PURE BIOSCIENCE
Form 10QSB
March 16, 2004

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the period ended January 31, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]
For the transition period from _____ to _____

Commission File number 0-21019

PURE Bioscience
(Name of small business issuer in its charter)

California	33-0530289
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1725 Gillespie Way, El Cajon, California 92020
(Address of principal executive offices)

619 596 8600
Issuer's telephone number

Check whether the issuer (1) filed all reports to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: 14,024,088 as of March 12, 2004.

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CONSOLIDATED BALANCE SHEETS

	(Unaudited) January 31 2004	July 31 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 191,480	$ 251,087
Accounts receivable, net of allowance for doubtful accounts of $58,500 at January 31, 2004 and $63,500 at July 31, 2003	200,820	163,895
Due from officers and employees	--	61
Trust deed receivable	2,035,000	--
Inventories	131,380	119,237
Prepaid expenses	32,329	6,655
Total current assets	2,591,009	540,935
Property, Plant and Equipment		
Property, plant and equipment	196,527	249,023
Total property, plant and equipment	196,527	249,023

Noncurrent Assets		
Deposits	9,744	9,341
Patents and licenses	2,439,258	2,475,280
Total noncurrent assets	2,449,002	2,484,621
Assets of the water division held for resale	324,515	352,423
Total assets	$ 5,561,053	$ 3,627,002
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 916,213	$ 1,079,128
Accrued liabilities	404,703	114,523
Notes payable	240,257	180,513
Loans from shareholders	1,135,000	600,000
Total current liabilities	2,696,173	1,974,164
Liabilities of the water division held for resale	46,100	36,165
Stockholders' Equity		
Class A common stock, no par value: authorized 50,000,000 shares, issued and outstanding 14,174,088 at January 31, 2004 and 10,594,088 at July 31, 2003	17,206,687	14,758,203
Warrants: issued and outstanding 1,321,429 warrants	829,989	788,473
Accumulated deficit	(15,217,896)	(13,930,003)
Total stockholders' equity	2,818,780	1,616,673
Total liabilities and stockholders' equity	$ 5,561,053	$ 3,627,002

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	For the Six Months Ended January 31		For the Three Months January 31	
	2004	2003	2004	
Net revenues	$ 94,057	$ 68,628	$ 54,764	$

Cost of sales	51,710	42,143	23,377	
Gross profit	42,347	26,485	31,387	
Selling expenses	65,725	288,568	19,029	1
General and administrative expenses	600,915	717,469	272,482	4
Research and development	839,275	424,250	462,334	2
Start-up costs	--	635,376	--	6
Total operating costs	1,505,915	2,065,663	753,845	1,4
Loss from operations	(1,463,568)	(2,039,178)	(722,458)	(1,4
Other income and (expense):				
Interest income	32,329	1,331	0	
Interest Expense	(119,474)	(44,765)	(46,371)	(
Other	(1,843)	--	(749)	
Total other income (expense)	(88,988)	(43,434)	(47,120)	(
Loss from continuing operations	(1,552,556)	(2,082,612)	(769,578)	(1,4
Discontinued operations:				
Income from discontinued operations	264,663	343,226	138,157	1
Net loss	$(1,287,893)	$(1,739,386)	$ (631,421)	$(1,2
Net loss per common share, basic and diluted				
Continuing operations	$ (0.12)	$ (0.24)	$ (0.06)	$
Discontinued operations	0.02	0.04	0.01	
Net loss	$ (0.10)	$ (0.20)	$ (0.05)	$

CONSOLIDATED STATEMENTS ACCUMULATED DEFICITS	(Unaudited) Six Months Ended January 31 2004	Year Ended July 31 2003	(Unaudited) Three Months Ended January 31 2004	Y E Ju 2
Balance, beginning of period	$ (13,930,003)	$ (10,646,014)	$ (13,930,003)	$ (10
Net income (loss)	(1,287,893)	(3,283,989)	(631,421)	(3
Balance, end of period	$ (15,217,896)	$ (13,930,003)	$ (14,561,424)	$ (13

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Six Months January 31	
	2004	
Cash flows from operating activities		
Net loss	$(1,287,893)	$(1,
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	81,022	
Depreciation	54,920	
Services and interest paid for with stock and warrants	204,744	
Income from discontinued operations	(264,663)	(
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(36,925)	
(Increase) decrease in due from officers and employees	61	
(Increase) decrease in prepaid expense	(25,674)	
(Increase) decrease in inventory	(12,144)	
(Increase) decrease in deposits	(403)	
Increase (decrease) in accounts payable	(162,915)	
Increase (decrease) in accrued liabilities	290,178	
Net cash provided (used) by operating activities	(1,159,692)	(
Cash flows from investing activities		
Purchase of patents and licenses	(45,000)	
Purchase of property, plant and equipment	(2,423)	
Net cash (used) in investing activities	(47,423)	
Cash flows from financing activities		
Proceeds from debt obligations	100,000	
Proceeds from sale of common stock	745,000	
Net cash provided by financing activities	845,000	
Cash flows from discontinued operations	302,508	
Net increase (decrease) in cash and cash equivalents	(59,607)	
Cash and cash equivalents at beginning of period	251,087	
Cash and cash equivalents at end of period	$ 191,480	$

Supplemental disclosures of cash flow information		
Cash paid for interest	$ 89,602	$
Noncash investing and financing activities:		
Value of shares issued in exchange for services	$ 145,000	$
Value of options issued in exchange for services	$ --	$
Value of warrants issued in exchange for startup costs	$ --	$
Trust Deed received in exchange for stock	$ 2,035,000	

NOTES TO FINANCIAL STATEMENTS

Note 1. Financial Statements

The financial statements included herein have been prepared by PURE Bioscience (the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. 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, and PURE Bioscience believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the July 31, 2003 audited financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist and procedures that will be accomplished by PURE Bioscience later in the year. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year.

The management of the Company believes that the accompanying unaudited financial statements contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented.

Note 2. Business Segment and Sales Concentrations

In accordance with the provisions of SFAS No. 131, certain information is disclosed based on the way management organizes financial information for making operating decisions and assessing performance. In determining operating segments, the Company 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.

The Company's business activities are divided, managed and conducted in two basic business segments, the Water Treatment segment and the Bioscience segment. These two segments were determined by management based upon the inherent differences in the end use of the products, the inherent differences in the value added processes made by the Company, the differences in the regulatory requirements and the inherent differences in the strategies required to successfully market finished products. The Water Treatment segment includes Commercial Water and Residential Retail products and the Nutripure Water Dealer program. The Water Treatment division has been discontinued (Note 6). Bioscience includes Axenohl (Silver Ion Technology) and the Innovex line of pest control products.

Segment information is presented in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information. This standard is based on a management approach, which requires segmentation based upon the Company's

internal organization and disclosure of revenue and operating income based upon internal accounting methods. The Company's financial reporting systems present various data for management to run the business, including internal profit and loss statements prepared on a basis not consistent with U.S. generally accepted accounting principles.

FOR THE THREE MONTHS ENDED JANUARY 31, 2003	Water Treatment (Discontinued)	Bioscience	
Revenues			
Commercial Water Treatment			
Fillmaster Products	$ 204,000	$ -	$
Replacement Filters (Includes CSP 2000)	158,200	-	
Residential Water Treatment	30,500	-	
Water Dealer Program	208,900	-	
Silver Ionization	-	28,100	
Pesticide	-	3,800	
Total Revenues	$ 601,600	$ 31,900	$
Operating Income/(Loss)	$ 176,100	$ (51,900)	$
Segment Assets	$ 770,800	$ 2,381,900	

FOR THE THREE MONTHS ENDED JANUARY 31, 2004	Water Treatment (Discontinued)	Bioscience	
Revenues			
Commercial Water Treatment			
Fillmaster Products	$ 284,300	$ -	$
Replacement Filters (Includes CSP 2000)	145,900	-	
Residential Water Treatment	22,200	-	
Water Dealer Program	18,400	-	
Silver Ionization	-	33,500	
Pesticide	-	24,300	
Total Revenues	$ 470,800	$ 57,800	$
Operating Income/(Loss)	$ 138,200	$ (36,600)	$
Segment Assets	$ 340,700	$ 2,639,200	

FOR THE SIX MONTHS ENDED JANUARY 31, 2003	Water Treatment (Discontinued)	Bioscience	
Revenues			
Commercial Water Treatment			
Fillmaster Products	$ 508,500	$ -	$
Replacement Filters (Includes CSP 2000)	311,400	-	
Residential Water Treatment	158,700	-	
Water Dealer Program	316,400	-	
Silver Ionization	-	28,100	
Pesticide	-	40,500	
Total Revenues	$ 1,295,000	$ 68,600	$
Operating Income/(Loss)	$ 343,200	$ (67,000)	$
Segment Assets	$ 770,800	$ 2,381,900	

FOR THE SIX MONTHS ENDED JANUARY 31, 2004	Water Treatment (Discontinued)	Bioscience	
Revenues			
Commercial Water Treatment			
Fillmaster Products	$ 520,300	$ -	$
Replacement Filters (Includes CSP 2000)	330,100	-	
Residential Water Treatment	48,200	-	
Water Dealer Program	36,400	-	
Silver Ionization	-	42,100	
Pesticide	-	55,000	
Total Revenues	$ 935,000	$ 97,100	$
Operating Income/(Loss)	$ 264,600	$ (93,600)	$
Segment Assets	$ 324,500	$ 3,096,600	

Significant customers primarily consisted of domestic retail chain pharmacies. Sales concentrations to major chain stores were approximately $387,700 and export sales were $23,800 for the quarter ended January 31, 2004. Sales concentrations to major chain stores were approximately $709,900 and export sales were $37,500 for the three months ended January 31, 2003. No customer accounted for more than 10% of consolidated sales.

Note 3. Common Stock

In August of 2003 the Company completed a financing arrangement which included the acquisition of a $2,000,000 Trust Deed receivable and $35,000 related accrued interest and issuing a $435,000 note payable resulting in a net increase of $1,600,000 in equity during the period. This note receivable is in exchange for the issuance of 2,000,000 shares (at fair value of $0.80 per share) of the Company's common stock to a party unrelated to the Company, and that is fully secured by specific assets other than the equity instruments granted.

On August 25, 2003, 60,000 shares were issued in exchange for attorney fees related to the acquisition of the Axenohl patent. The shares were issued at fair value of $0.75 per share. Also during the quarter ended October 31, 2003 the Company conducted two private placements in which it issued 250,000 shares of common stock at a price of $0.50 per share for a total of $125,000. On October 21, 2003 the Company issued a security which included 700,000 shares of common stock at a price of $0.60 per share and a one-year warrant to purchase 84,000 shares of common stock at $0.80 per share. The warrants were valued at $21,220 ($0.25 per share based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 137.78% and a risk-free interest rate of 5.25%).

On December 18, 2004, 170,000 shares valued at $100,000 ($.59 per share) were issued in exchange for financial and business consulting services. On January 29, 2004 the Company conducted a private placement in which it sold two units of Company securities. Each unit consisted of 200,000 shares of common stock at a price of $.50 per share and a one-year warrant to purchase 50,000 shares of common stock at $1.00 valued at $20,296 ($0.20 per share based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 137.78% and a risk-free interest rate of 5.25%)

Note 4. Warranty Liability

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". Interpretation 45 is effective for financial statements of interim or annual periods fiscal years ending after December 15, 2002 and requires the following disclosures of the Company's product warranties:

The Company provides a standard warranty of two years for replacement parts on all Fillmaster systems sold. Most of the Company's chain customers have entered into multi-year contracts for the Customer Service Plan 2000. The CSP 2000 provides an extended warranty on all PURE Bioscience pharmacy products; significant discounts on maintenance item costs; annual software upgrades for the Fillmaster 1000e and Scanmaster; automatic replacement filter shipments; and simplified, annual invoicing. When the customer buys a system on the Customer Service Plan 2000 they agree to pay a fixed annual fee that covers replacement filters and parts. The Company monitors the costs of providing replacement parts other than filters. This cost has remained steady and is computed as a percentage of related revenues. The following is a summary of changes in the Company's product warrantee liability.

	Beginning Liability	Expense Incurred	Warranty Payments
Six Months Ended January 31, 2003	$ 41,445	$ 4,400	$ 7,185
Six Months Ended January 31, 2004	$ 42,430	$ 14,063	$ 10,381

Note 5. Loans from Shareholders
In August of 2003 the Company obtained a loan from a shareholder of $435,000 in connection with a financing arrangement which included the acquisition of a $2,000,000 Trust Deed receivable. The note bears an interest rate of 10% and is due and payable on June 12, 2004. On January 26, 2004, the same shareholder loaned the Company an additional $100,000 with the same terms. The Company also has a $600,000 loan payable to a different shareholder which was due on November 17, 2003 and is past due. Interest on the note accrues at a rate of 18% per annum and $ 22,500 was in arrears at January 31, 2004.

Note 6. Reclassifications
Certain reclassifications have been made to previously reported statements to conform to the Company's current financial statement format.

Note 7. Sale of Water Treatment Division and Discontinued Operations
On October 29, 2003, PURE Bioscience and subsidiaries ("PURE") announced that it had entered into an agreement (the "Agreement For The Purchase and Sale of Assets") to sell substantially all of the assets and certain related liabilities of the water treatment division, including substantially all of the related machinery, equipment, inventory, work in process, licenses, customer lists and certain intellectual property and certain agreements and contracts to Data Recovery Continuum, Inc. (DRCI). The Company will realize a gain on the sale of approximately $2,000,000 after federal and California income taxes.

If the proposed transaction is consummated, DRCI will pay $2.75 million in cash at the closing. DRCI will also pay up to an additional $250,000 six months later and up to another $1,000,000 one year after closing after the Nutripure 2000 Countertop water purifier reaches certain agreed upon volume and sales projections in connection with a rollout program with a large general merchandise retailer. In the event the sales of Nutripure products do not achieve the projected levels the additional payment amounts will be reduced on a pro rata basis. Also at closing DRCI has agreed to deposit an additional $2.0 million into escrow to purchase the Company's Trust Deed receivable at face value, PURE Bioscience will incur no gain or loss on this portion of the agreement. The Trust Deed was acquired in August of 2003 in exchange for 2,000,000 unregistered shares of PURE common stock.

In accordance with SFAS 144, the assets and liabilities of the water division are classified as held for sale and are presented separately in the balance sheet. In addition, the results of operations from the water division have been reported as discontinued operations, and were historically shown as the Company's water treatment segment for financial reporting.

Components of the results of discontinued operations are:

	Three Months Ended January 31, 2004
Net revenues	$ 470,800
Cost of Sales	192,500
Other Expenses	140,100
Total	$ 138,200

Six Months Ended

	January 31, 2004
Net revenues	$ 935,000
Cost of Sales	402,100
Other Expenses	268,300
Total	$ 264,600

Assets and liabilities of the water division held for sale include:

	January 31, 2004
Inventories and other current assets	$ 171,500
Property, plant and equipment	153,000
Total	324,500
Accrued liabilities	46,100
Net assets and liabilities of the water division held for sale:	$ 278,400

The interim financial statements include all adjustments, which in the opinion of management, are necessary in order to make the financial statements not misleading.

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

The following discussion and analysis should be read in conjunction with the audited and unaudited financial statements of PURE Bioscience.

OVERVIEW

PURE Bioscience (formerly Innovative Medical Services) began as a provider of pharmaceutical water purification products. Although our current revenues are still primarily from the pharmacy industry, we have expanded from our niche pharmacy market into other, broader markets with new, proprietary bioscience products based upon our silver ion bioscience technologies and boric acid based pesticide technologies. Because of this business development evolution, in September 2003, shareholders approved a name change from Innovative Medical Services to PURE Bioscience. In November 2003, we announced that we signed a definitive agreement to sell our water treatment business to Data Recovery Continuum, Inc., a Delaware corporation based in California, for $2.75 million in cash plus up to $1.25 million in deferred payments over the next year. We are also selling to Data Recovery Continuum, Inc. (DRCI) our $2.0 million Note and Deed of Trust asset for face value. Total combined cash proceeds from the transaction will be $4.75 million to $6.0 million to PURE Bioscience. Upon completion of the transaction, we emerge as a focused bioscience company that is essentially debt-free, and we believe that we will be capitalized sufficiently to commercialize our powerful, least toxic and environmentally friendly technologies including our Axenohl(R) antimicrobial technology. Completion of the transaction is subject to approval by PURE Bioscience shareholders. On March 10, 2004, we filed a definitive proxy statement with the Securities and Exchange

Commission detailing the proposed sale. The proxy statement will be sent to shareholders of PURE Bioscience on or about March 15, 2004 seeking their approval of the transaction at a special meeting of shareholders to be held on April 14, 2004.

WATER TREATMENT DIVISION (DISCONTINUED OPERATION) The Fillmaster(R) pharmaceutical water purification, dispensing and measuring products include the Pharmapure(R) water purification system, the FMD 550 dispenser, the patented Fillmaster 1000e computerized dispenser and the patented Scanmaster(TM) bar code reader. We also market proprietary National Sanitation Foundation certified replacement filters for the Fillmaster Systems. Our Nutripure(R) line of water treatment and filtration systems includes a line of Nutripure whole-house water softening systems, a line of Nutripure reverse osmosis point-of-use systems, the Nutripure 2000 countertop water filtration system and the Nutripure Sport filtered sport bottle. Results from this division are shown separately as "Discontinued Operation."

BIOSCIENCE DIVISION Our bioscience division features a patented, aqueous disinfectant called Axenohl(R) (silver dihydrogen citrate). Based on the EPA toxicity categorization of antimicrobial products that ranges from Category I (high toxicity) down to Category IV, Axen, with its combination of the biocidal properties of ionic silver and citric acid, is an EPA Category IV antimicrobial for which precautionary labeling statements are normally not required. This compares with Category II warning statements for most leading brands of antimicrobial products.

The initial EPA registrations for use of Axenohl, the 2400-parts per million technical grade concentrate used to manufacture our use dilutions, and Axen, a 12-parts per million use dilution hard surface disinfectant were issued in 2001. In March 2003, we received Environmental Protection Agency (EPA) registration for our new Axen-30(R) formulated Category IV hard surface disinfectant product for commercial, industrial and consumer applications. Axen-30 is a 30-part per million (ppm) use-dilution formula of our patented antimicrobial technology, Axenohl.

The recent EPA approval allows us to expand the existing Axen efficacy claims as a hard surface disinfectant to include a 30 second kill time and a 24 hour residual kill on standard indicator bacteria, a 2 minute kill time on some resistant strains of bacteria including MRSE and VRE, 10 minute kill time on fungi, 30 second kill time on HIV Type I, and 10 minute kill time on other viruses. These claims distinguish the efficacy of Axen-30 from many of the leading commercial and consumer products currently on the market, while maintaining lower toxicity ratings.

In September 2003, we announced the first significant commercialization of our hard surface disinfectant, Axen-30, which is sold by EnvirOx L.L.C. of Danville, Illinois, as Critical Care(TM), a new commercial disinfectant-fungicide-virucide.

We plan to pursue additional EPA and FDA regulatory approvals for other applications. Additional possible uses for this product include wound care, topical infection care, personal disinfecting retail products, food processing, and food safety applications which may require FDA approvals, as well as municipal water treatment and point-of-use/point-of-entry water treatment products, which may require additional EPA approvals.

Also in September 2003, we announced an agreement with Therapeutics, Inc., a drug development company based in La Jolla, California, for the development and commercialization of Food and Drug Administration (FDA) regulated Axenohl-based products. Therapeutics, Inc. will fund and direct all development activities and FDA regulatory filings and will initially focus on development of Axenohl-based products for the treatment of bacterial, viral and fungal mediated diseases and

conditions.

Our bioscience division also includes a line of pesticide technologies. Branded as Innovex(TM), the product line launched in October 2001 with our EPA-approved, patent-pending RoachX(TM). Subsequently, we have developed and launched additional products in the Innovex product line, including the EPA-approved AntX75(TM), two formulas of EPA-exempt non-toxic TrapX rodent lure, Pro's Choice(TM) caulk for pest control operators, and EPA approved CleanKill(TM), the Axen-based hard surface disinfectant for the pest control industry.

United States Department of Agriculture testing confirms that RoachX is over 96% effective in three to four days with one application for indoor and outdoor eradication of cockroaches, and can be used near children and food preparation areas. Boric acid is a well-known and effective deterrent of cockroaches and will kill them on contact, but cockroaches do not naturally eat the repellent. Although many pesticide products contain boric acid as the listed active ingredient, we believe RoachX to be new because of the endothermic reaction caused by the combination of boric acid and polyglycol that produces three unique results: 1) The formula protects the boric acid from water and humidity, 2) When combined with an attractant, the cockroaches perceive the formulation as food and will actually eat the polyglycol-encapsulated boric acid, and 3) The formula acts as a time-released pesticide, allowing the cockroach to return to the nest before it dies and then becomes a "bait station" for other roaches in the colony. We believe the product line, containing particular formulas and attractants for specific pests, is effective against cockroaches, ants, palmetto bugs, silverfish, waterbugs, ticks, fleas, lice and garden pests. Like the Axenohl antimicrobial technology, the boric acid based pesticides are very competitive with regard to efficacy when compared to leading brands while maintaining lower toxicity ratings.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JANUARY 31, 2004 VERSUS THREE MONTH ENDED JANUARY 31, 2003

During the previous quarter we decided to sell our water treatment division. Following the closing of the divestment transaction, we will be focused on our bioscience segment. Our current bioscience technologies include our Axenohl (silver dihydrogen citrate) antimicrobial product and our Innovex (Triglycylboride) pesticide products. We will realize a gain on the water treatment division sale of approximately $2,000,000 after federal and California income taxes. Revenues and expenses of the Water Division are now netted and shown on the income statement as Income From Discontinued Operations.

During the quarter ended January 31, 2004, bioscience segment revenues of $54,800 increased 72% compared to $31,900 in the prior period. The antimicrobial market is highly competitive, and we anticipate that market acceptance of a brand new technology may be a long term achievement. In addition to competition challenges, we believe that the investment necessary to pursue research testing and regulatory approval for Axenohl products will continue to be significant. As we receive additional regulatory approvals for Axenohl, however, we expect revenues to develop quickly. For example, now that we have received EPA approval on Axen-30, our Axenohl-based hard surface disinfectant, and we expect to see a shift toward increasing Axenohl division product sales in the coming year, and we believe that sales of Axen-30 will have a significant impact on revenues in future. We continue to believe that pesticide technologies will have a material impact on revenues in the coming year, and we continue to believe that the silver ion technologies will ultimately become the largest revenue generator for PURE Bioscience.

Gross profit for the quarter ended January 31, 2004 was $32,400 versus $16,100 in 2003. Gross profit percentage of 57% in 2004 increased compared to 50% in the prior period.

Net loss from continuing operations for the quarter ended January 31, 2004 was

$769,600 versus net loss of $1,427,700 for the same period in 2003. The loss in the prior quarter included an expense for start-up costs of $635,376. During the quarter, General and Administrative expenses decreased $128,000, or 32%, from $400,500 at in fiscal 2003 versus $272,500 in fiscal 2004. Administrative expenses decreased mainly due to a decrease in consulting fees. Selling expense decreased approximately $119,400, or 86%, from $138,400 in 2004 to $19,000 in 2003 because of a decreased use of salaried sales personnel and an increase in the use of commissioned salespeople. Research and Development increased approximately 84%, or $211,100, over the same period in 2003 from $251,200 to $462,300. This increase was the result of continued time and resources devoted to the development and testing of our emerging pesticide and silver ion technology product lines.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JANUARY 31, 2004 VERSUS SIX MONTH ENDED JANUARY 31, 2003

During the six months ended January 31, 2004, bioscience segment revenues of $94,100 increased 72% compared to $68,600 in the prior period. Gross profit for the period ended January 31, 2004 was $42,300 versus $26,500 in 2003. Gross profit percentage of 45% in 2004 increased compared to 39% in the prior period.

Net loss from continuing operations for the six months ended January 31, 2004 was $1,552,600 versus net loss of $2,082,612 for the same period in 2003. The loss in the prior period included an expense for start-up costs of $635,376. During the recent six months, General and Administrative expenses decreased $116,600, or 16%, from $717,500 in fiscal 2003 versus $600,900 in fiscal 2004. Administrative expenses decreased mainly due to a decrease in consulting fees. Selling expense decreased approximately $222,900, or 77%, from $288,600 in 2003 to $65,700 in 2004 because of a decreased use of salaried sales personnel and an increase in the use of commissioned salespeople. Research and Development increased approximately 98%, or $415,000, over the same period in 2003 from $424,300 to $839,300. This increase was the result of continued time and resources devoted to the development and testing of our emerging pesticide and silver ion technology product lines. Of the loss in the current period, $340,600 is attributable to non-cash items: $204,700 of services and interest paid with stock and warrants, $81,000 of amortization and $54,900 of depreciation.

DISCONTINUED OPERATION

Income from discontinued operations for the six months ended January 31, 2004 consisted of revenues of $935,000, cost of sales of $402,100 and other costs of $268,300 resulting in a net income of $264,600. Income from discontinued operations for the same period in 2003 consisted of revenues of $1,295,000, cost of sales of $690,500 and other costs of $261,300 resulting in a net income of $343,200. At January 31, 2004 the Company had a backlog of $257,800 of water treatment products because cash flow limited the Company's ability to purchase raw materials and because the Company experienced a significant interruption in service from its primary component supplier when the supplier relocated its manufacturing from the west coast to the Midwest.

LIQUIDITY AND CAPITAL RESOURCES

From inception through the present, we have financed our operations primarily through our initial public offering in August of 1996 and by subsequent private placement stock sales. In addition, the Company had obtained short term financing through a $500,000 line of credit. In September 2002 the Company renegotiated its line of credit and extended it until November 2003. The extension included an increase from $500,000 to $600,000 at an interest rate of 1 1/2 % per month secured against the entire assets of the Company excluding the Axenohl patent. In late December 2003, Charles Siddle, Colt Communications Money Purchase Pension Plan and LeeAnn Newcomb, SPS Business Services, Inc. 401 (K) Profit Sharing Plan filed an action in District Court of Arizona against PURE Bioscience for the Company's failure to perform under the terms of their loan agreements. The Company intends to cure the default and pay-off the loans from the proceeds of the sale of the Water Division. In July 2003, the Company issued

a $300,000 convertible debenture at an interest rate of 10% per annum due July 2004.

The Company is currently attempting to strengthen its liquidity position by working with an investment banker because the Company requires an outside source of capital to fund planned projects relating to new product development and related product launches, research and development projects and regulatory approvals. The Company's operations alone may not generate cash flows, within the next twelve months, sufficient to fund planned expansion.

In August of 2003, the Company completed a financing arrangement which included the acquisition of a $2,035,000 Trust Deed asset (and $435,000 offsetting loan payable for a net increase in equity of $1,600,000) in exchange for the issuance of 2,000,000 shares of the Company's common stock to a party unrelated to the grantor. In October 2003, the Company signed a term sheet to sell the Trust Deed asset for cash at face value. The purchasing party is also acquiring the water treatment division for $2,750,000 in cash plus up to $1,250,000 in deferred payments over the next year. Completion of the divestment of the water treatment division is subject to approval by PURE Bioscience shareholders. The Company intends to use a portion of the proceeds of this transaction to satisfy outstanding debt. The remaining proceeds should be sufficient to sustain operations and fund product development and commercialization until our bioscience technologies result in positive cash flow.

If the asset sale is not approved, PURE Bioscience will continue to operate the water treatment division. The Board of Directors believes that this transaction relieves the need for additional funding to properly continue the marketing, selling and further development of our bioscience technologies while still making the necessary investments in the water treatment division to maintain our historical growth rates. To the extent that we do not obtain needed capital through the sale of the water treatment division, we will have to obtain it through the issuance of additional debt or equity or through other means, any one of which may reduce the value to us, perhaps substantially, of any commercialization of bioscience products. There is no guarantee that we would be able to obtain such funding on terms acceptable to us or at all.

Stockholder approval is only one of the closing conditions. If the remaining closing conditions are not satisfied or waived, the sale might not be consummated, even if the stockholders approve the sale.

By completing the asset sale, we lose our historical revenue stream and become less diversified. By selling our water treatment division assets, we will be selling approximately 95% of our current source of revenue generation (based upon results from the July 31, 2003 fiscal year end). We will become a bioscience company focused on the marketing, selling and continued development of our Axenohl antimicrobial technology and our Triglycylboride pesticide technology. We may invest in other complementary technologies in the future, but we have no current specific plans to do so at this time. This transaction would increase our business risk because we will be less diversified than before the sale of the water treatment division assets and because our remaining business is in the relatively high-risk, but potentially high reward, field of applied biotechnology.

After the sale, we will become a biotechnology company in a highly regulated field with high investment costs and high risks. We currently have two pesticide products, RoachX and AntX and one antimicrobial product, Axen-30 hard surface disinfectant, being sold or ready for sale. We intend to fund and manage additional EPA regulated product development internally and in conjunction with current regulatory consultants, and we do not expect to be able to introduce additional EPA regulated antimicrobial products for several months. It may be several years before we are able to introduce any FDA regulated antimicrobial pharmaceutical products. To that end, we have partnered with Therapeutics, Inc.,

a California based drug development company, which has assumed responsibility for funding and managing the testing and regulatory process for potential FDA regulated Axenohl-based pharmaceutical products. 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.

Even after we have invested substantial funds in further development of our Axenohl-based products and related technology, and even if the results of our efforts are favorable, there can be no guarantee that we will be granted necessary regulatory approvals.

If we successfully bring additional EPA or FDA regulated products to market, there is no assurance that we will be able to successfully manufacture or market the products or that potential customers will buy them, if for example, a competitive product has greater efficacy or is deemed more cost effective. In addition, the market in which we will sell any such products is dominated by a number of large, well-capitalized corporations, which may impact our ability to successfully market our products or maintain any technological advantage we might develop. We also would be subject to changes in regulations governing the manufacture and marketing of our products, which could increase our costs, reduce any competitive advantage we may have and/or adversely affect our marketing effectiveness.

Although the Company has no plans to continue to fund operations with additional private placements of stock, we may evaluate opportunities to sell additional equity or debt securities, or obtain credit facilities from lenders to strengthen our financial position. The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders.

Our liquidity is unaffected by the financing program offered to participating dealers in the Nutripure water dealer program. We receive funds from our lender and disperse the funds to the dealer, less a commission charged by us, upon completion of the contract. The lender disperses funds to us. We record a liability when the funds are received and relief of liability when funds are dispersed, and we do not retain liability on the credit extended.

At January 31, 2004, our current assets to liabilities ratio increased from 0.27 to 0.96. Current assets increased $2,050,100 from $540,900 at July 31, 2003 to $2,591,000 at January 31, 2004 due mainly to the acquisition of the $2,035,000 Trust Deed discussed above. Current liabilities increased $722,000 from $1,974,200 to $2,696,200. This increase was due mainly to the addition to notes payable of the $535,000 note also mentioned above and an increase in accrued liabilities.

Net fixed assets decreased approximately $52,500 due mainly to depreciation of equipment. Noncurrent assets decreased approximately $35,600 due to amortization. Non-current assets of $2,449,000 consist almost entirely of Patents and Licenses.

Cash flows used from continuing operations were $1,159,700 in six months ended January 31, 2004 and $831,600 in 2003. For fiscal 2004, cash flows used in investing activities included $45,000 for the purchase of patents and licenses and $2,400 for the purchase of machinery and equipment. In fiscal 2003 cash flows used in investing activities included $6,900 for the purchase of patents and licenses and $8,400 for the purchase of machinery and equipment.

Cash flows from financing activities were $845,000 in fiscal 2004 and $406,300 in fiscal 2003. During the period Company borrowed $100,000 from a private lender. Also during the period ended January 31, 2004 the Company conducted two private placements in which it issued 250,000 shares of common stock at a price

of $0.50 per share for a total of $125,000. On October 21, 2003 the Company issued a security which included 700,000 shares of common stock at a price of $0.60 per share and a one-year warrant to purchase 84,000 shares of common stock at $0.80 per share. The warrants were valued at $21,220 ($0.25 per share based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 137.78% and a risk-free interest rate of 5.25. On January 29, 2004 the Company conducted a private placement in which it sold two units of Company securities. Each unit consisted of 200,000 shares of common stock at a price of $.50 per share and a one-year warrant to purchase 50,000 shares of common stock at $1.00 valued at $20,296 ($0.20 per share based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 137.78% and a risk-free interest rate of 5.25%) The total equity raise for the period was $745,000.

In the prior period, cash flows from financing activities included the addition of $100,000 in loans payable from a line of credit renegotiated in September 2002. Cash flows from financing activities also included an increase of common stock of $306,300. During the prior six-month period the Company conducted a $250,000 private placement in which the Company issued 833,332 shares of common stock to six accredited investors at a price of $0.30 per share. $225,000 was received before the end of the current period. The Company also received $81,325 from the exercise of options.

VALUATION OF INTANGIBLE ASSETS

SFAS 142 requires that goodwill and other intangible assets be tested for impairment on an annual basis and between annual tests in certain circumstances. Recoverability of assets to be held for use is based on expectations of future discounted cash flows from the related operations, and when circumstances dictate, the Company adjusts the asset to the extent the carrying value exceeds the fair value of the asset. Our impairment review process is based on the discounted future cash flow approach that uses our estimates of revenue driven by assumed market segment share and estimated costs. Also included in our analysis is an estimate of revenues expected from our agreement with Therapeutics, Inc. We have entered into an agreement with Therapeutics Inc. for the development and commercialization of FDA regulated Axenohl based products where Therapeutics is responsible for funding and directing all development activities and regulatory filings. In the agreement Therapeutics Inc. has agreed to reimburse the Company for $2.2M of pre-contract acquisition and development costs of the Axenohl intellectual property as well as reimbursement for ongoing intellectual property costs associated with Axenohl. Following reimbursement of costs, depending on the type of product, the Company will receive 40% to 90% of all sales proceeds, licensing fees, royalty payments and all other forms of cash and non-cash consideration. The Company will also realize revenues from the sale of Axenohl raw material as an active ingredient.

Judgments made by the Company related to the expected useful lives of long-lived assets and the Company's ability to realize discounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets and changes in economic and market conditions. As the Company assesses the ongoing expected cash flows and carrying amounts of our long-lived assets, these factors could cause the Company to realize a material impairment charge, which would result in decreased results of operations, and potentially decrease the carrying value of these assets.

COMMITMENTS

As a condition of the purchase agreement of the Axenohl patent, the Company agreed to make certain royalty payments to NVID of 5% of the gross product sales with a minimum royalty payment total of $1,000,000 for the period from November 15, 2001 to July 31, 2004 and subsequently $1,000,000 per year for the remaining life of the patent. The contract states that at July 31, 2004 the Company shall have the right, in its sole and absolute discretion, to do one of the following: a) pay the initial minimum royalty payment of $1,000,000 in cash or common stock of the Company to NVID, less royalty amounts already paid, on or before July 31,

2004, b) transfer the patent back to NVID, at which time the Company would be released of any future minimum payments and granted a license to manufacture and distribute products covered by the patent while retaining all Axen and Axenohl related patents filed by the Company, including retention of all of its previously granted license rights to sell, distribute and manufacture all Axenohl based products, or c) cancel any royalty obligation under the contract by selling, transferring or assigning its ownership of the primary patent to a third party and paying NVID a percentage of the gross proceeds of 5% while retaining all Axen and Axenohl related patents filed by the Company, including retention of all of its previously granted license rights to sell, distribute and manufacture all Axenohl based products. The Company has not recorded or accrued an amount for the minimum royalty payments in the financial statements because the Company has determined that it is unlikely to choose the option to pay the minimum royalty.

ITEM 3. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's 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 the Company's management, including its Chief Executive Officer and Chief Financial 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.

As of the end of the period, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

PART II

ITEM 1. LEGAL PROCEEDINGS

The case involving PURE Bioscience and Zedburn Corporation et. al. in Circuit Court of Pinellas County, Florida as previously disclosed and incorporated by reference herein from Annual Report on Form 10KSB for fiscal year ended July 31, 2003 was settled in November 2003.

There have been no developments in the case involving PURE Bioscience and Billy Stapleton and Susie Stapleton as previously disclosed and incorporated by reference herein from Annual Report on Form 10KSB for fiscal year ended July 31, 2003.

In October 2003, PURE Bioscience filed an arbitration action against NVID International and Falken Industries to demand a cease and desist from continued and ongoing public dissemination of false, misleading and disparaging statements and complete cooperation in enforcing and defending the Axenohl patent and related technology, pursuant to the Core Settlement Agreement between PURE

Bioscience and NVID International.

In late December 2003, Charles Siddle, Colt Communications Money Purchase Pension Plan and LeeAnn Newcomb, SPS Business Services, Inc. 401 (K) Profit Sharing Plan filed an action in District Court of Arizona against PURE Bioscience for PURE's failure to perform under the terms of its loan agreements. PURE Bioscience intends to cure the default and pay-off the loans from the proceeds of the sale of the Water Division.

ITEM 2. CHANGES IN SECURITIES
On January 8, 2004, 170,000 shares of common stock were issued in exchange for business and financial consulting. On January 29, we conducted a private placement to two accredited investors in which we issued 400,000 shares of common stock at prices $0.50 per share for a total of $200,000.

With respect to the sales made, we relied on Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The securities were offered solely to accredited or sophisticated investors who were provided all of the current public information available on PURE Bioscience.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
On or about March 15, 2004, we mailed proxy statement to shareholders to seek approval of the sale of our water treatment division at a special meeting of shareholders to be held on April 14, 2004.

ITEM 5. OTHER INFORMATION
Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
A. The following Exhibits are filed as part of this report pursuant to Item 601 of Regulation S-B:

3.1	(1)	-- Articles of Incorporation, Articles of Amendment and Bylaws
3.1.1	(13)	-- Articles of Amendment dated March 11, 2002
4.1	(1)	-- Form of Class A Warrant
4.2	(1)	-- Form of Class Z Warrant
4.3	(1)	-- Form of Common Stock Certificate
4.4	(1)	-- Warrant Agreement
4.5	(2)	-- March 2000 Warrant
4.6	(3)	-- January 2001 Warrant
4.7	(4)	-- Convertible Debenture
4.8	(5)	-- Convertible Debenture Purchase Agreement
4.9	(6)	-- Convertible Debenture Warrant
10.1	(1)	-- Employment Contract/Michael L. Krall
10.2	(7)	-- Manufacturing, Licensing and Distribution Agreement dated March 26, 2001
10.3	(8)	-- Axenohl License Agreement
10.4	(9)	-- Weaver - Roach X Assignment
10.5	(9)	-- Dodo Agreement [CONFIDENTIAL TREATMENT REQUESTED FOR CERTAIN OMITTED INFORMATION FILED SEPARATELY]
10.6	(8)	-- Promissory Note of Michael Krall
10.7	(8)	-- Promissory Note of Gary Brownell
10.8	(9)	-- Nutripure Dealer Agreement
10.9	(9)	-- Sales Finance Agreement
10.10	(10)	-- ETIH2O, Inc., Acquisition Agreement
10.11	(11)	-- NVID Litigation Settlement Agreement
10.12	(12)	-- Addendum #1 to NVID Settlement Agreement

10.13 (14)	--	Therapeutics, Inc. Agreement [CONFIDENTIAL TREATMENT REQUESTED FOR CERTAIN OMITTED INFORMATION FILED SEPARATELY]
10.14	--	Promissory Note dated November , 2003 $4,750,000
10.15	--	Promissory Note dated January 26, 2004 $100,000
13 (13)	--	Subsidiaries of the Registrant
31.1	--	Section 302 Certification
31.2	--	Section 302 Certification
32.1	--	Section 906 Certification
32.2	--	Section 906 Certification

(1) Incorporated by reference from Form SB-2 registration statement SEC File #333-00434 effective August 8, 1996

(2) Incorporated by reference from S-3 registration statement, SEC File #333-36248 effective on May 17, 2000

(3) Incorporated by reference from S-3 registration statement, SEC File #333-55758 effective on February 26, 2001

(4) Incorporated by reference from S-3 registration statement, SEC File #333-61664 filed on May 25, 2001

(5) Incorporated by reference from pre-effective amendment no. 1 to S-3 registration statement, SEC File #333-61664 filed on July 10, 2001

(6) Incorporated by reference from pre-effective amendment no. 2 to S-3 registration statement, SEC File #333-61664 filed on August 13, 2001

(7) Incorporated by reference from Current Report on Form 8-K filed on May 24, 2001 as amended on October 19, 2001

(8) Incorporated by reference from the Amended Annual Report on Form 10KSB for the fiscal year ended July 31, 2000 filed on October 19, 2001

(9) Incorporated by reference from Amended Form 10QSB for the nine month period ended April 30, 2001 filed on October 19, 2001

(10) Incorporated by reference from the Amended Annual Report on Form 10KSB for the fiscal year ended July 31, 2001 filed on November 13, 2001

(11) Incorporated by reference from Current Report on Form 8-K filed on December 6, 2001

(12) Incorporated by reference from Amended Current Report on Form 8-K filed on December 7, 2001

(13) Incorporated by reference from the Annual Report on Form 10KSB for the fiscal year ended July 31, 2002 filed on October 29, 2003

(14) Incorporated by reference from Amended Annual Report on Form 10QSB for the three month period ended October 31, 2003 filed on January 30, 2003

B. Reports on Form 8-K: None.

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/CEO
March 12, 2004

By: /s/ Gary Brownell

Gary Brownell, Chief Financial Officer
March 12, 2004