PURE BIOSCIENCE
Form 10-Q
June 09, 2009

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2009

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

Commission File Number 0-21019

PURE Bioscience
(Exact name of registrant as specified in its charter)

California	33-0530289
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1725 Gillespie Way El Cajon, California	92020
(Address of principal executive offices)	(Zip Code)

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

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 ý No o

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 o No o

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 o Accelerated filer ý Non-accelerated filer o Smaller reporting company o

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

As of June 5, 2009, there were 32,227,766 shares of the registrant's common stock, no par value, outstanding.

PURE Bioscience

FORM 10-Q

For the Quarterly Period Ended April 30, 2009

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PURE Bioscience
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 30, 2009	July 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,946,019	$ 2,024,400
Short-term investments	-	4,607,888
Accounts receivable, net of allowance for doubtful accounts of $781,627 at April 30, 2009 and $0 at July 31, 2008	23,908	834,721
Inventories, net	442,718	370,043
Prepaid expenses	101,856	52,560
Total current assets	3,514,501	7,889,612
Total property, plant and equipment, net	906,224	1,034,835
Patents	1,940,471	2,016,391
Total assets	$ 6,361,196	$ 10,940,838
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 381,255	$ 596,132
Accrued liabilities	229,214	126,141
Deferred revenue	-	256,793
Taxes payable	-	2,400
Total current liabilities	610,469	981,466
Deferred rent	19,161	15,798
Total liabilities	629,630	997,264
Stockholders' Equity		
Preferred stock, no par value:		
5,000,000 shares authorized, no shares issued	-	-
Class A common stock, no par value:		
50,000,000 shares authorized		
30,809,325 issued and outstanding at April 30, 2009, and		
29,573,936 issued and outstanding at July 31, 2008	36,388,856	35,436,077
Additional paid-in capital	4,390,030	4,155,608
Warrants:		
844,351 issued and outstanding at April 30, 2009, and		
880,351 issued and outstanding at July 31,2008, and	1,756,188	1,766,159
Accumulated other comprehensive income	-	18,588

Accumulated deficit	(36,803,508)	(31,432,858)
Total stockholders' equity	5,731,566	9,943,574
Total liabilities and stockholders' equity	$ 6,361,196	$ 10,940,838

The accompanying notes are an integral part of the consolidated financial statements

PURE Bioscience
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Nine Months Ended April 30,		For the Three Months Ended April 30,	
	2009	2008	2009	2008
REVENUES FROM PRODUCT SALES				
Net revenues	$ 275,287	$ 664,188	$ 129,905	$ 416,464
Cost of sales	131,225	176,026	60,591	93,846
Gross profit	144,062	488,162	69,314	322,618
OTHER REVENUES				
Revenues from license agreements	250,000	-	-	-
Cost of other revenues	-	-	-	-
Gross profit	250,000	-	-	-
Total gross profit	394,062	488,162	69,314	322,618
Selling expenses	517,033	621,858	179,902	327,059
General and administrative expenses	4,263,440	3,874,246	1,142,658	1,996,550
Research and development	1,053,214	1,162,861	312,261	571,358
Total operating expenses	5,833,687	5,658,965	1,634,821	2,894,967
Loss from operations	(5,439,625)	(5,170,803)	(1,565,507)	(2,572,349)
Other income:				
Interest income	10,982	32,653	719	13,892
Other	57,993	109,343	19,204	92,061
Total other income	68,975	141,996	19,923	105,953
Net loss before income taxes	(5,370,650)	(5,028,807)	(1,545,584)	(2,466,396)
Income tax provision	-	-	-	-
Net loss	$ (5,370,650)	$ (5,028,807)	$ (1,545,584)	$ (2,466,396)
Net loss per common share, basic and diluted	$ (0.18)	$ (0.19)	$ (0.05)	$ (0.09)
Weighted average common shares used in computing basic and diluted net loss per common share	30,173,261	26,962,731	30,746,126	28,265,412

The accompanying notes are an integral part of the consolidated financial statements

PURE Bioscience
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended April 30,	
	2009	2008
Cash flows from operating activities:		
Net loss	$ (5,370,650)	$ (5,028,807)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization and depreciation	330,175	297,271
Stock-based compensation	283,050	2,029,094
Allowance for doubtful accounts	781,627	-
Changes in assets and liabilities:		
Acounts receivable	29,185	(154,978)
Prepaid expense	(49,296)	(85,555)
Inventories	(72,675)	(96,516)
Deferred rent	3,363	13,821
Deferred revenue	(256,793)	-
Accounts payable and accrued liabilities	(111,803)	(140,708)
Income tax payable	(2,400)	(2,400)
Net cash used in operating activities	(4,436,217)	(3,168,778)
Cash flows from investing activities		
Investment in patents	(52,634)	(79,694)
Purchase of property, plant and equipment	(73,009)	(234,241)
Purchases of short-term investments	(4,076,992)	(10,633,849)
Sales of short-term investments	8,666,292	5,458,030
Net cash provided by (used in) investing activities	4,463,657	(5,489,754)
Cash flows from financing activities		
Net proceeds from the sale of common stock	-	7,740,967
Proceeds from exercise of stock options and warrants	894,179	1,825,679
Net cash provided by financing activities	894,179	9,566,646
Net increase in cash and cash equivalents	921,619	908,114

Cash and cash equivalents at beginning of period	2,024,400	735,654
Cash and cash equivalents at end of period	$ 2,946,019	$ 1,643,768

The accompanying notes are an integral part of the consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

PURE Bioscience (sometimes referred to herein as the "Company" or "we") was incorporated in the state of California on August 24, 1992. The accompanying unaudited financial statements include the consolidated accounts of PURE Bioscience and its subsidiary, ETIH2O Corporation, a Nevada corporation. All inter-company balances and transactions have been eliminated.

The financial statements included herein have been prepared by PURE Bioscience without audit, in accordance with the instructions to Securities and Exchange Commission ("SEC") Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations, however we believe that the accompanying unaudited financial statements contain all adjustments (including normal recurring adjustments) necessary to present fairly the financial condition, results of operations and cash flows for the periods presented. These unaudited consolidated financial statements presented herein should be read in conjunction with our audited financial statements for the period ended July 31, 2008, and their accompanying notes, as filed with the Securities and Exchange Commission in our 10-K on October 14, 2008.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the statements and accompanying notes, and actual results could differ materially from those estimates. The results of operations for the three and nine months ended April 30, 2009 are not necessarily indicative of the results of operations for the full year, or any future periods.

Note 2. Nature of Business and Summary of Significant Accounting Policies

Concentration of Credit Risk

As of April 30, 2009 and July 31, 2008, all cash deposits and short-term investments were invested in either U.S. FDIC insured bank accounts; institutional money market mutual funds investing in A-1 (S&P) or Prime-1 (Moody's); U.S. Treasury Securities, or United States Government obligations issued by or backed by a federal agency of the United States Government.

At April 30, 2009, $593,845 of our cash and cash equivalents were maintained at two separate major financial institutions in the United States in accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $100,000. Effective October 3, 2008, the Emergency Economic Stabilization Act of 2008 raised the FDIC deposit coverage limits to $250,000 per owner from $100,000 per owner. The enhanced limits are currently available through December 31, 2009.

Also at April 30, 2009, $2,351,550 of our cash and cash equivalents were held in accounts maintained at two separate major financial institutions in the United States that are provided with up to $500,000 in protection by the Securities Investor Protection Corporation ("SIPC") should such a firm close due to bankruptcy or other financial difficulties and customer assets are missing.

At April 30, 2009 we had no short-term investments. During the three month period ended April 30, 2009, our short-term investments, which were all converted to cash and cash equivalents during the period, were invested in U.S. Treasury Bills with maturities of less than 360 days, and were held at a major financial institution in the United States. These assets were provided with up to $500,000 in protection by the SIPC.

We have not experienced any losses in our cash, cash equivalents and short-term investments and believe we are not exposed to any significant credit risk. At times, deposits held may exceed the amount of insurance provided by the

FDIC or SIPC. Generally, these deposits may be redeemed upon demand and, therefore, are believed to bear low risk.

Other financial instruments that potentially subject us to concentrations of credit risk consist of accounts receivable. We extend credit to our customers based on credit evaluations and past payment performance, but do not obtain collateral to secure our accounts receivable.

Revenue Recognition

During the periods presented herein our product revenue was derived from the sale of silver dihydrogen citrate ("SDC") concentrate and the sale of finished packaged products containing SDC. We recognize revenue from sales of these products under the provisions of Staff Accounting Bulletin No. 104, Revenue Recognition, which is generally when we ship the products free on board from either our facility or from third party packagers, we have transferred title to the goods, and we have eliminated our risk of loss.

Any amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated balance sheets. See Note 3 for further information regarding our licensing revenues and amounts previously recorded as deferred revenue in the consolidated balance sheets.

Cost of Goods Sold

Cost of goods sold for product sales includes direct and indirect costs to manufacture products, including materials consumed, manufacturing overheads, shipping costs, salaries, benefits and related expenses of operations. Cost of goods sold related to licensing revenues recorded in the nine month period ended April 30, 2009 was zero, as we did not incur any costs directly related to our commitments under the agreement to allow a third party a limited time period to exclusively evaluate our SDC technology.

Intangible Assets / Long-Lived Assets

Our intangible assets primarily consist of the worldwide patent portfolio of our silver ion technologies. Outside legal costs and filing fees related to obtaining patents are capitalized as incurred. The total amounts capitalized for pending patents were $12,950 and $7,199 in the three month periods ended April, 2009 and 2008, respectively, and $52,634 and $79,694 in the nine month periods ended April 30, 2009 and 2008, respectively. Patents are stated net of accumulated amortization of $1,208,821 and $1,080,265 at April 30, 2009 and July 31, 2008, respectively. The cumulative cost of acquiring patents is amortized on a straight-line basis over the estimated remaining useful lives of the patents, generally between 17 and 20 years from the date of issuance. At April 30, 2009, the weighted average remaining amortization period for all patents was approximately 11.1 years. Amortization expense for the three month periods ended April 30, 2009 and 2008 was $43,064 and $44,437, respectively, and for the nine month periods ended April 30, 2009 and 2008 was $128,555 and $131,882, respectively.

Accounting for Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (“FASB”) revised SFAS 123(R), Share-Based Payment, which establishes accounting for share-based awards exchanged for employee and director services and requires us to expense the estimated fair value of these awards over the applicable service period. Under SFAS No. 123(R), share-based compensation cost is measured at the grant date based on the estimated fair value of the award, and is recognized as expense over the applicable service period. We do not have, and have not had during the nine month periods ended April 30, 2009 or 2008, any stock option awards with market or performance conditions.

Stock Options to Non-Employees

Charges for stock options granted to non-employees have been determined in accordance with SFAS No. 123(R) and EITF No. 96-18, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, whereby we use the estimated fair value of the stock options issued, based on the Black-Scholes Option Pricing Model. During the three month period ended April 30, 2009 we recorded $647 in research and development expense; and during the three month period ended April 30, 2008 we recorded $70,407 in selling expense. During the nine month period ended April 30, 2009 we recorded $6,328 in research and development expense; and during the nine month period ended April 30, 2008 we recorded $145,611 in selling expense, and $13,011 in research and development expense.

Cash, Cash Equivalents and Short-term Investments

We consider all liquid investments with maturities of ninety days or less when purchased to be cash equivalents. Our short-term investments have maturities of greater than ninety days from the date of purchase. We classify securities as “available-for-sale” in accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, and carry these investments at fair value with any unrealized gains and losses reported as a component of shareholders’ equity on the consolidated balance sheets and in the statements of shareholders’ equity. At April 30, 2009 we had no short-term investments. All of our short-term investments as of July 31, 2008 were carried at fair value, based upon market prices quoted on the last day of the fiscal period, and were considered available for sale. We use the specific identification method to determine the cost of debt securities sold, and include gross realized gains and losses in investment income. Realized gains recorded for the three month periods ended April 30, 2009 and 2008 were $19,204 and $92,027, respectively, and for the nine month periods ended April 30, 2009 and 2008 were $57,992 and $109,215, respectively. All interest and dividends received from short-term investments are included in interest income.

Liquidity

On May 28, 2009 we closed a registered direct offering whereby we sold $3 million of our common stock and warrants to institutional investors. After fees and expenses, the net proceeds of the offering to us are expected to be approximately $2.79 million. However, our existing cash resources will not be sufficient to fund our planned activities, and in future periods we expect to seek additional capital through the issuance of common stock, preferred stock, convertible securities or through other means. We believe that our cash resources are sufficient to meet our anticipated needs during the next twelve months based on our assessment of historical working capital needs, operating loss trends, and our current business outlook. However, we expect that we will need additional financing and there can be no assurance that when additional financing is necessary it will be available, or if available, that such financing can be obtained on satisfactory terms. If adequate funds are not available when needed, we may be required to significantly modify our business model to reduce spending to a sustainable level. Such modification of the business model could also result in an impairment of assets which cannot be determined at this time.

Comprehensive Income

SFAS 130, Reporting Comprehensive Income, requires us to display comprehensive income or loss and its components as part of our consolidated financial statements. Our comprehensive loss includes our net loss and certain changes in equity that are excluded from our net loss, including unrealized holding gains and losses on available-for-sale securities. SFAS 130 requires such changes in shareholders' equity to be included in accumulated other comprehensive income or loss. For the three month periods ended April 30, 2009 and 2008, our comprehensive loss was $1,563,517 and $2,531,897, respectively. During the three month periods ended April 30, 2009 and 2008, we recorded unrealized gains on available for sale securities of $1,271 and $26,526, respectively. Realized gains on the sale of available for sale securities, which are included in our net loss for the three month periods ended April 30, 2009 and 2008, were $19,204 and $92,027, respectively. For the nine month periods ended April 30, 2009 and 2008, our comprehensive loss was $5,389,239 and $5,022,120, respectively. During the nine month period ended April 30, 2009, unrealized gains on available for sale securities declined by $18,588, and in the nine month period ended April 30, 2008, unrealized gains on available for sale securities increased by $6,688. Realized gains on the sale of available for sale securities, which are included in our net loss for the nine month periods ended April 30, 2009 and 2008, were $57,992 and $109,215, respectively.

Net Loss Per Common Share

In accordance with FASB Statement No. 128, Earnings Per Share ("SFAS 128"), we compute basic loss per share by dividing the applicable net loss by the weighted average number of common shares outstanding during the respective period. Diluted per share amounts assume the conversion, exercise or issuance of all potential common stock equivalents, including stock options and warrants, unless the effect is to reduce a loss or increase the income per common share from continuing operations. As we incurred losses in three and nine month periods ended April 30, 2009 and 2008, we did not include common stock equivalent shares in the computation of net loss per share as the effect would have been anti-dilutive. Therefore, both the basic and diluted loss per common share for the three and nine month periods ended April 30, 2009 and 2008 are based on the weighted average number of shares of our common stock outstanding during the periods.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements, which provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. SFAS No. 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except Statement No. 123R and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157," which provides a one year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities to years beginning after November 15, 2008 (our fiscal year ending July 31, 2010). As a result, we are only partially adopting SFAS No. 157 as it relates to our financial assets and liabilities until we are required to apply this pronouncement to our non-financial assets and liabilities beginning with the fiscal year ending July 31, 2010.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective, however the amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. Under SFAS No. 159, we would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. This statement became effective for us August 1, 2008, however, we did not elect the fair value option for any of our financial assets or financial liabilities.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R replaces SFAS No. 141, Business Combinations and requires an acquirer in a business combination to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in SFAS 141R. SFAS 141R also amends SFAS No. 109, Accounting for Income Taxes, and SFAS 142, Goodwill and Other Intangible Assets. SFAS 141R applies prospectively to business combinations, if any, for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (our fiscal year ending July 31, 2010). In April 2009, the FASB issued SFAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, which amends the accounting prescribed in SFAS 141(R) for assets and liabilities arising

from contingencies in business combinations. SFAS 141(R)-1 requires pre-acquisition contingencies to be recognized at fair value if fair value can be reasonably determined during the measurement period. If fair value cannot be reasonably determined, SFAS 141(R)-1 requires measurement based on the recognition and measurement criteria of SFAS 5, Accounting for Contingencies. We do not currently expect the adoption of the provisions of SFAS 141R or SFAS 141(R)-1 to have a material effect on our financial condition, results of operations or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS 160 amends Accounting Research Bulletin 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the non-controlling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008 (our fiscal year ending July 31, 2010). We do not currently expect the adoption of the provisions of SFAS No. 160 to have a material effect on our financial condition, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R, and other U.S. generally accepted accounting principles. The provisions of FSP No. FAS 142-3 are effective for fiscal years beginning after December 15, 2008 (our fiscal year ending July 31, 2010). We are currently evaluating the impact, if any, that the adoption of FSP No. FAS 142-3 could have on our consolidated financial statements or results of operations.

In June 2008, the FASB ratified Emerging Issue Task Force ("EITF") 07-5, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock ("EITF 07-5"). EITF 07-5 provides a framework for determining whether an instrument is indexed to an entity's own stock, including evaluating the instrument's contingent exercise and settlement provisions. EITF 07-5 is effective for fiscal years beginning after December 15, 2008 (our fiscal year ending July 31, 2010). We do not currently expect the implementation of EITF 07-5 to have a material impact on our consolidated financial statements.

In October 2008, the FASB issued FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active ("FSP FAS 157-3"), which clarifies the application of SFAS 157 in an inactive market. Additional guidance is provided regarding how a reporting entity's own assumptions should be considered when relevant observable inputs do not exist, how available observable inputs in a market that is not active should be considered when measuring fair value, and how the use of market quotes should be considered when assessing the relevance of inputs available to measure fair value. FSP FAS 157-3 became effective immediately upon issuance. Its adoption did not impact our consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ("FSP 157-4"). Based on the guidance, if an entity determines that the level of activity for an asset or liability has significantly decreased and that a transaction is not orderly, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transaction or quoted prices may be necessary to estimate fair value in accordance with FASB Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). FSP 157-4 is to be applied prospectively and is effective for interim and annual periods ending after June 15, 2009 (our fiscal year ending July 31, 2009. We do not expect that FSP 157-4 will have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-2 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments ("FSP FAS 107-2 and FSP APB 28-1"). FSP FAS 107-2 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value and the related carrying amount of financial instruments in interim and annual periods. FSP APB 28-1 amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. FSP FAS 107-2 and FSP APB 28-1 also require disclosure about the method and significant assumptions used to estimate the fair value of financial instruments. FAS FSP 107-2 and FSP APB 28-1 are effective for interim and annual periods ending after June 15, 2009 (our fiscal year ending July 31, 2009).

In April 2009, the FASB issued FASB Staff Positions FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ("FSP 115-2 and 124-2"), which amend the other-than-temporary guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP 115-2 and 124-2 are effective for interim periods ending after June 15, 2009 (our fiscal year ending July 31, 2009. We do not expect that the adoption of the FSP's will have a material impact on our consolidated financial statements.

Note 3. Licensing Revenue

During the three month period ended July 31, 2008 we recorded deferred revenue on receipt of a non-refundable fee of $250,000 which we received subject to an agreement whereby we allowed a third party a limited time period to exclusively evaluate our SDC technology for use within specified indications and for certain products. Upon the termination of the agreement on January 31, 2009, we recognized the $250,000 as licensing revenue in the consolidated statements of operations for the three month period ended January 31, 2009.

Note 4. Accounts Receivable

Trade accounts receivable are recorded net of allowances for doubtful accounts. Estimates for allowances for doubtful accounts are determined based on payment history and individual customer circumstances. The allowance for doubtful accounts was $781,600 and zero at April 30, 2009 and July 31, 2008, respectively. The allowance for doubtful accounts at April 30, 2009 is made up of amounts billed during prior periods to two international distributors. During the year ended July 31, 2008 we granted non-exclusive distribution and blending rights to a new distributor for the sale of SDC-based products in Colombia. In addition, we granted non-exclusive distribution and blending rights to a second distributor, which is affiliated with the first distributor, for the sale of SDC-based products in Argentina, Venezuela, Panama and Costa Rica. The $781,600 receivable includes $57,000 for amounts billed at cost to the distributors in August 2008 for parts shipped directly to them by one of our U.S. packaging suppliers. Subsequent to this transaction, we have not sold any products to either of the two referenced distributors.

During the three month period ended January 31, 2009 we determined these accounts to be delinquent. We therefore established a full reserve and recorded $781,600 as bad debt expense, within general and administrative expense, in the consolidated statements of operations for the three month period ended January 31, 2009. At April 30, 2009 the referenced amounts remained uncollected, and we have therefore maintained the allowance for doubtful accounts of $781,600.

Management currently considers all other accounts receivable to be fully collectible.

Note 5. Fair Value

Effective August 1, 2008, we adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). In February 2008, the FASB issued FASB Staff Position ("FSP") No. SFAS 157-2, "Effective Date of FASB Statement No. 157," which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. As a result, we only partially adopted SFAS 157 as it relates to our financial assets and liabilities until we are required to apply this pronouncement to our non-financial assets and liabilities beginning with fiscal year 2010. The adoption of SFAS 157 did not have a material impact on our consolidated results of operations or financial condition.

In October 2008, the FASB issued FSP No. SFAS 157-3 "Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active" ("FSP SFAS 157-3"). FSP SFAS 157-3 clarifies the application of SFAS No. 157, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP SFAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP SFAS 157-3 had no impact on our consolidated results of operations, financial position or cash flows.

SFAS 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- 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.

The following table represents our fair value hierarchy for our financial assets (cash, cash equivalents and short-term investments) measured at fair value on a recurring basis as of April 30, 2009:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 1,377	—	—$	1,377
Total	$ 1,377	$ —$	—$	1,377

Note 6. Other Equity and Common Stock Transactions

We paid no cash dividends during any of the periods presented, and have never paid cash dividends.

In August 2008, we received an aggregate of $150,000 from the exercise of non-employee options to purchase 50,000 shares of our common stock at an exercise price of $3.00, and received $15,079 from the exercise of options to purchase 28,450 shares of our common stock by two officers, at an average exercise price of $0.53.

In September 2008, we entered into a one year consulting agreement with an independent third party for intellectual property legal services, the compensation being a fee of $11,000 per month and an option to purchase 25,000 shares of our common stock which vests in equal increments bi-annually over a two year period. The options, which have an exercise price of $4.41, were valued at $59,745 using the Black-Scholes Option Pricing Model, assuming no dividend yield, volatility of 103.18% and a risk free interest rate of 2.00%. During the three month period ended October 31, 2008 we expensed $4,979 of the options fair value to research and development. The options will be revalued quarterly until fully vested with any change to fair value expensed.

In October 2008, we issued 10,000 shares in exchange for consulting services, valued at $24,600 based on the market price of $2.46 per share. In addition, there was a net exercise by one of our directors of 165,000 options that resulted in the issuance of 133,430 shares of our common stock. Furthermore, during the three months ended October 31, 2008 we recorded $57,412 of employee stock option expense.

In December 2008, we received $631,600 from the exercise of options to purchase 339,800 shares of our common stock by one of our directors, at an average exercise price of $1.86. In the same month, there were net exercises by two of our officers on 444,531 options that resulted in the issuance of 371,583 shares of our common stock.

In January 2009, we received $79,500 from a director for the exercise of options to purchase 150,000 shares of our common stock at an exercise price of $0.53; and received $18,000 from the same director for the exercise of common stock warrants to purchase 36,000 shares of our common stock at an exercise price of $0.50. Furthermore, we issued 10,000 shares in exchange for consulting services, valued at $34,000, and recorded $64,032 of employee stock option expense.

During the three month period ended April 30, 2009 there was a net exercise by one of our directors of 150,000 options that resulted in the issuance of 106,126 shares of our common stock. During the three month period, we also recorded $96,677 of employee stock option expense.

At April 30, 2009, we had outstanding warrants to purchase 844,351 shares of our common stock with exercise prices ranging from $2.56 to $8.60. These warrants expire at various times between March 2011 and October 2012.

Note 7. Stock-Based Compensation

We have, or have had during the fiscal years presented herein, the following equity incentive plans (the “Plans”) pursuant to which we have granted options to acquire our common stock: the 1998 Directors and Officers Stock Option Plan; the 2001 Directors and Officers Stock Option Plan: the 2001 ETIH2O Stock Option Plan; the 2001 Consultants and Advisors Stock Option Plan; the 2002 Non-Qualified Stock Option Plan; the 2002 Employee Incentive Stock Option Plan; the 2004 Consultants and Advisors Stock Option Plan; and the 2007 Equity Incentive Plan. The Plans are administered by the Compensation Committee of the Board of Directors (the “Compensation Committee”). The exercise price for stock options, or the value of other incentive grants granted under the Plans, are set by the Compensation Committee but may not be for less than the fair market value of the shares on the date the award is granted. The period in which options can be exercised is set by the Compensation Committee but is not to exceed five years from the date of grant.

On August 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), Share-Based Payment (“SFAS123(R)”), requiring us to recognize expense related to the fair value of share-based compensation awards to employees and directors. We elected to use the modified-prospective-transition method as permitted by SFAS 123R and therefore have not restated our financial results for prior fiscal years. We recognize compensation expense for stock option awards on a straight-line basis over the applicable service period of the award. The service period is generally the vesting period, with the exception of options granted subject to a consulting agreement, whereby the option vesting period and the service period defined pursuant to the terms of the consulting agreement may be different. Share-based compensation expense for awards granted subsequent to July 31, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R, using the Black-Scholes Option Pricing Model. The following methodology and assumptions were used to calculate share based compensation for the nine month periods ended April 30, 2009 and 2008:

	For the nine month periods ended April 30,	
	2009	2008

Expected price volatility	97.70%-142.02%	66.10% - 117.58%
Risk-free interest rate	0.25%-2.00%	2.25% - 5.25%
Expected rate of forfeiture	0.0%	0.0%
Expected dividend yield	0.0%	0.0%
Weighted average expected term	2.8 years	2.0 years

Expected price volatility is the measure by which our stock price is expected to fluctuate during the expected term of an option. Expected volatility is derived from the historical daily change in the market price of our common stock, as we believe that historical volatility is the best indicator of future volatility. For stock options granted subsequent to July 31, 2006, we have excluded the period prior to November 1, 2005 from our historical price volatility, as during this period our market price reflected significant uncertainty associated with both our arbitration proceedings against Falken Industries and our ability to close the sale of the assets of the Water Treatment Division. We believe that the volatility of the market price of our common stock during periods prior to November 1, 2005 is not reflective of future expected volatility.

Following the guidance of Staff Accounting Bulletin No. 107 (“SAB 107”), we have been following the “Simplified Method” to determine the expected term of “Plain Vanilla” options issued to employees and directors. All of our outstanding options granted to employees and directors are Plain Vanilla options. Under the Simplified Method, the expected term is presumed to be the mid-point between the vesting date and the end of the contractual term. In SAB 107, the Staff stated that it would not expect a company to use the Simplified Method for share option grants after December 31, 2007, however on December 21, 2007, the SEC published Staff Accounting Bulletin No. 110 (“SAB 110”), which expressed the views of the Staff regarding the continued use of a Simplified Method in certain circumstances where a company is unable to rely on historical data. We are unable to rely on our historical exercise data as there have been only a limited number of option exercises in recent periods; there have been a limited number of plan participants which is expected to grow; our common stock was traded until April 2008 on the illiquid Bulletin Board but our common stock is now listed on the NASDAQ Capital Market; we have had over recent years significant trading blackout periods for employees and directors; there has been minimal employee and director turnover; we have recently changed the terms of employee stock option grants to reduce the term of such grants; there are no comparable companies in terms of size, location and industry (particularly as we are developing a platform technology and operate in multiple industries); and we have had significant structural changes in our business including the sale of the Water Treatment Division and abandonment of our Triglycylboride technology, and expect to continue to change in the foreseeable future. We are therefore, under the guidance of SAB 110, continuing to use the Simplified Method to determine the expected term of options issued to employees and directors, but will continually evaluate our historical data as a basis for determining the expected terms of such options.

Our estimation of the expected term for stock options granted to parties other than employees or directors is the contractual term of the option award.

For the purposes of estimating the fair value of stock option awards, the risk-free interest rate used in the Black-Scholes calculation is based on the prevailing U.S. Treasury yield as determined by the U.S. Federal Reserve. We have never paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future.

Stock-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest, reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Historically, we have not had significant forfeitures of unvested stock options granted to employees and directors. A significant number of our stock option grants are fully vested at issuance or have short vesting provisions. Therefore, we have estimated the forfeiture rate of our outstanding stock options as zero, but will continually evaluate our historical data as a basis for determining expected forfeitures.

The following table sets forth the share-based compensation expense recorded in our consolidated statements of operations for the three and nine month periods ended April 30, 2009 and 2008 resulting from share-based compensation awarded to our employees, directors and third party service providers:

	Three Months Ended April 30, 2009	Three Months Ended April 30, 2008
Share-based compensation for employees and directors:		
Selling expense	$ -	$ 98,784
General and administrative expenses	96,677	1,179,108
Research and development	-	148,176
Total share-based compensation for employees and directors	96,677	1,426,068
Share-based compensation for third party service providers:		
Selling expense	$ -	$ -
General and administrative expenses	-	-
Research and development	647	-
Total share-based compensation for third party service providers	647	-
Total share-based compensation expense	$ 97,324	$ 1,426,068

	Nine Months Ended April 30, 2009	Nine Months Ended April 30, 2008
Share-based compensation for employees and directors:		
Selling expense	$ -	$ 98,784
General and administrative expenses	218,123	1,579,762
Research and development	-	148,176
Total share-based compensation for employees and directors	218,123	1,826,722

Share-based compensation for third party service providers:		
Selling expense	$ -	$ 51,736
General and administrative expenses	58,600	43,750
Research and development	6,328	-
Total share-based compensation for third party service providers	64,928	95,486
Total share-based compensation expense	$ 283,051	$ 1,922,208

A summary of stock option activity is as follows:

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value ($000's)
Balance at July 31, 2008	7,442,447	$ 1.62	
Granted	35,000	$ 4.41	
Exercised	(211,880)	$ 1.11	
Forfeited / Cancelled	(131,570)	$ 0.74	
Balance at October 31, 2008	7,133,997	$ 1.67	$ 14,152
Granted	75,000	$ 3.08	
Exercised	(861,383)	$ 1.05	
Forfeited / Cancelled	(445,148)	$ 2.63	
Balance at January 31, 2009	5,902,466	$ 1.73	$ 7,190
Granted	60,000	$ 2.27	
Exercised	(106,126)	$ 0.53	
Forfeited / Cancelled	(43,874)	$ 0.53	
Balance at April 30, 2009	5,812,466	$ 1.77	$ 4,390

	Outstanding			Exercisable		
Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
$ 0.50 to $0.75	1,620,000	1.01	$ 0.53	1,620,000	1.01	$ 0.53
$ 0.80 to $1.20	729,166	1.57	$ 0.81	729,166	1.57	$ 0.81
$ 1.50 to $7.50	3,463,300	2.08	$ 2.55	3,233,725	2.07	$ 2.42
	5,812,466	1.72	$ 1.77	5,582,891	1.70	$ 1.66

Cash received from options and warrants exercised for the three month periods ended April 30, 2009 and 2008 was zero and $1,033,619, respectively. The intrinsic value of all options exercised during the three month periods ended April 30, 2009 and 2008 was $163,434 and $5,219,189, respectively, and the weighted-average grant date fair value of equity options granted during the three month periods ended April 30, 2009 and 2008 was $1.74 and $3.22, respectively.

Cash received from options and warrants exercised during the nine month periods ended April 30, 2009 and 2008 was $894,179 and $1,800,119, respectively. The intrinsic value of all options exercised during the nine month periods

ended April 30, 2009 and 2008 was $2,000,774 and $11,841,865, respectively, and the weighted-average grant date fair value of equity options granted during the nine month periods ended April 30, 2009 and 2008 was $1.80 and $3.05, respectively.

As of April 30, 2009, there was $366,651 of unrecognized non-cash compensation cost related to unvested options, which will be recognized over a weighted average period of 1.2 years.

Note 8. Inventory

Inventories are stated at the lower of cost or net realizable value using the average cost method. Inventories at April 30, 2009 and July 31, 2008 consisted of:

	April 30, 2009	July 31, 2008
Raw Materials	$ 221,444	$ 252,491
Work in Progress	-	-
Finished Goods	221,274	117,552
	$ 442,718	$ 370,043

Note 9. Business Segment and Sales Concentrations

In accordance with the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"), certain information may be disclosed based on the way we organize financial information for making operating decisions and assessing performance. SFAS 131 requires that we apply standards based on a management approach, and requires segmentation based upon our internal organization and disclosure of revenue and operating income based upon internal accounting methods. In determining operating segments, we have reviewed the current management structure reporting to the chief operating decision-maker ("CODM") and analyzed the reporting the CODM receives to allocate resources and measure performance.

We have determined that based upon the end use of our products, the value added contributions made by us, the regulatory requirements, the customers and partners, and the strategy required to successfully market finished products, we are operating in a single segment.

Our customers are strategic partners who are developing markets for, and distributors who sell, products containing our SDC technology. During the three month period ended April 30, 2009, 92% of product sales were made to three strategic partners that are also developing markets for our products. During the nine month period ended April 30, 2009, 85% of product sales were made to five such strategic partners. 100% of revenue from product sales for the nine month period ended April 30, 2009 was derived from sales made to U.S. domestic customers.

In some cases we have, or may have in future periods, distributors or strategic partners to whom we have granted rights to sell our technology in multiple countries. Generally, we do not require such distributors to report to us the quantities of products that they sell in each country. In such cases, we report revenues based on the country of first sale or delivery.

During the three month period ended April 30, 2009, 63% of our product sales were of bulk SDC concentrate, and 37% of our product sales were of bulk Axen30 or finished packaged products containing Axen 30, our ready to use product. During the same period of the prior year, 92% of our product sales were of bulk SDC concentrate and 8% of our product sales were of bulk Axen30 or finished packaged products containing Axen 30.

During the nine month period ended April 30, 2009, 35% of our product sales were of bulk SDC concentrate and 65% of our product sales were of bulk Axen30 or finished packaged products containing Axen 30. During the same period of the prior year, 79% of our product sales were of bulk SDC concentrate and 21% of our product sales were of bulk Axen30 or finished packaged products containing Axen 30.

All of our tangible assets are located in the United States.

Note 10. Subsequent Events

On May 28, 2009 we closed a registered direct offering whereby we sold $3 million of our common stock and warrants to institutional investors. A shelf registration statement relating to the securities sold in the offering was declared effective by the Securities and Exchange Commission on May 8, 2009.

Under the terms of the offering, we issued to the investors 1,418,441 shares of common stock, and warrants to purchase 496,452 shares of our common stock. The common stock was sold at a price of $2.115 per share, and the investors received warrants to purchase 0.35 shares of common stock at an exercise price of $2.37 per share for each share of common stock they purchased in the offering. The warrants were exercisable as of May 27, 2009 and will expire five years from that date.

In addition we paid a fee of $180,000 to Axiom Capital Management, Inc. (“Axiom”) in consideration for its services as the placement agent in the offering. We also issued to Axiom and its principals, warrants to purchase 70,922 shares of our common stock at an exercise price of $2.64 per share. These warrants were exercisable as of May 27, 2009 and will expire five years from that date.

After fees and expenses, the net proceeds of the offering to us are expected to be approximately $2.79 million. The net proceeds from the offering will be used for working capital.

In May 2009, we issued an aggregate of 86,800 shares of restricted stock to four of our independent directors, and a five year option to purchase 30,000 shares at an exercise price of $2.34 per share, to one of our independent directors. The options and the restricted shares vest after one year. In addition, we issued options to purchase an aggregate of 360,000 shares at an exercise price of $2.34 per share, to our three executive officers. These options have a five year term and vest annually in equal increments over four years.

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

This report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We are under no obligation to update any of the forward-looking statements after the filing of this Quarterly Report on Form 10-Q to conform such statements to actual results or to changes in our expectations.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this Quarterly Report. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made in Item 1A of Part II of this Quarterly Report under the Caption "Risk Factors" and in our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2008, previously filed with the Securities and Exchange Commission ("SEC").

Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to: our limited operating history; our history of losses; our future capital needs; the rapidly changing technologies and market demands; the failure of our products to achieve broad acceptance; our failure to successfully compete; our dependence on a single product; our failure to comply with government regulation; the loss of a key member of our management team; our failure to protect our intellectual property; our exposure to intellectual property and product liability claims; changes in government policies and other risks identified in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Overview

PURE Bioscience (sometimes referred to herein as the "Company" or "we") was incorporated in the state of California on August 24, 1992. We began as a provider of pharmaceutical water purification products. We now focus on markets that we believe have broader potential by developing new, proprietary bioscience products based upon our patented silver ion antimicrobial technologies. We are developing technology-based bioscience products, including our silver dihydrogen citrate-based antimicrobials, which we believe have the potential to provide best in class, non-toxic solutions to numerous global health challenges and represent innovative advances in diverse markets. We believe that our technologies are in a position to contribute significantly to today's global trend toward industrial and consumer use of "green" products, while providing competitive advantages in efficacy and safety.

Bioscience Technologies

Our flagship bioscience technology is an aqueous disinfectant, silver dihydrogen citrate ("SDC"). A patented new molecular entity, SDC is an electrolytically generated source of stabilized ionic silver that can serve as the basis for a broad range of products in diverse markets. SDC liquid is colorless, odorless, tasteless, non-caustic and formulates well with other compounds. As a platform technology, our SDC-based antimicrobial is distinguished from competitors

in the marketplace because of its superior efficacy combined with reduced toxicity. We are producing and plan to expand the production of pre-formulated, ready-to-use products for private label distribution, as well as varying strengths of SDC concentrate as an additive or raw material for inclusion in other companies' products, including as an active pharmaceutical ingredient. In addition to SDC, we have obtained patent protection for ionic silver-based molecular entities utilizing 14 organic acids other than citric acid.

We also own certain rights to a patent-pending pesticide technology, Triglycylboride™ which, like SDC, provides effective results without human toxicity and is an alternative to traditional poisons. Triglycylboride has been formulated into our Environmental Protection Agency ("EPA") registered RoachX® and AntX™ products, though these products are not currently being actively marketed or developed.

Sources of Revenue

Our principal sources of revenue are comprised of sales of SDC concentrate as well as both bulk and individually bottled SDC-based hard surface disinfectant. SDC concentrate is sold to distributors that either resell the concentrate as an active ingredient or preservative in other companies' products, or blend the product into hard surface disinfectant products for sale to retail, commercial and institutional customers. SDC-based hard surface disinfectant is sold in bulk and as individually bottled products to distributors that in turn sell the product to retail, commercial and institutional customers. In addition to sales of SDC concentrate and finished goods, we anticipate generating additional revenues from licensing and royalty arrangements in future periods.

Because the development of our SDC technology is at an early stage of development and commercialization, it is difficult to predict our revenues. Our historical revenues have fluctuated from period to period based on factors that include, but are not limited to, the timing of regulatory approvals regarding ours and our partners' products containing SDC; the timing of product launches by both our strategic partners and, in some cases, their customers and partners; the timing of our entry into new strategic agreements, and the quantities of our products required by our partners to effect new research programs and product launches.

For example, for the nine month period ended April 30, 2009 we reported revenues from product sales of $275,300, compared with revenue from product sales in the three month period ended July 31, 2008 of $823,300. The majority of sales for the three month period ended July 31, 2008 were made to two international distributors. We have not recognized any revenue related to these distributors in the nine month period ended April 30, 2009.

In future periods, we expect our revenues to continue to fluctuate. In some cases, such as under our agreement with Ciba, we will not be aware of the launch of products containing SDC until they are available to end-users. In February 2009 the first name brand personal care products containing SDC as the active ingredient were launched in Europe by a customer of Ciba. Notwithstanding that we sold the SDC used as an active ingredient in the product, we were not able to anticipate this launch due to the contractual rights of Ciba's customer.

Cost of Revenues and Operating Expenses

Costs of Revenue. Costs of product revenue include materials consumed, manufacturing overheads, shipping costs, salaries, benefits and related expenses of operations. Gross profit on product sales represents net revenue less the costs of revenue. Gross profit percentage is highly dependent on pricing, contractual agreements, and overhead allocations. We do not believe that historical gross profit margins on product sales are a reliable indicator of future gross profit margins.

During the three month period ended January 31, 2009 we recorded $250,000 of licensing revenue on the expiration of an agreement whereby we allowed a third party a limited time period to exclusively evaluate our SDC technology. Cost of goods sold related to this revenue was zero, as we did not incur any costs directly related to our commitments under the agreement.

Selling and Marketing. Selling and marketing expenses consist primarily of salaries, commissions and related expenses for personnel engaged in marketing, sales, public relations and advertising, along with promotional and trade show costs and travel expenses. Sales and marketing expenses also include share-based compensation allocable to personnel performing services related to sales and marketing.

General and Administrative. General and administrative expenses include salaries and related expenses for personnel engaged in finance, human resources, insurance, information technology, administrative activities and legal and accounting fees. General and administrative expenses also include share-based compensation allocable to personnel performing general and administrative services.

Research and Development. Research and development costs include in-house costs, patent amortization, outside legal costs for maintaining issued patents, and product registration expenditures. We do not currently expect our research and development expense to grow significantly in future periods, however if opportunities arise, particularly in the development and testing of new formulations, we will evaluate the need for additional research expenditures based on potential market sizes and our estimation of the likelihood of our technology achieving successful results.

Critical Accounting Policies

Accounting for Long-Lived Assets / Intangible Assets
We assess the impairment of long-lived assets, consisting of property, plant, equipment and finite-lived intangible assets, whenever events or circumstances indicate that the carrying value may not be recoverable. Examples of such events or circumstances include:

- An asset's ability to continue to generate income from operations and positive cash flow in future periods;

- Loss of legal ownership or title to an asset;

- Significant changes in our strategic business objectives and utilization of the asset(s); and

- The impact of significant negative industry or economic trends.

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, requires 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 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 technologies. 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.

Accounting for Stock-Based Compensation

We adopted the fair value provisions of SFAS 123(R) on August 1, 2006. Stock-based compensation expense for all stock-based compensation awards granted after August 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Specifically, we estimate the weighted-average fair value of options granted using the Black-Scholes Option Pricing Model based on evaluation assumptions regarding expected volatility, dividend yield, risk-free interest rates, the expected term of the option and the expected forfeiture rate. Each of these assumptions, while reasonable, requires a certain degree of judgment and the fair value estimates could vary if the actual results are materially different than those initially applied. Prior to the adoption of SFAS 123(R), we were not required to record compensation cost in the consolidated financial statements for stock options issued to employees or directors.

Results of Operations for the Three Months Ended April 30, 2009 vs. Three Months Ended April 30, 2008

Revenue and Gross Margin

For the three month period ended April 30, 2009 (the "Third Quarter"), product revenues of $129,900 declined by $286,600, or 69%, compared with the three months ended April 30, 2008. The decrease is primarily due to new customers who made initial purchases in the prior year period but did not order product in the current period. Product revenues for each of the quarters presented were derived from sales of finished products to our partners and distributors, and product provided to our partners for product development and testing. 92% of product sales for the Third Quarter were made to three strategic partners and distributors that are pursuing regulatory approvals and developing markets for our products. 100% of product sales for the Third Quarter were made to U.S. domestic customers, compared with 42% in the same period of the prior year.

Gross profit on product sales for the Third Quarter was $69,300, compared with $322,600 in the same period of the prior fiscal year. The gross margin percentage declined from 77% in the prior fiscal year to 53% in the current period. The decline is primarily due to an increased proportion of lower margin products sold in the most recent period. During the three month period ended April 30, 2009, 63% of our product sales were of bulk SDC concentrate, and 37% of our product sales were of bulk Axen30 or finished packaged products containing Axen 30, our ready to use product. During the same period of the prior year, 92% of our product sales were of bulk SDC concentrate and 8% of our product sales were of bulk Axen30 or finished packaged products containing Axen 30. We generally sell our SDC bulk concentrate at higher margins than our ready to use products.

Operating Costs

Operating costs declined by $1,260,200, from $2,895,000 in the three months ended April 30, 2008, to $1,634,800 in the Third Quarter. Within these aggregate operating costs, selling expenses declined by $147,200 to $179,900 in the Third Quarter compared with the same period in the prior fiscal year. The decrease in selling expenses is primarily due to $169,900 of employee and consultant stock option expense recorded in the prior year period, which was partially offset by additional salary expense in the Third Quarter of the current year.

General and administrative expense declined by $853,900 to $1,142,700 in the Third Quarter, compared with the three months ended April 30, 2008. The decrease in general and administrative expense is primarily due to $1.1 million of stock and stock option expense recorded in the prior year period. In April 2008, we granted options, which vested on the date of grant, to purchase 275,000 shares of common stock to directors and officers of the Company, valued at approximately $906,000. We also granted 30,000 shares of common stock to each of three independent directors of the Company, the aggregate of 90,000 shares being valued at $463,500. $1,123,000 of the expense for these option and stock grants was booked to general and administrative expense in the three month period ended April 30, 2008. The decline in stock and stock option expense in the Third Quarter was partially offset by an increase in legal fees of $165,300, primarily related to the protection of our intellectual property and in compliance costs, including legal advice related to the filing of our shelf registration statement.

Research and development costs, including in-house costs, patent amortization, outside legal costs for maintaining approved patents, and product registration expenditures, declined by $259,100, from $571,400 in the three months ended April 30, 2008 to $312,300 in the Third Quarter. The decline in expense is primarily related to reduced stock option expense and reduced patent related legal fees. We do not currently expect our research and development expense to grow significantly in future periods; however, if opportunities arise, particularly in the development and testing of new formulations, we will evaluate the need for additional research expenditures based on potential market sizes and our estimation of the likelihood of our technology achieving successful results.

Our loss from operations before taxes declined by $1,006,800 from a loss of $2,572,300 for the three months ended April 30, 2008 to a loss of $1,565,500 for the Third Quarter.

Other Income

Other income declined by $86,000 in the Third Quarter compared to the same period of the prior fiscal year, due primarily to gains on the sale of T-bills recorded in the prior year, and decreased interest income from lower average cash balances and lower interest rates.

Net Income (Loss)

Our net loss after taxes declined by $920,800 from a net loss of $2,466,400 for the three months ended April 30, 2008 to a net loss of $1,545,600 for the Third Quarter.

Results of Operations for the Nine Months Ended April 30, 2009 vs. Nine Months Ended April 30, 2008

Revenue and Gross Margin

For the nine months ended April 30, 2009, product revenues of $275,300 declined by $388,900 or 59%, compared with the nine months ended April 30, 2008. The decrease is primarily due to new customers who made initial purchases in the nine month period ended April 30, 2008 but did not order product in the current period. Product revenues for each of the nine month periods presented was derived from sales of finished products to our partners and distributors, and product provided to our partners for product development and testing. 85% of product sales for the nine months ended April 30, 2009 were made to three strategic partners and distributors that are pursuing regulatory approvals and developing markets for our products. 100% of product sales for the nine months ended April 30, 2009 were made to U.S. domestic customers, compared with 64% in the same period of the prior year.

Gross profit on product sales for the nine months ended April 30, 2009 was 144,100, compared with $488,200 in the same period of the prior fiscal year. The gross margin percentage declined from 73% in the prior year to 52% in the current period, primarily due to an increased proportion of lower margin products sold in the most recent period. During the nine month period ended April 30, 2009, 35% of our product sales were of bulk SDC concentrate and 65% of our product sales were of bulk Axen30 or finished packaged products containing Axen 30. During the same period of the prior year, 79% of our product sales were of bulk SDC concentrate and 21% of our product sales were of bulk Axen30 or finished packaged products containing Axen 30. We generally sell our SDC bulk concentrate at higher margins than our ready to use products. The decline in overall gross margin caused by the increased proportion of lower margin products in the most recent period was partially offset by efficiencies gained in our in-house manufacturing and bottling operations.

During the three month period ended July 31, 2008 we recorded deferred revenue on receipt of a non-refundable fee of $250,000 which we received subject to an agreement whereby we allowed a third party a limited time period to exclusively evaluate our SDC technology for use within specified indications and for certain products. Upon the termination of the agreement on January 31, 2009, we recognized the $250,000 as licensing revenue in the consolidated statements of operations for the three month period ended January 31, 2009. This amount is included in other revenues for the nine month period ended April 30, 2009. Cost of goods sold related to this revenue was zero, as we did not incur any costs directly related to our commitments under the agreement.

Operating Costs

Operating costs increased by 3%, from $5,659,000 in the nine months ended April 30, 2008, to $5,833,700 in the nine months ended April 30, 2009. Within these aggregate operating costs, selling expenses declined by $104,800 in the current period compared with the same period in the prior fiscal year. The decrease in selling expenses is primarily due to $338,200 of employee and consultant stock option expense recorded in the prior year period, which was partially offset by additional salary expense in the nine months ended July 31, 2009.

General and administrative expenses increased by $389,200 or 10%, to $4,263,441 in the nine months ended April 30, 2009, compared with the nine months ended April 30, 2008. Included in general and administrative expense for the nine months ended April 30, 2009 is $781,600 of expense related to an allowance for doubtful accounts. This amount is made up of amounts billed during prior periods to two international distributors. During the year ended July 31, 2008 we granted non-exclusive distribution and blending rights to a new distributor for the sale of SDC-based products in Colombia. In addition, we granted non-exclusive distribution and blending rights to a second distributor, which is affiliated with the first distributor, for the sale of SDC-based products in Argentina, Venezuela, Panama and Costa Rica. The $781,600 receivable includes $57,000 for amounts billed at cost to the distributors in August 2008 for parts shipped directly to them by one of our U.S. packaging suppliers. Subsequent to this transaction, we have not sold any products to either of the two referenced distributors.

During the three month period ended January 31, 2009 we determined these accounts to be delinquent. We therefore established a full reserve and recorded $781,600 as bad debt expense, which is recorded within general and administrative expense in the consolidated statements of operations for the nine months ended April 30, 2009. Management currently considers all other accounts receivable to be fully collectible.

This increase in expense was offset by a decline of $1.4 million in stock and stock option expense within general and administrative expense, the most significant factor being $1.1 million of stock and stock option expense recorded in the three months ended April 30, 2009. In April 2008, we granted options, which vested on the date of grant, to purchase 275,000 shares of common stock to directors and officers of the Company, valued at approximately $906,000. We also granted 30,000 shares of common stock to each of three independent directors of the Company, the aggregate of 90,000 shares being valued at $463,500. $1,123,000 of the expense for these option and stock grants was booked to general and administrative expense in the three month period ended April 30, 2008. No corresponding grants were made to officers and directors during the nine months ended April 30, 2009. We recognized employee and director stock option non-cash expense in general and administrative expenses for the nine months ended April 30, 2009 of $218,100 and for the nine months ended April 30, 2008 of $1,579,800.

General and administrative payroll expense increased by $250,700 year over year due to new hires and salary increases, and accounting and legal fees increased by $420,000. Additionally, insurance, depreciation, rent, and board of director fees accounted for $263,300 of the increase in general and administrative expense for the nine months ended April 30, 2009 compared with the nine months ended April 30, 2008.

Research and development costs, including in-house costs, patent amortization, outside legal costs for maintaining approved patents, and product registration expenditures, decreased in the nine month period ended April 30, 2009 by 9% to $1,053,200, compared with the same period in the prior fiscal year. The decline in expense is primarily related to a decline of $128,000 in patent related legal fees and a decline of $141,800 in employee and director stock option expense. These decreases were partially offset by increases in payroll and in third-party testing costs. We do not currently expect our research and development expense to grow significantly in future periods, however if opportunities arise, particularly in the development and testing of new formulations, we will evaluate the need for additional research expenditures based on potential market sizes and our estimation of the likelihood of our technology achieving successful results.

Our loss from operations before taxes increased by $268,800, from a loss of $5,171,000 for the nine months ended April 30, 2008 to a loss of $5,439,600 for the nine months ended April 30, 2009.

Other Income

Other income declined by $73,000 in the current nine month period compared to the same period of the prior fiscal year, due primarily to gains on the sale of T-bills recorded in the prior year, and decreased interest income from lower average cash balances and lower interest rates.

Net Income (Loss)

Our net loss after taxes increased by $341,900, from a net loss of $5,028,800 for the nine months ended April 30, 2008 to a net loss of $5,370,700 for the nine months ended April 30, 2009.

Liquidity and Capital Resources

From inception through the present, we have financed our operations primarily through sales of our equity securities, through lines of credit and the issuance of debentures, and in May 2005 by the sale of our Water Treatment Division.

At April 30, 2009, we had cash and cash equivalents of $2,946,000, and no short-term investments. We have no long-term debt. On May 27, 2009 we closed a registered direct offering whereby we sold $3 million of our common stock and warrants to institutional investors. After fees and expenses, the net proceeds of the offering to us are expected to be approximately $2.79 million.

Our cash and equivalents at April 30, 2009 represented a decline in cash, cash equivalents and short-term investments of $3,686,300 from July 31, 2008. Our cash outflows could be greater in future periods. We had a loss of $5,370,700 after taxes for the nine month period ended January 31, 2009, a loss of $6,540,300 after taxes for the fiscal year ended July 31, 2008, and a loss of $4,654,900 after taxes for the fiscal year ended July 31, 2007. As of April 30, 2009, we had an accumulated deficit of approximately $ 36.8 million.

Our future capital needs and our future profits, if any, are uncertain, and will depend on many factors including, among others, the acceptance of, and demand for, our products; the success of strategic partners in selling our products; our success and the success of strategic partners in obtaining regulatory approvals to sell our products; the costs of further developing our existing, and developing new, products or technologies; the extent to which we invest in new technology and product development; and the costs associated with the continued operation, and any future growth, of our business.

Many of the factors determining our future profitability and capital needs are outside our control. We rely on third parties to market and distribute our products. Our partners and distributors are marketing our novel antimicrobial silver ion technology to industrial and consumer markets, however these products have not yet been widely accepted into the marketplace. In most cases, regulatory approvals are required, in the United States and overseas, before products can be sold.

We have entered into distribution agreements with multiple distributors in the United States to market our EPA-approved hard surface disinfectant under their own labels, and a number of such products have recently been launched, or are expected to be launched in future periods. As our disinfectant contains a novel, patented molecule, the market adoption of such products can take significantly longer than for a reformulation of a product under an existing brand name. However, we are hopeful that our distributors will be successful in achieving market acceptance of our products as a result of the novel selling points of SDC, such as its broad spectrum efficacy, low toxicity and lack of evidence of pathogenic resistance.

We have a strategic agreement with Ciba, whereby we have granted Ciba the right to resell our SDC concentrate within the global personal care, household and institutional markets. In February 2009, the first name brand personal care products containing SDC as the active ingredient were launched in Europe by a customer of Ciba. We expect other such product launches in future periods through our relationship with Ciba. Additionally, we have a strategic agreement with Rockline Industries that we expect will lead to the sale of wet wipes containing our SDC technology, subsequent to U.S. EPA approval.

We also have other pending EPA applications, for additional uses and for new formulations, the approval of which we believe are likely to lead to enhanced sales of SDC. SDC is currently in various trials by third parties in the transportation and agriculture industries, both of which we consider to be significant market opportunities. While we cannot predict the timing or scale of any of these opportunities, and we are competing in highly competitive markets, we believe that our SDC technology has significant advantages over existing technologies.

To date, with the exception of Ciba and Rockline, our partners have been, and are, small distributors to whom we have granted primarily non-exclusive rights to market our EPA approved hard surface disinfectant known generically as Axen 30, and sold under multiple brand names owned by the distributors.

With our relationships with Ciba and Rockline, we expect our technology to be used in multiple products being marketed by our partners' customers. Ciba's customers include many global, well established corporations with powerful existing brands. Rockline's customers include many large retail chains that look to Rockline to produce store brand products, among other products.

We continue to develop new products and formulations utilizing our SDC technology. If we are successful, potential products may include cleaner disinfectants, field dilutable disinfectants and sanitizers, hospital grade disinfectants and sporicides, cold process sterilants, medical device applications, and sanitizers approved for food processing environments. If we are successful in developing any such new formulations, we expect be able to attract additional established partners and distributors of our technology.

We are working with U.S. universities to test our technology in new environments, and we expect FTA Therapeutics, our partner for the development and commercialization of certain FDA regulated SDC-based products, to work in conjunction with medical establishments in the U.S. and overseas.

Our existing cash resources will not be sufficient to fund our planned activities, and in future periods we expect to seek additional capital through the issuance of common stock, preferred stock, convertible securities or through other means. Such sources of new capital may not be available on terms acceptable to us, or at all. If we, or our distributors, are unable to establish SDC in the marketplace, or if we cannot raise additional capital on acceptable terms, we may need to scale back our expenditures through reductions in our workforce and operations, and we may not be able to develop or enhance our products, execute our business plan, or take advantage of future opportunities. If we were unable to scale back the size and scope of our operations sufficiently, we would have to cease operations altogether.

Total current assets at April 30, 2009 were $3,514,500, a decrease of $4,375,100 from July 31, 2008. Cash used in operating activities for the nine months ended April 30, 2009 was $4,436,200, compared with $3,168,800 for the same nine month period of the prior fiscal year. The increase in operating cash expenditures is primarily a result of increased general and administrative expenses including payroll, insurance, legal fees and professional services, and research and development expenses. The value of our raw materials and finished goods inventory grew by $72,700 over the same period, primarily due to the purchase of raw materials for our concentrate manufacturing and our bottling processes. In addition, prepaid expenses increased by $49,300 from July 31, 2008 to April 30, 2009.

During the nine months ended April 30, 2009, cash provided by investing activities was $4,463,700. Of this amount, a net amount (cash sales less cash purchases) of $4,589,300 was provided by short-term investments. In addition, during the nine months ended April 30, 2009 we invested $52,600 in patents, however the capitalized value of our patents at April 30, 2009 declined by $75,900 from July 31, 2008 due to an excess of patent amortization over capitalization. Total property, plant and equipment at April 30, 2009, of $906,200, declined by $128,600 from July 31, 2008, due to an excess of depreciation over new asset acquisitions. Our purchases of property, plant and equipment for the nine month period ended April 30, 2009 were $73,000.

Total cash inflows from financing activities for the nine months ended April 30, 2009 were $894,200, all of which was derived from proceeds from the exercise of stock options and warrants. In August 2008, we received an aggregate of $150,000 from the exercise of non-employee options to purchase 50,000 shares of our common stock at an exercise price of $3.00, and received $15,100 from the exercise of options to purchase 28,450 shares of our common stock by two officers, at an average exercise price of $0.53. In December 2008, we received an aggregate of $631,600 from a director for the exercise of options to purchase 339,800 shares of our common stock at an average exercise price of $1.86. In January 2009, we received $79,500 from a director for the exercise of options to purchase 150,000 shares of our common stock at an exercise price of $0.53; and received $18,000 from the same director for

the exercise of common stock warrants to purchase 36,000 shares of our common stock at an exercise price of $0.50.

Net accounts receivable declined by $810,800 from July 31, 2008 to April 30, 2009. During the three month period ended January 31, 2009 we recorded an allowance for doubtful accounts of $781,600 related to amounts billed in prior periods to two international distributors.

At April 30, 2009, we had current liabilities of $610,500, a decline of $371,000 from July 31, 2008, primarily due to a decline in accounts payable of $214,900 and a decline of $256,800 in deferred revenue. In the Second Quarter of 2009, we recognized $250,000 of licensing revenue on the consolidated statements of operations. This amount had previously been recorded as deferred revenue on receipt of a non-refundable fee.

We expect to continue to invest in our manufacturing processes, to improve efficiency and to be able to meet anticipated demand. Additionally, during the next twelve months, we anticipate making significant investments in regulatory applications for new products or additional claims, in our corporate and business development infrastructure and in programs required for us to maintain our compliance with securities laws as well as the listing standards of the NASDAQ Capital Market, among other investments. We believe, however, that our cash resources are sufficient to meet our anticipated needs during the next twelve months. Our assessment is based on historical working capital needs, operating loss trends, and our current business outlook. However, we expect that we will need additional financing and there can be no assurance that when additional financing is necessary it will be available, or if available, that such financing can be obtained on satisfactory terms or without undue dilution to, or an adverse impact on the rights of, our shareholders. If adequate funds are not available when needed, we may be required to significantly modify our business model to reduce spending to a sustainable level. Such modification of the business model could also result in an impairment of assets which cannot be determined at this time.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to interest rate risk at April 30, 2009 is related to our investment portfolio which consists largely of debt instruments and other securities of high quality corporate issuers and the U.S. government and its agencies. From time to time our investments may be exposed to market risk related to changes in interest rates. Our current investment policy is to maintain an investment portfolio consisting only of diversified institutional money market mutual funds investing in A-1 (S&P) or Prime-1 (Moody's); U.S. Treasury Securities, or United States Government obligations issued by or backed by a federal agency of the United States Government. We do not enter into investments for trading or speculative purposes, and our cash is deposited in, and invested through, highly rated financial institutions in the United States. While our available for sale securities are subject to interest rate risk and would fall in value if market interest rates increased, we estimate that the fair value of our investment portfolio would not decline by a material amount in the event of an increase in market interest rates. We therefore would not expect our operating results or cash flows to be affected to any significant degree by the effect of a change in market interest rates on our investments.

We have operated mainly in the United States, and the majority of our sales since inception have been made in U.S. dollars. Further, all of our sales to international markets have been to independent parties in transactions conducted in U.S. dollars. Accordingly, we have not had any material exposure to foreign currency rate fluctuations.

Item 4. 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 in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, who also acts as our Principal Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer/Principal Accounting Officer, of the effectiveness of the design and operation of all of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer/Principal Accounting Officer concluded that our disclosure controls and procedures were effective as of April 30, 2009.

Changes in Internal Control Over Financial Reporting

We made no changes in our internal control over financial reporting during the Third Quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

In April 2008, we obtained a default judgment of $6.53 million from the 18th Judicial Circuit Court in the State of Illinois against an internet message board poster; awarded for defamation and tortious interference. We did not record any part of the award as an asset on our consolidated balance sheets. In February 2009, the 18th Judicial Circuit Court in the State of Illinois vacated the judgment.

Item 1A. Risk Factors

Except for the historical information contained herein or incorporated by reference, this quarterly report on Form 10-Q and the information incorporated by reference contains forward-looking statements that involve risks and uncertainties. These statements include projections about our accounting and finances, plans and objectives for the future, future operating and economic performance and other statements regarding future performance. These statements are not guarantees of future performance or events. Our actual results may differ materially from those discussed here. Factors that could cause or contribute to differences in our actual results include those discussed in the following section, as well as those discussed in Part I, Item 2 entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere throughout this quarterly report on Form 10-Q and in any other documents incorporated by reference into this report. You should consider carefully the following risk factors, together with all of the other information included or incorporated in this quarterly report on Form 10-Q. Each of these risk factors, either alone or taken together, could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock. There may be additional risks that we do not presently know of or that we currently believe are immaterial which could also impair our business and financial position. If any of the events described below were to occur, our financial condition, our ability to access capital resources, our results of operations and/or our future growth prospects could be materially and adversely affected and the market price of our common stock could decline. As a result you could lose some or all of any investment you may have made or may make in our common stock.

We have a history of losses, and we may not achieve or maintain profitability

We had a loss $5,370,700 after taxes for the nine month period ended April 30, 2009, a loss of $6,540,300 after taxes for the fiscal year ended July 31, 2008, and a loss of $4,654,900 after taxes for the fiscal year ended July 31, 2007. As of April 30, 2009, we had an accumulated deficit of approximately $36.8 million. We may continue to have losses in the future. If the penetration into the marketplace of SDC is later than anticipated, revenue growth is slower than anticipated or operating expenses exceed expectations, it may take an unforeseen period of time to achieve or sustain profitability and we may never achieve or sustain profitability. Slower than anticipated revenue growth could force us to reduce research, testing, development and marketing of our technology and/or force us to reduce the size and scope of our operations, or cease operations altogether. If we do become profitable in future periods, we have an employment contract with our Chief Executive Officer and President which includes a provision for him to be paid an amount equal to 3% of our net income before taxes, if any. Such payments would reduce our profitability.

We do not yet 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 activities, and sales and marketing, among other investments. These investments may not be successful. In addition, some of these investments cannot be postponed and we may be contractually or legally obligated to make them. In future periods we may need to seek additional capital through the issuance of debt, common stock, preferred stock, convertible securities or through other means, any one of which could reduce the value, perhaps substantially, of the common stock we have issued as of the date of this Report on Form 10-Q. We currently have no long-term debt, however the issuance of debt, common stock, preferred stock, or convertible securities in future periods, if any, could lead to the dilution of our existing shareholders. There is no guarantee that we would be able to obtain capital on terms acceptable to us, or at all. Insufficient funds 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 unanticipated customer requirements, and further may require us to delay, reduce or eliminate some or all of our research and product development programs, license to third parties the right to commercialize products or technologies that we would otherwise commercialize ourselves, or to reduce or cease operations.

The risks associated with our business may be more acute during periods of economic slowdown or recession. In addition to other consequences, these periods may be accompanied by decreased consumer spending generally, as well as decreased demand for, or additional downward pricing pressure on our products. Accordingly, any prolonged economic slowdown or a lengthy or severe recession with respect to either the U.S. or the global economy is likely to have a material adverse effect on our results of operations, financial condition and business prospects. As a result, given the current deterioration in U.S. and global economy, as well as the decreasing purchasing power of consumers and institutions, we expect that our business will continue to be adversely affected for so long as, and to the extent that, such adverse economic conditions exist.

If our efforts to achieve and maintain market acceptance of our core SDC technology are not successful, or we fail to obtain necessary governmental approvals, we are unlikely to attain profitability

We have invested a significant portion of our time and financial resources in the development and commercialization of our core SDC technology. Although we believe SDC has applications in multiple industries, we expect that sales of SDC will constitute a substantial portion, or all, of our revenues in future periods. Any material decrease in the overall level of sales or expected sales of, or the prices for, SDC, whether as a result of competition, change in customer demand, or any other factor, would have a materially adverse effect on our business, financial condition and results of operations.

We are marketing our new antimicrobial silver ion technology to industrial and consumer markets. These products have not yet been accepted into the marketplace, and may never be accepted. In addition, even if our products achieve market acceptance, we may not be able to maintain product sales or other forms of revenue over time if new products or technologies are introduced that are more favorably received than our products, are more cost-effective or otherwise render our products less attractive or obsolete. Other risks involved in introducing these new products include liability for product effectiveness and safety, and competition from existing or emerging sources. Additionally, government regulation in the U.S. and in other countries is a significant factor in the development, manufacturing and marketing of many of our products and in our ongoing research and development activities. All products derived from SDC require approval by government agencies prior to marketing or sale in the U.S. or overseas. Complying with applicable government regulations and obtaining necessary clearances or approvals can be time consuming and expensive, and there can be no assurance that regulatory review will not involve delays or other actions adversely affecting the marketing and sale of our products. For example, regulatory review of SDC by the U.S. EPA has historically been time consuming and expensive, due primarily, we believe, to the novel nature of our technology. While we cannot accurately predict such regulatory processes, we expect the review process to remain time consuming and expensive as we, or our partners, apply for approval to market new formulations or to make additional claims. We also cannot predict the extent or impact of future legislation or regulation in the U.S. or overseas.

Some of our new bioscience applications for healthcare markets, food preparation markets and agriculture markets will also require approval by government agencies prior to marketing or sale in the U.S. or overseas. Until we, or our partners, obtain approvals from the appropriate regulatory authorities for future potential product applications, if ever, we will not be able to market or sell such products, which would limit our revenues. Even after approval, if any, we will remain subject to changing governmental policies regulating antimicrobial products.

If we are not able to manage our anticipated growth effectively, we may not become profitable

We anticipate that expansion will continue to be required to address potential market opportunities for our SDC technology. There can be no assurance that our infrastructure will be sufficiently scalable to manage any future growth. There also can be no assurance that if we continue to expand our operations, management will be effective in expanding our physical facilities or that our systems, procedures or controls will be adequate to support such expansion. In addition, we will need to provide additional sales and support services to our partners if we achieve our anticipated growth with respect to the sale of our SDC technology for various applications. Failure to properly manage an increase in customer demands could result in a material adverse effect on customer satisfaction, our ability to perform on new contracts and on our operating results.

The industries in which we operate are heavily regulated and we may be unable to compete effectively

We are a bioscience company focused on the marketing and continued development of our electrolytically generated stabilized ionic silver technology, including our flagship SDC antimicrobial. While the rewards in these fields are potentially great, the risks, regulatory hurdles and costs of doing business in our target markets are high. Our SDC is a platform technology rather than a single use applied technology. As such, products developed from the platform fall

under the jurisdiction of multiple U.S. and international regulatory agencies. We currently have U.S. EPA registration for our 2400-parts per million (ppm) technical grade SDC concentrate (trade name Axenohl), as well as for our Axen and Axen30 hard surface disinfectant products for commercial, industrial and consumer applications including restaurants, homes and medical facilities. We intend to fund and manage additional U.S. EPA-regulated product development internally, in conjunction with our regulatory consultants and potentially by partnering with other third parties. We are also partnering, or intend to partner, with third parties who are seeking, or intend to seek, approvals to market SDC-based products in markets outside the U.S. However, the introduction of additional regulated antimicrobial products in the U.S. or in markets outside the U.S. could take several years, or may never be achieved. In addition, doing business internationally carries a great deal of risk with regard to foreign government regulation, banking, currency fluctuation, and many other factors.

We are subject to intense competition

Our silver ion and other products compete in highly competitive markets dominated by extremely large, well financed domestically and internationally recognized chemical and pharmaceutical companies. Many of our competitors have greater financial resources than we do in the areas of sales, marketing, branding and product development and we expect to face additional competition from these competitors in the future. Many of our competitors already have well established brands and distribution. Focused competition by chemical and pharmaceutical giants could substantially limit or eliminate our potential market share and ability to profit from our products and technologies. Our ability to compete will depend upon our ability, and the ability of our distributors and other partners, to develop brand recognition and novel distribution methods, and to displace existing, established and future products in our relevant target markets. We or our partners or distributors may not be successful in doing so.

We rely on a small number of key supply ingredients in order to manufacture our products

All of the supply ingredients used to manufacture our products are readily available from multiple suppliers. However, commodity prices for these ingredients can vary significantly and the margins that we are able to generate could decline if prices rise. For example, both silver and citric acid prices have risen recently. A decision is expected imminently by the European Commission on an antidumping action against Chinese citric acid producers, a dominant force in the global citric acid market, which has caused global citric acid price increases in anticipation of antidumping duties that the European Commission could impose on Chinese producers. Any measures could be followed by similar action from the authorities in the U.S. In many of our distribution and development agreements, we are unable to raise our product prices to our customers quickly to maintain our margins, and significant price increases for key inputs would therefore have an adverse effect on our results of operations.

If we are unable to successfully develop or commercialize new applications of our SDC technology, our operating results will suffer

In addition to its use on inanimate surfaces, we believe that our SDC technology also shows promise as a broad-spectrum antimicrobial for use in human and veterinary healthcare products. We plan to pursue additional U.S. EPA and FDA regulatory approvals for other applications. We have entered into agreements with FTA Therapeutics for the development and commercialization of certain FDA regulated SDC-based products. However, we do not exercise any control over these development partners. FTA's resources are limited and progress to date on all indications has been slow. The FDA and comparable agencies in many foreign countries impose substantial limitations on the introduction of new products through costly and time-consuming laboratory and clinical testing and other procedures. The process of obtaining FDA and other required regulatory approvals is lengthy, expensive and uncertain. There is no guarantee that either our existing or any other potential partner, or we, will be able to obtain the resources necessary to further develop our technology or obtain regulatory approvals, or that the products will be successful in meeting the strict criteria imposed by the FDA. It may be several years before we, or any third party to whom we grant rights to use our silver ion technologies, are able to introduce any FDA regulated antimicrobial pharmaceutical products containing our technology. Such products may never achieve regulatory approval and may never be commercialized. If they are commercialized, we may not receive a share of future revenues that provides an adequate return on our historical or future investment.

Our ability to generate increased revenue depends in part upon the ability and willingness of our current and potential strategic partners in both FDA and non-FDA environments to increase awareness of our solution to their customers and provide implementation services. If our strategic partners fail to increase awareness of our solution or to assist us in getting access to decision-makers, then we may need to increase our marketing expenses, change our marketing strategy or enter into marketing relationships with different parties, any of which could impair our ability to generate increased revenue or to generate profits from our technology.

Because we are an early stage company, it is difficult to evaluate our prospects, our financial results may fluctuate and these fluctuations may cause our stock price to fall

Since acquiring the rights to our SDC technology, we have encountered and likely will continue to encounter risks and difficulties associated with new and rapidly evolving markets. These risks include the following, among others:

- we may not increase our sales to our existing customers and expand our customer base;
- we may not succeed in maintaining and expanding our current sales and in penetrating other markets and applications of our SDC technology;
- we may not establish and maintain effective marketing programs and continue to build our brand identity;

- we may not attract and retain key business development, technical and management personnel;
- we may not succeed in locating strategic partners and licensees of our technology; and
- we may not effectively manage our anticipated growth.

In addition, because of our limited operating history and the early stage of the market for our SDC technology, we have limited insight into trends that may emerge and affect our business. Forecasting future revenues is difficult, especially since our technology is novel and we are at the early stages of the adoption of our technology. Market acceptance of our products may change rapidly. In addition, our customer base is highly concentrated. Fluctuations in the buying patterns of our current or potential customers for any reason, could significantly affect the level of our sales on a period to period basis. As a result, our financial results could fluctuate to an extent that may not meet market expectations and that also may adversely affect our stock price. There are a number of other factors that could cause our financial results to fluctuate unexpectedly, including product sales, the mix of product sales, the cost of product sales, the achievement and timing of research and development and regulatory milestones, changes in expenses, including non-cash expenses such as the fair value of stock options granted, and manufacturing or supply issues, among other issues.

We have no product distribution experience and we expect to rely on third parties who may not successfully sell our products

We have no product distribution experience and currently rely and plan to rely primarily on product distribution arrangements with third parties, including our collaborators. We also plan to license our technology to certain third parties for commercialization of certain applications. We expect to enter into additional distribution agreements and licensing agreements in the future, and we may not be able to enter into these additional agreements on terms that are favorable to us, if at all. In addition, we may have limited or no control over the distribution activities of these third parties. These third parties could sell competing products and may devote insufficient sales efforts to our products. As a result, our future revenues from sales of our products, if any, will depend on the success of the efforts of these third parties.

If we are unable to obtain, maintain or defend patent and other intellectual property ownership rights relating to our technology, we may not be able to develop and market products based on our technology, which would have a material adverse impact on our results of operations and the price of our common stock

We rely and expect in the future to rely on a combination of patent, trademark, trade secret and copyright law, and contractual restrictions to protect the proprietary aspects of our technology and business. These legal protections afford only limited protection for our intellectual property and trade secrets. Despite efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our proprietary technology or otherwise obtain and use information that we regard as proprietary. As a result, we cannot be assured that our means of protecting our proprietary rights will be adequate.

We have filed for U.S. and foreign patent applications and trademark registrations for our patents and trademarks. We may not be successful in obtaining these patents and trademarks, and we may be unable to obtain additional patent and trademark protection in the future. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. It is possible that, despite our efforts, competitors or others will create and use products in violation of our patents and/or adopt service names similar to our service names or otherwise misappropriate our intellectual property. Such patent infringement or misappropriation could have a material adverse effect on our business. Any unauthorized production of our SDC-based products, whether in the U.S. or overseas, would or could reduce our own sales of SDC-based products, thereby reducing, perhaps significantly, our actual or potential profits. Adopting similar names and trademarks by competitors could lead to customer confusion. Any claims or customer confusion related to our trademarks could negatively affect our business.

Litigation may be necessary to enforce our intellectual property rights and protect our trade secrets. If third parties prepare and file applications in the U.S. or other countries that claim trademarks used or registered by us, we may oppose those applications and may be required to participate in proceedings before the regulatory agencies who determine priority of rights to such trademarks. Any litigation or adverse priority proceeding could result in substantial costs and diversion of resources, and could seriously harm our business and operating results. If we are found to have violated the trademark, trade secret, copyright, patent or other intellectual property rights of others, such a finding could result in the need to cease use of a trademark, trade secret, copyrighted work or patented invention in our business and the obligation to pay a substantial amount for past infringement. It could also be necessary for us to pay a substantial amount in the future if the rights holders are willing to permit us to continue to use the intellectual property rights. Either having to cease use or pay such amounts could make us much less competitive and could have a material adverse impact on our business, operating results and financial condition.

To the extent that we operate internationally, the laws of foreign countries may not protect our proprietary rights to the extent as do the laws of the U.S. Many countries have a “first-to-file” trademark registration system. As a result, we may be prevented from registering or using our trademarks in certain countries if third parties have previously filed applications to register or have registered the same or similar trademarks. Our means of protecting our proprietary rights may not be adequate, and our competitors could independently develop similar technology.

We may become subject to product liability claims

As a business which manufactures and markets products for use by consumers and institutions, we may become liable for any damage caused by our products, whether used in the manner intended or not. Any such claim of liability, whether meritorious or not, could be time-consuming and/or result in costly litigation. Although we maintain general liability insurance, our insurance may not cover potential claims of the types described above and may not be adequate to indemnify for all liabilities that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could harm our business and operating results, and you may lose some or all of any investment you have made, or may make, in our common stock.

Litigation may harm our business or otherwise distract our management

Substantial, complex or extended litigation could cause us to incur major expenditures and distract our management. For example, lawsuits by employees, former employees, shareholders, partners, customers, or others, could be very costly and substantially disrupt our business. Such lawsuits could from time to time be filed against either the Company or our officers and directors, who are or may be indemnified by the Company for their actions in their capacity as officers and directors. Such lawsuits are not uncommon, and we cannot assure you that we will always be able to resolve such legal disputes on terms favorable to the Company.

Maintaining compliance with our obligations as a public company may strain our resources and distract management, and if we do not remain compliant our stock price may be adversely affected

Our common stock is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). It is therefore subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act. The SEC continues to issue new and proposed rules, and complying with existing and new rules results in significant costs to us of being a public company, including substantial costs during the fiscal year ending July 31, 2009 and in future years. In addition, in April 2008 we obtained a listing of our common stock on the NASDAQ Capital Market, adding the additional cost and administrative burden of maintaining such a listing. These additional regulatory costs and requirements will reduce our future profits or increase our future losses, and a greater proportion of management time and effort will be needed to meet our regulatory obligations than before.

We are required to evaluate our internal controls systems in order to allow management to report on our internal controls as required by Section 404 of the Sarbanes-Oxley Act. Based on the market capitalization of our common stock at January 31, 2009, we met the defined requirements for remaining an accelerated filer, which require us to attest to, and have our Independent Registered Public Accounting Firm attest to, our internal controls. We are also required to file our annual and quarterly reports with the Securities and Exchange Commission ("SEC") on an accelerated basis. Recent SEC pronouncements suggest that in the next several years we may be required to report our financial results using new International Financial Reporting Standards, replacing U.S. GAAP, which would require us to make significant investments in training, hiring, consulting and information technology, among other investments. All of these and other reporting requirements and heightened corporate governance obligations that we will face or are already facing will further increase the cost to us, perhaps substantially, of remaining compliant with our obligations under the Exchange Act and the Sarbanes-Oxley Act. In order to meet these incremental obligations, we will need to invest in our corporate and accounting infrastructure and systems, and acquire additional services from third party advisors. As a result of these requirements and investments, we will incur significant additional expenses and will suffer a significant diversion of management's time. There is no guarantee that we will be able to continue to meet these obligations in a timely manner, and we could therefore be subject to sanctions or investigation by regulatory authorities such as the SEC or the NASDAQ Capital Market. Any such actions could adversely affect our financial results and the market price of our common stock, perhaps significantly.

Our publicly-filed reports are reviewed from time to time by the SEC, and any significant changes or amendments required as a result of any such review may result in material liability to us and may have a material adverse impact on the trading price of our common stock

The reports of publicly-traded companies are subject to review by the SEC from time to time for the purpose of assisting companies in complying with applicable disclosure requirements, and the SEC is required, pursuant to the Sarbanes-Oxley Act of 2002, to undertake a comprehensive review of a company's reports at least once every three years. SEC reviews may be initiated at any time. While we believe that our previously filed SEC reports comply, and we intend that all future reports will comply in all material respects, with the published rules and regulations of the SEC, we could be required to modify, amend or reformulate information contained in prior filings as a result of an SEC review. Any modification, amendment or reformulation of information contained in such reports could be significant and result in material liability to us and have a material adverse impact on the trading price of our common stock.

We are dependent on our management team, and the loss of any key member of this team may prevent us from achieving our business plan in a timely manner

Our success depends largely upon the continued services of our executive officers and other key personnel. Our executive officers and key personnel could terminate their employment with us at any time without penalty. We do not maintain key person life insurance policies on our executive officers or other employees, other than Michael L. Krall, our President and Chief Executive Officer. The policy we have on Mr. Krall would likely not provide a benefit sufficient to offset the financial losses resulting from the loss of Mr. Krall's future services. The loss of one or more of our key employees could seriously harm our business, results of operations and financial condition. We cannot assure you that in such an event we would be able to recruit qualified personnel able to replace these individuals in a timely manner, or at all, on acceptable terms.

Because competition for highly qualified business development and bioengineering personnel is intense, we may not be able to attract and retain the employees we need to support our planned growth

To successfully meet our objectives, we must continue to attract and retain highly qualified business development and bioengineering personnel with specialized skill sets focused on our industry. Competition for qualified business development and bioengineering personnel can be intense. Our ability to meet our business development objectives will depend in part on our ability to recruit, train and retain top quality people with advanced skills who understand

our industry. In addition, it takes time for our new business development personnel to become productive, particularly with respect to obtaining major customer accounts. If we are unable to hire or retain qualified business development and bioengineering personnel, it will be difficult for us to sell our products or to license our technology, and we may experience a shortfall in revenue and not achieve our anticipated growth.

Anti-takeover provisions under our charter documents and California law could delay or prevent a change of control and could also limit the market price of our stock

Certain provisions of our charter and by-laws may delay or frustrate the removal of incumbent directors and may prevent or delay a merger, tender offer, or proxy contest involving us that is not approved by our Board of Directors (the "Board"), even if such events may be beneficial to the interests of shareholders. For example, our Board, without shareholder approval, has the authority and power to issue all authorized and unissued shares of common stock which have not otherwise been reserved for issuance, on such terms as the Board determines. The Board could also issue 5,000,000 shares of preferred stock and such preferred stock could have voting or conversion rights which could adversely affect the voting power of the holders of our common stock. In addition, California law contains provisions that have the effect of making it more difficult for others to gain control of the Company.

Our management and our Board of Directors has significant influence over our direction and policies, and may be able to delay or prevent a change of control of our Company, which could adversely affect our stock price

As of June 5, 2009, Michael L. Krall, our President and Chief Executive Officer, beneficially owned, including exercisable options, approximately 6.3% of our common stock. As of the same date, our directors and officers as a group beneficially owned, including exercisable options and warrants, approximately 19.7% of our common stock. As a result, our management, and Mr. Krall in particular, are in a position to significantly influence our direction and policies, the election of our Board, and the outcome of any other matters requiring shareholder approval. This concentration of ownership may harm the market price of our common stock by, among other things:

- delaying, deferring, or preventing a change in control of our Company;
- impeding a merger, consolidation, takeover, or other business combination involving our Company; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company.

The price of our common stock may be volatile, which may cause investment losses for our shareholders

Since our initial public offering in August 1996, the price and trading volume of our common stock have been highly volatile. The price has ranged from below $1 per share to over $8 per share, and the monthly trading volume has varied from under 200,000 shares to over 7.8 million shares. During the twelve months prior to June 5, 2009, the closing price of our common stock on any given day has ranged from $1.69 to $8.50 per share, and the monthly trading volume has varied from approximately 1.2 million shares to approximately 4.9 million shares. In the future, the market price of our common stock may be volatile and could fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- the introduction of new products or services, or product or service enhancements by us or our competitors;
- developments with respect to our or our competitors' intellectual property rights or regulatory approvals or denials;
- announcements of significant acquisitions or other agreements by us or our competitors;
- the sale by us of our common or preferred stock or other securities, or the anticipation of sales of such securities;
- sales or anticipated sales of our common stock by our insiders (management and directors);
- the trading volume of our common stock, particularly if such volume is light;
- conditions and trends in our industry;
- changes in our pricing policies or the pricing policies of our competitors;
- changes in the estimation of the future size and growth of our markets and, among other factors;
- general economic conditions.

In addition, the stock market in general, the NASDAQ Capital Market, and the market for shares of novel technology and biotechnology companies in particular, have experienced extreme price and volume fluctuations that have often

been unrelated or disproportionate to the operating performance of those companies. Further, the market prices of bioscience companies have been unusually volatile in recent months, and many economists expect such unusual volatility to continue for the foreseeable future. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, shareholder derivative lawsuits and securities class action litigation have often been instituted against that company. Such litigation, if instituted against the Company or our officers and directors, could result in substantial costs and a diversion of management's attention and resources. In addition, this volatility could adversely affect an investor's ability to sell shares of our common stock and/or the available price for such shares, and could result in lower prices being available to an investor if the investor wishes to sell their shares at any given time.

Our future capital needs are uncertain, and we may need to raise additional funds in the future which may not be available on acceptable terms or at all.

Our capital requirements will depend on many factors, including:

- acceptance of, and demand for, our products;
- the success of strategic partners in selling our products;
- the costs of further developing our existing, and developing new, products or technologies
- the extent to which we invest in new technology and product development;
- the number and timing of acquisitions and other strategic transactions; and
- the costs associated with the continued operation, and any future growth, of our business.

Our existing sources of cash and cash flows may not be sufficient to fund our activities. As a result, we may need to raise additional funds, and such funds may not be available on favorable terms, or at all. Furthermore, if we issue equity or convertible debt securities to raise additional funds, our existing shareholders may experience dilution, and the new equity or debt securities may have rights, preferences, and privileges senior to those of our existing shareholders. If we incur additional debt, it may increase our leverage relative to our earnings or to our equity capitalization. If we cannot raise funds on acceptable terms, we may need to scale back our expenditures through reductions in our workforce and operations, and we may not be able to develop or enhance our products, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated consumer requirements.

We may not be able to maintain our NASDAQ listing

In April 2008, we obtained a listing for our common stock on the NASDAQ Capital Market. In order to maintain our listing, we will need to continue to meet certain minimum listing standards that include, or may include, our shareholders' equity, the market value of our listed or publicly held securities, the number of publicly held shares, our net income, a minimum bid price for our common stock, the number of shareholders, the number of market makers, and certain of our corporate governance policies. If we fail to maintain the standards required now or in future by the NASDAQ Capital Market, our common stock could be delisted from the NASDAQ Capital Market. Such delisting could cause our stock to be classified as "penny stock,", among other potentially detrimental consequences, any of which could significantly impact your ability to sell your shares or to sell your shares at a price that you may deem to be acceptable.

If outstanding options and warrants to purchase shares of our common stock are exercised, or if other remaining authorized shares of our common stock are issued, the interests of our shareholders could be diluted

We have approximately 7,856,441 shares of common stock reserved for issuance, which includes shares under equity compensation plans, vested and unvested options, and warrants. These shares have a weighted-average exercise price of approximately $2.30. In addition, approximately 9,915,800 authorized shares of our common stock remain available for future issuance under equity compensation plans or otherwise. The exercise of options and warrants, and the sale of shares underlying such options or warrants, could have an adverse effect on the market for our common stock, including the price that an investor could obtain for their shares. Investors may experience dilution in the net tangible book value of their investment upon the exercise of outstanding options and warrants granted under our stock option plans, and options and warrants yet to be granted or issued.

We may not be able to utilize all of, or any of, our tax net operating loss carry-forwards and our future after-tax earnings, if any, could be reduced

At April 30, 2009, we had federal and California tax net operating loss carry-forwards of approximately $40,316,600 and $30,146,800 respectively. The difference between federal and California tax loss carry-forwards is primarily due to limitations on California loss carry-forwards.

Utilization of the net operating loss carry-forwards may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code as well as similar state provisions. These ownership changes may limit the amount of net operating loss carry-forwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382 of the Internal Revenue Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups. Since the Company's formation, we have raised capital through the issuance of capital stock on several occasions (both before and after our initial public offering in 1996) which, combined with the purchasing shareholders' subsequent disposition of those shares, may have resulted in such an ownership change, or could result in an ownership change in the future upon subsequent

disposition. While we believe that the Company has not experienced an ownership change, the pertinent tax rules related thereto are complex and subject to varying interpretations, and thus complete assurance cannot be provided that the taxing authorities would not take an alternative position.

In addition, our U.S. federal tax loss carry-forwards will begin expiring in the year ending July 31, 2017 unless previously utilized, and will completely expire in the year ending July 31, 2028. The California tax loss carry-forwards will begin to expire in the year ending July 31, 2013 and will completely expire in the year ending July 31, 2018. If we are unable to earn sufficient profits to utilize the carry-forwards by these dates, they will no longer be available to offset future profits, if any.

We may never pay dividends

We have never paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The future payment of dividends on our common stock, if any, is dependent on the discretion of our Board, our earnings, our financial condition and other business and economic factors which our Board may consider relevant.

Item 5. Other Information

None.

Item 6. Exhibits

A. Exhibits

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

31.1 -- Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

31.2 -- Certification of Chief 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 Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith.

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

By: /s/ Michael L. Krall
Michael L. Krall
President / Chief Executive Officer
(Principal Executive Officer)
June 9, 2009

By: /s/ Andrew J. Buckland
Andrew J. Buckland

Chief Financial Officer
(Principal Financial Officer)
June 9, 2009