marketing, as well as product development. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a reliable indication of our future performance.

##### Comparison of the Three Months Ended January 31, 2016 and 2015

Net Product Sales

Net product sales were \$176,000 and \$273,000 for the three months ended January 31, 2016 and 2015, respectively. The decrease of \$97,000 was primarily attributable to sales fluctuations within our existing legacy customer base.

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For the three months ended January 31, 2016, two individual customers accounted for 43% and 15%, of our net product sales, respectively. No other individual customer accounted for 10% or more of our net product sales. The geographic breakdown of net product sales was as follows: 100% U.S.

For the three months ended January 31, 2015, two individual customers each accounted for 10% or more of our net product sales. One customer accounted for 69%, and the other for 12%. No other individual customer accounted for 10% or more of our net product sales. The geographic breakdown of net product sales was as follows: 100% U.S.

### Cost of Goods Sold

Cost of goods sold was \$48,000 and \$111,000 for the three months ended January 31, 2016 and 2015, respectively. The decrease of \$63,000 was attributable to decreased net product sales.

Gross margin as a percentage of net product sales, or gross margin percentage, was 73% and 59% for the three months ended January 31, 2016 and 2015, respectively. The increase in gross margin percentage was primarily attributable to the sale of higher margin formulations and packaging configurations of our products during the quarter ended January 31, 2016 as compared with the prior quarter.

### Selling, General and Administrative Expense

Selling, general and administrative expense was \$1,386,000 and \$1,201,000 for the three months ended January 31, 2016 and 2015, respectively. The increase of \$185,000 was primarily attributable to increased marketing costs offset by decreased personnel costs.

### Research and Development Expense

Research and development expense was \$238,000 and \$215,000 for the three months ended January 31, 2016 and 2015, respectively. The increase of \$23,000 was primarily attributable to third-party testing and research.

### Share-Based Compensation

Share-based compensation expense was \$763,000 and \$482,000 for the three months ended January 31, 2016 and 2015, respectively. The increase of \$281,000 is primarily due to the vesting of stock options and restricted stock units granted to employees supporting our selling, general and administrative, and research and development functions during the current fiscal year.

### Fair Value of Derivative Liabilities in Excess of Proceeds.

The fair value of derivative liabilities in excess of proceeds was \$859,000 and zero for the three months ended January 31, 2016 and 2015, respectively (See Notes 8 and 9).

### Change in Derivative Liability

Change in derivative liability for the three months ended January 31, 2016 and 2015 was an increase of \$7,790,000 and decrease of \$5,000, respectively. The increase is due to the 20,376,219 warrants issued in connection with the October and November Private Placement Financings, as well as, an increase in the Company's common stock price and updates to the assumptions used in the fair value pricing model (See Notes 8 and 9).

### Interest Expense



Interest expense for the three months ended January 31, 2016 and 2015 was \$3,000.

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Other Income (Expense)

Other income for the three months ended January 31, 2016 was \$9,000, compared to other expense of \$2,000 for the three months ended January 31, 2015. The increase is primarily due to the sale of reserved inventory that occurred during the three months ended January 31, 2016.

Comparison of the Six Months Ended January 31, 2016 and 2015

Net Product Sales

Net product sales were \$362,000 and \$390,000 for the six months ended January 31, 2016 and 2015, respectively. The decrease of \$28,000 was primarily attributable to sales fluctuations within our existing legacy customer base.

For the six months ended January 31, 2016, two individual customers accounted for 42% and 15%, of our net product sales, respectively. No other individual customer accounted for 10% or more of our net product sales. The geographic breakdown of net product sales was as follows: 100% U.S.

For the six months ended January 31, 2015, two individual customers each accounted for 10% or more of our net product sales. One customer accounted for 48% and the other for 11%. No other individual customer accounted for 10% or more of our net product sales. The geographic breakdown of net product sales was as follows: 95% U.S. and 5% foreign, with foreign sales occurring in the United Kingdom.

Cost of Goods Sold

Cost of goods sold was \$102,000 and \$156,000 for the six months ended January 31, 2016 and 2015, respectively. The decrease of \$54,000 was primarily attributable to decreased net product sales.

Gross margin as a percentage of net product sales, or gross margin percentage, was 72% and 60% for the six months ended January 31, 2016 and 2015, respectively. The increase in gross margin percentage was primarily attributable to the sale of higher margin formulations and packaging configurations of our products during the six months ended January 31, 2016 as compared with the prior quarter.

Selling, General and Administrative Expense

Selling, general and administrative expense was \$2,472,000 and \$2,524,000 for the six months ended January 31, 2016 and 2015, respectively. The decrease of \$52,000 was primarily attributable to decreased personnel and facility costs offset by increased marketing costs.

Research and Development Expense

Research and development expense was \$474,000 and \$391,000 for the six months ended January 31, 2016 and 2015, respectively. The increase of \$83,000 was primarily attributable to third-party testing and research supporting our FDA approvals.

Share-Based Compensation

Share-based compensation expense was \$1,435,000 and \$985,000 for the six months ended January 31, 2016 and 2015, respectively. The increase of \$450,000 is primarily due to the vesting of stock options and restricted stock units granted to employees supporting our selling, general and administrative, and research and development functions during the current fiscal year.

Fair Value of Derivative Liabilities in Excess of Proceeds.

The fair value of derivative liabilities in excess of proceeds was \$1,867,000 and zero for the six months ended January 31, 2016 and 2015, respectively (See Notes 8 and 9).

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### Change in Derivative Liability

Change in derivative liability for the six months ended January 31, 2016 and 2015 was an increase of \$7,747,000 and decrease of \$4,000, respectively. The increase is due to the 20,376,219 warrants issued in connection with the October and November Private Placement Financings, as well as, an increase in the Company's common stock price and updates to the assumptions used in the fair value pricing model (See Notes 8 and 9).

### Interest Expense

Interest expense for the six months ended January 31, 2016 and 2015 was \$5,000.

### Other Income (Expense)

Other income for the six months ended January 31, 2016 was \$18,000, compared to other expense of \$3,000 for the six months ended January 31, 2015. The increase is primarily due to the sale of reserved inventory that occurred during the six months ended January 31, 2016.

### Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through public and private offerings of securities, debt financing, and revenue from product sales and license agreements. We have a history of recurring losses, and as of January 31, 2016 we have incurred a cumulative net loss of \$102,570,000.

During the six months ended January 31, 2016, we issued a total of 17,777,772 shares of common stock and warrants to purchase 20,376,219 shares of common stock for gross proceeds of \$8.0 million in private placement financings in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder and in reliance on similar exemptions under applicable state laws.

As of January 31, 2016, we had \$6,706,000 in cash and cash equivalents compared with \$1,321,000 in cash and cash equivalents as of July 31, 2015. The net increase in cash and cash equivalents was primarily attributable to proceeds from our issuance of common stock in the private placement noted above. Additionally, as of January 31, 2016, we had \$18,450,000 of current liabilities, including \$582,000 in accounts payable, compared with \$869,000 of current liabilities, including \$560,000 in accounts payable as of July 31, 2015. The net increase in current liabilities is due to the derivative liability incurred from the issuance of warrants associated with the \$8.0 million financing discussed above.

In addition, from time to time we have entered into employment agreements with our executives that, under certain cases, provide for the continuation of salary and certain other benefits if these executives are terminated under specified circumstances. These agreements generally expire upon termination for cause or when we have met our obligations under these agreements. As of January 31, 2016, no events have occurred resulting in the obligation of any such payments.

Our future capital requirements depend on numerous forward-looking factors. These factors may include, but are not limited to, the following: the acceptance of, and demand for, our products; our success and the success of our partners in selling our products; our success and the success of our partners in obtaining regulatory approvals to sell our products; the costs of further developing our existing products and technologies; the extent to which we invest in new product and technology development; and the costs associated with the continued operation, and any future growth, of our business. The outcome of these and other forward-looking factors will substantially affect our liquidity and capital resources.

We expect that we will need to increase our liquidity and capital resources by one or more measures. These measures may include, but are not limited to, the following: reducing operating expenses; obtaining financing through the issuance of equity, debt, or convertible securities; entering into partnerships, licenses, or other arrangements with third parties; and reducing the exercise price of outstanding warrants. Any one of these measures could substantially reduce the value to us of our technology and its commercial potential as it may be necessary to enter into arrangements with less favorable terms than otherwise possible. Additionally, a reduction in operating expenses will require a reduction in the sales, marketing, and other commercialization activities required to bring our products to market. If we issue equity, debt or

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convertible securities to raise additional funds, our existing stockholders may experience dilution, and the new equity, debt or convertible securities may have rights, preferences and privileges senior to those of our existing stockholders. There is no guarantee that we would be able to obtain capital on terms acceptable to us, or at all.

If we are unable to obtain sufficient capital, it would have a material adverse effect on our business and operations. It could cause us to fail to execute our business plan, fail to take advantage of future opportunities, or fail to respond to competitive pressures or customer requirements. It also may require us to delay, scale back or eliminate some or all of our research and development programs, to license to third parties the right to commercialize products or technologies that we would otherwise commercialize ourselves, or to reduce or cease operations altogether. If adequate funds are not available when needed, we may be required to significantly modify our business model and operations to reduce spending to a sustainable level.

We believe our available cash on-hand, our current efforts to market and sell our products, and our ability to significantly reduce expenses, will provide sufficient cash resources to satisfy our needs over the next 12 months. However, we do not yet have, and we may never have, significant cash inflows from product sales or from other sources of revenue to offset our ongoing and planned investments in corporate infrastructure, research and development projects, regulatory submissions, business development initiatives, and sales and marketing activities, among other investments. Some or all of our ongoing or planned investments may not be successful and could result in further losses. In addition, irrespective of our cash resources, we may be contractually or legally obligated to make certain investments which cannot be postponed.

### Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

In addition, the consolidated financial statements included in this Quarterly Report have been prepared and presented on a basis assuming we will continue as a going concern. Until we can generate significant cash from operations, we expect to continue to fund our operations with the proceeds of offerings of our equity and debt securities. However, we cannot assure you that additional financing will be available when needed or that, if available, financing will be obtained on terms favorable to us or to our stockholders. If we raise additional funds from the issuance of equity securities, substantial dilution to our existing stockholders would likely result. If we raise additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to operate our business. Further, any contracts or license arrangements we enter into to raise funds may require us to relinquish our rights to our products or technology, and we cannot assure you that we will be able to enter into any such contracts or license arrangements on acceptable terms, or at all. Having insufficient funds may require us to delay or scale back our marketing, distribution and other commercialization activities or cease our operations altogether. Our financial statements do not include any adjustment relating to recoverability or classification of recorded assets and classification of recorded liabilities.

We believe the following accounting policies and estimates are critical to aid you in understanding and evaluating our reported financial results.

## Revenue Recognition

We sell our products to distributors and end users. We record revenue when we sell products to our customers, rather than when our customers resell products to third parties. When we sell products to our customers, we reduce the balance of our inventory with a corresponding charge to cost of goods sold. We do not currently have any consignment sales.

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Terms of our product sales are generally FOB shipping point. Product sales are recognized when delivery of the products has occurred (which is generally at the time of shipment), title has passed to the customer, the selling price is fixed or determinable, collectability is reasonably assured and we have no further obligations. Any amounts received prior to satisfying these revenue recognition criteria are recorded as deferred revenue. We record product sales net of discounts at the time of sale and report product sales net of such discounts.

We also license our products and technology to development and commercialization partners. License fee revenue consists of product and technology license fees earned. If multiple-element arrangements require on-going services or performance, then upfront product and technology license fees under such arrangements are deferred and recognized over the period of such services or performance. Non-refundable amounts received for substantive milestones are recognized upon achievement of the milestone. Any amounts received prior to satisfying these revenue recognition criteria are recorded as deferred revenue.

## Share-Based Compensation

We grant equity-based awards under share-based compensation plans or stand-alone contracts. We estimate the fair value of share-based payment awards using the Black-Scholes option valuation model. This fair value is then amortized over the requisite service periods of the awards. The Black-Scholes option valuation model requires the input of subjective assumptions, including price volatility of the underlying stock, risk-free interest rate, dividend yield, and expected life of the option. Share-based compensation expense is based on awards ultimately expected to vest, and therefore is reduced by expected forfeitures. Changes in assumptions used under the Black-Scholes option valuation model could materially affect our net loss and net loss per share.

## Impairment of Long-Lived Assets

In accordance with GAAP, if indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, we measure the amount of such impairment by comparing the carrying value of the asset to the fair value of the asset and we record the impairment as a reduction in the carrying value of the related asset and a charge to operating results. Estimating the undiscounted future cash flows associated with long-lived assets requires judgment, and assumptions could differ materially from actual results.

For purposes of testing impairment, we group our long-lived assets at the lowest level for which there are identifiable cash flows independent of other asset groups. Currently, there is only one level of aggregation for our intangible assets. We assess the impairment of long-lived assets, consisting of property, plant, and equipment and our patent portfolio, whenever events or circumstances indicate that the carrying value may not be recoverable. Examples of such events or circumstances include:

- an asset group's ability to continue to generate income from operations and positive cash flow in future periods;
- loss of legal ownership or title to the asset(s);
- significant changes in our strategic business objectives and utilization of the asset(s); and
- the impact of significant negative industry or economic trends.

Additionally, on a quarterly basis we review the significant assumptions underlying our impairment assessment to determine whether our previous conclusions remain valid.

Recoverability of assets to be held and used in operations is measured by a comparison of the carrying amount of an asset to the future net cash flows expected to be generated by the assets. The factors used to evaluate the future net cash flows, while reasonable, require a high degree of judgment and the results could vary if the actual results are materially different than the forecasts. In addition, we base useful lives and amortization or depreciation expense on



our subjective estimate of the period that the assets will generate revenue or otherwise be used by us. If such assets are considered to be

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impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs.

We also periodically review the lives assigned to our intangible assets to ensure that our initial estimates do not exceed any revised estimated periods from which we expect to realize cash flows from the assets. If a change were to occur in any of the above-mentioned factors or estimates, the likelihood of a material change in our reported results would increase.

### Derivative Financial Instruments

We do not use derivative instruments to hedge exposures to cash flow or market or foreign currency risks.

We review the terms of the common stock, warrants and convertible debt we issue to determine whether there are derivative instruments, including embedded conversion options that are required to be bifurcated and accounted for separately as derivative financial instruments. In circumstances where the host instrument contains more than one embedded derivative instrument, including a conversion option, that is required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

Derivatives are initially recorded at fair value and are then revalued at each reporting date with changes in the fair value reported as non-operating income or expense. When the equity or convertible debt instruments contain embedded derivative instruments that are to be bifurcated and accounted for as liabilities, the total proceeds received are first allocated to the fair value of all the bifurcated derivative instruments. The remaining proceeds, if any, are then allocated to the host instruments themselves, usually resulting in those instruments being recorded at a discount from their face value.

### Recent Accounting Pronouncements

See Note 12 to the consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

### Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, or the Exchange Act, and as provided in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission, or SEC, and that such information is accumulated and

communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by Rule 13a-15(b) under the Exchange Act, our management conducted an evaluation, under the supervision and with the participation of our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of

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the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on the foregoing evaluation, our Principal Executive Officer and Principal Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

In connection with the evaluation required by Exchange Act Rule 13a-15(d), our management, under the supervision and with the participation of our Principal Executive Officer and our Principal Financial Officer, concluded that there were no changes in our internal controls over financial reporting during the three months ended January 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II – Other Information

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of our business. The impact and outcome of litigation, if any, is subject to inherent uncertainties, and any adverse result in these or other matters may arise from time to time that could harm our business. We are not currently aware of any such legal proceedings or claims to which we or our wholly owned subsidiary is a party or of which any of our property is subject that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in Item 1A. to Part I of our Annual Report on Form 10-K for the fiscal year ended July 31, 2015, which we filed with the SEC on October 28, 2015 (the “Form 10-K”) and Item 1A. to Part II of our Quarterly Report on Form 10-Q for the quarter ended October 31, 2015, which we filed on December 10, 2015 (the “Previous Form 10-Q”). The risks and uncertainties described in “Item 1A — Risk Factors” of our Form 10-K and “Item 1A – Risk Factors” of our Previous Form 10-Q have not materially changed. Any of the risks discussed in this Quarterly Report on Form 10-Q or any of the risks disclosed in Item 1A. to Part I of our Form 10-K or Item 1A. to Part II of our Previous Form 10-Q, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations, financial condition or prospects.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

The following Exhibits are filed as part of this report pursuant to Item 601 of Regulation S-K:

- 3.1 Certificate of Incorporation of PURE Bioscience, Inc. (incorporated by reference to Exhibit 3.1 of the Annual Report on Form 10-K filed with the SEC on October 29, 2012)
- 3.1.1 Certificate of Amendment to Certificate of Incorporation of PURE Bioscience, Inc. (incorporated by reference to Exhibit 3.1.1 of the Annual Report on Form 10-K filed with the SEC on October 29, 2012)
- 3.2 Bylaws of PURE Bioscience, Inc. (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K, filed with the SEC on October 29, 2012)
- 3.2.1 Amendment to the Bylaws of PURE Bioscience, Inc. (incorporated by reference to Exhibit 3.2.1 to the Annual Report on Form 10-K, filed with the SEC on October 29, 2012)
- 4.1 Form of Investor Warrant (incorporated by reference to Exhibit 4.5 to the Current Report on Form 8-K, filed with the SEC on September 2, 2009)
- 4.2 Wharton Capital Markets LLC Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC on March 16, 2012)
- 4.3 Form of Underwriter's Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC on September 13, 2012)
- 4.4 Morrison & Foerster LLP Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC on January 31, 2013)
- 4.5 Form of Investor Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC April 23, 2013)
- 4.6 Form of Investor Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC August 27, 2014)
- 4.7 Form of Five-Year Warrant (incorporated by reference to Exhibit 4.11 to the Company's Annual Report on Form 10-K, filed with the SEC on October 28, 2015)
- 4.8 Form of Six-Month Warrant (incorporated by reference to Exhibit 4.11 to the Company's Annual Report on Form 10-K, filed with the SEC on October 28, 2015)
- 31.1 \* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 \* Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 \* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 32.2 \* Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 \* The following materials from the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at January 31, 2016 and July 31, 2015; (ii) Consolidated Statements of Operations for the three and six months ended January 31, 2016 and 2015; (iii) Consolidated Statements of Cash Flows for the six months ended January 31, 2016 and 2015; and (iv) Notes to Consolidated Financial Statements.

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\*Filed herewith.

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Signatures

Pursuant to the requirement 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.

PURE BIOSCIENCE, INC.

Date: March 9, 2016 By: /s/ HENRY R. LAMBERT  
Henry R. Lambert, Chief Executive Officer (Principal Executive Officer)

Date: March 9, 2016 By: /s/ MARK S. ELLIOTT  
Mark S. Elliott, Vice President, Finance  
(Principal Financial and Accounting Officer)