Zacks Small-Cap Research

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Pure Bioscience, Inc. (PURE-OTC)

PURE: Third quarter sales continued to grow, but immediate financing is needed —Neutral

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	12/12/2012
Current Price (06/14/13)	$0.38
Twelve- Month Target Price	**$1.25**

OUTLOOK

PURE develops and markets SDC-based antimicrobial products that provide non-toxic solutions to numerous global health challenges. SDC is a novel, patented platform technology with superior efficacy and low toxicity and can be used in diverse markets including personal care, preservatives, industrials, agriculture and pharmaceuticals. Although its lead product PURE Hard Surface is increasingly gaining recognition, sales may take longer to gain traction since PURE is still in its early stage of commercialization of its SDC technology.

SUMMARY DATA

52-Week High	**$3.60**
52-Week Low	**$0.28**
One-Year Return (%)	**-84.17**
Beta	**0.62**
Average Daily Volume (sh)	**48,691**
Shares Outstanding (mil)	**11**
Market Capitalization ($mil)	**$4**
Short Interest Ratio (days)	**3.92**
Institutional Ownership (%)	**9**
Insider Ownership (%)	**13**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**36.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Growth**
Industry	**Med Products**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2012	0.26 A	0.22 A	0.21 A	0.40 A	1.08 A
2013	0.11 A	0.26 A	0.26 A	0.40 E	1.03 E
2014					4.00 E
2015					8.50 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
2012	-$0.47 A	-$0.41 A	-$0.31 A	-$0.36 A	-$1.53 A
2013	-$0.25 A	-$0.17 A	-$0.14 A	-$0.16 E	-$0.69 E
2014					-$0.43 E
2015					-$0.25 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

Revenue Continued to Grow in Fiscal Third Quarter

On June 14, 2013, PURE Bioscience (PURE) reported financial results for the third fiscal quarter ended April 30, 2013.

In fiscal third quarter, PURE recorded net product sales of $258,000, compared to $207,000 in the same quarter last year, and increase of 24.6%. The increase was primarily attributable to increased sales to two existing customers.

R&D expenses were $304,000 for the third quarter, compared to $439,000 for the same quarter last year.

SG&A expenses were $1,464,000 for the third quarter, compared to $1,557,000 for the third quarter last year.

Total operating costs and expenses decreased $200,000 to $1.8 million, compared to $2.0 million in the same year-ago quarter. The decrease was primarily due to a decrease in legal fees, travel, non-cash stock option expense, and depreciation and amortization expense.

Loss from operations decreased $200,000 to $1.6 million, compared to a loss from operations of $1.8 million in the same year-ago quarter.

Net loss was $1.5 million or $(0.14) per share, an improvement from a net loss of $1.8 million or $(0.31) per share in the same quarter last year.

As of April 30, 2013, cash and cash equivalents totaled $410,000 and current liabilities totaled $1.5 million, including accounts payable of $848,000.

We are pleased to see the continued growth of revenue in the third fiscal quarter of 2013 ended April 30, 2013 after disappointing first quarter sales decline. Sales in first fiscal quarter declined 57%, but resumed growth in second and third quarter. Revenue grew 19% and 26% in fiscal second quarter and third quarter respectively. Though growth has not been as significant as hoped for, it brings PURE back on track to execute its growth strategy and accelerate its revenue growth down the road.

During the third fiscal quarter of 2013, PURE also made significant progress in business development, particularly in the food service and food processing industries.

- Initiated field testing of PURE® Hard Surface disinfectant with two major quick service restaurant chains, each with thousands of locations worldwide.
- Completed a 30-day in-plant product testing process with a major meat and poultry food processor that manages multiple processing plants across the U.S.

PURE's proprietary SDC antimicrobial products can address public and industry concerns for food safety. We believe PURE has the potential to be a major player in the food processing industry.

With its multi-prong strategy in place to commercialize its platform technology and multiple products in various channels, including food, medical and institutional facilities, PURE is going to drive commercial adoption of its products through calendar 2013.

Balance Sheet Boosted by Recent Financing, but New Financing is Needed

On September 17, 2012, PURE closed an underwritten public offering of 3,784,000 shares of its common stock at an offering price of $1.10 per share. In addition, the Underwriter has exercised the over-allotment option, and purchased an additional 557,615 shares of common stock to cover over-allotments.

Net proceeds to PURE from the offering were approximately $4.2 million.

This is a great achievement for PURE. The successful financing not only boosts the Company's balance sheet, but also validates the Company's technology and the prospect.

As of April 30, 2013, cash and cash equivalents totaled $410,000 and current liabilities totaled $1.5 million, including accounts payable of $848,000. This is still a concern to us. We believe PURE needs to raise funds immediately for its operations.

Business Continues to Grow

Industry Veteran Joins Board of Directors

On May 17, 2013, PURE appointed food industry leader Dave Pfanzelter as chairman of the board. Pfanzelter has been a member of the board since February 2013 and had previously served on the PURE Bioscience Advisory Panel. The position of chairman had been held by PURE's president and CEO, Michael L. Krall, since 1993.

The appointment significantly strengthens the Board's commercial expertise and also helps satisfy NASDAQ listing requirements regarding independent board members.

Previously Mr. Pfanzelter was senior vice president, Kellogg Company, president, Kellogg's Specialty Channels and president, Kellogg Canada while also serving as part of the Kellogg Executive Committee and Global Leadership Team. Mr. Pfanzelter began his food service career in 1975 with Oscar Mayer Foods Corporation serving in several key sales and marketing positions, including director of marketing and national sales manager. In 1995, he was appointed vice president, sales of Kraft Foodservice, representing the combined manufactured brands of Oscar Mayer, General Foods and Kraft Foods. In 1998 Mr. Pfanzelter joined Keebler, serving as vice president and general manager of the food service division prior to Keebler's acquisition by Kellogg in 2001.

Since 1998, Mr. Pfanzelter has been on the board of directors of Doctor's Associates, the parent company of Subway Restaurants, the nation's largest restaurant chain. In February 2012, Dave joined Wrigley Foods Advisory Board of Directors. He also served on the Board of the International Food Service Manufacturer's Association as chairman and member of its executive committee.

PURE Bioscience Ships Initial Order to Italian Export Consortium, TICE

PURE Products Now REACH Pre-Registered, Authorizing TICE to Import and Distribute PURE Products Across Europe

On June 7, 2013, PURE shipped an opening order of PURE Hard Surface and PURE Multi-Purpose Cleaner Concentrate to European distributor and Italian export consortium, TICE.

TICE placed this order as part of its initial campaign of customer trials and evaluation. TICE has been receiving a positive response to its education and marketing campaigns for PURE products, and anticipates a successful product launch in Italy followed by introductions in more than 25 additional European countries.

Since PURE announced its partnership with TICE in September 2012, TICE has been pursuing the necessary REACH requirements to distribute PURE's disinfecting and cleaning products in the European Union. REACH, which stands for registration, evaluation, authorization and restriction of chemicals,

represents the European Community's regulation on chemicals and their safe use. REACH also mandates the progressive substitution of the most dangerous chemicals when suitable alternatives have been identified. TICE has filed the REACH pre-registration of PURE Hard Surface, PURE Multi-Purpose cleaner concentrate and PURE Floor Cleaner with the European Chemical Agency (ECHA), authorizing TICE by European law to import and distribute PURE Products throughout Europe.

We think this shipment and the REACH filing are milestone events for PURE. The commercial launch of PURE across Europe will significantly boost PURE's revenue in the coming years.

PURE Hard Surface Launched to Corporate and Government Customers through Office Depot's Business Solutions Division

On January 22, 2013, PURE Bioscience, Inc. announced that PURE Hard Surface disinfectant and food contact surface sanitizer is now available to corporate and government customers through Office Depot's Business Solutions Division (BSD). This new product offering is part of a current flu season marketing campaign as well as an ongoing sales program targeting corporate and government breakrooms.

Through Office Depot's BSD (2,200 sales people), PURE Hard Surface products will be exposed to corporate and government customers nationally. This is a great opportunity for PURE to expand its product sales.

This deal also indicates early success in the Company's commercialization strategy for its proprietary PURE Hard Surface disinfectant through established regional and national distribution channels. The Company continues its focus on gaining entry into corporate, government and medical facilities as well as in the food service and food processing markets.

Hard Surface Disinfectant Will be Launched for Restaurant and Food Contact Antimicrobial

PURE also completed initial quality assurance testing, entered into a supplier testing and development agreement, and obtained approval to conduct a limited in-store evaluation with PURE Hard Surface disinfectant and food contact surface sanitizer in a quick service restaurant unit that manages more than 5,000 U.S. restaurant locations. The Company also successfully completed a 30-day in-plant product testing process with a major meat and poultry food processor that manages multiple processing plants across the U.S. The Company intends to continue educating, evaluating and testing its PURE technologies through these food service and food processing providers to provide a cost-effective and efficacious solution in mitigating potential food contamination in the U.S food chain. The Company believes it will successfully complete the testing and evaluation processes during the first half of calendar 2013 and anticipates commencing commercialization in the second half of calendar 2013.

PURE intends by mid-2013 to submit a notification of GRAS determination to the U.S. FDA for its review under the GRAS standards (**Generally Recognized As Safe**) for use of the SDC technology as a direct food contact antimicrobial (processing aid) and secondarily as a preservative (food additive). The additional GRAS claims for SDC are designed to expand its potential commercial adoption for direct use on produce and meats. The Company has already obtained GRAS status for SDC when used on food processing facilities, equipment, machinery, and processing utensils. The FDA's stated goal is to respond within 180 days of the initial notification submission.

PURE Partners with Food Safety and Sanitation Leader Chemstar

On November 26, 2012, PURE announced an agreement with Florida-based **Chemstar Corp**. to distribute the PURE Complete System to supermarkets, restaurants, hotels and motels, food service and processing facilities, and healthcare institutions.

For over 30 years Chemstar has been a leading provider of world-class food safety and sanitation products and services to establishments across North America. The company delivers comprehensive

services through its highly educated, trained, and motivated team of food safety professionals. Chemstar also develops, implements, and monitors customized food safety and sanitation solutions that best accommodate a retailer's culture, operations and strategic objectives as related to food handling, preparation and sale.

VALUATION AND RECOMMENDATION

We maintain our Neutral rating on PURE. Our 12-month price target is $1.25 per share.

PURE is a technology-based bioscience company that provides solutions to numerous global health challenges. PURE's proprietary high efficacy/low toxicity **SDC-based antimicrobials** represent innovative advances in diverse markets and lead today's global trend toward industry and consumer use of "green" products. Patented SDC is an electrolytically generated source of stabilized ionic silver, which formulates well with other compounds. As a platform technology, SDC is distinguished from competitors in the marketplace because of its superior efficacy, reduced toxicity and the inability of bacteria to form a resistance to it.

PURE's SDC is the first new disinfectant registered with EPA in over 30 years. SDC's competitive advantages in efficacy and safety make it outstanding among its competitors and represent a **paradigm shift** in the disinfectant/sanitizer market place.

Another key feature of SDC is that SDC-based products have broad applicability in diverse markets. The Company's current focus is to expand distribution of currently approved **disinfectant/sanitizer** products to institutional customers and consumers in the household, personal care, agriculture, industrial, and preservatives markets. PURE also plans to develop SDC-based products as **pharmaceuticals and API**. SDC is targeting diverse markets worth multi-billion dollars.

But we are concerned about the slow sales ramp for the Company's SDC products. Although its lead product PURE Hard Surface is increasingly gaining recognition, sales may take longer time to gain traction since PURE is still in its early stage of commercialization of its SDC technology. Sales so far have not been impressive. SDC technology is quite new to most customers in the disinfectant market, and the costs for SDC are also higher than those for most existing technologies. Therefore, rollout of the SDC platform will take time.

Without meaningful product revenue growth, PURE will be under great pressure to finance its operations by continuously issuing new shares or convertible notes. Certainly, product sales ramp will take longer than we expected to gain traction. Profitability will take longer to achieve accordingly. Revenue concentration also posts higher operational risk for the Company. As such, the Company is making efforts to diversify its revenue base by partnering with different companies in the industry.
Cash burn is another concern. Current cash will only last for about one quarter and the Company needs to tap the capital market immediately. Equity financing will dilute existing shareholder base. A financing deal with a strategic partner should be positive to the Company's long term growth.

In terms of valuation, currently, the Company trades around $0.38 per share with a market cap of $4.7 million based on 11 million shares outstanding. We think risk/reward profile is balanced for PURE at this time. Our valuation is based on its fundamentals. PURE will become profitable in fiscal 2017 with an EPS of 0.10 based on total revenue of $22.0 million. We believe PURE shares should be traded at a P/E ratio of 25 x. which is between chemical industry's P/E ratio of 15x and small biotech industry's P/E ratio of 30x. Applying the 25 x P/E multiples with our estimated EPS of $0.10 per share in fiscal 2017, discounted at 20% for 4 years, we come up with a target price of $1.25.

PROJECTED INCOME STATEMENT

	2012A (Jul)					2013E (Jul)					2014E (Jul)	2015E (Jul)	2016 (Jul)	2017 (Jul)
$ in million except per share data	Q1A	Q2A	Q3A	Q4A	FYA	Q1A	Q2A	Q3A	Q4E	FYE	FYE	FYE	FYE	FYE
Total Revenues	**$0.26**	**$0.22**	**$0.21**	**$0.40**	**$1.08**	**$0.11**	**$0.26**	**$0.26**	**$0.40**	**$1.03**	**$4.00**	**$8.50**	**$14.00**	**$22.00**
YOY Growth	*1013.3%*	*223.1%*	*61.2%*	*62.7%*	*133.1%*	*-57.2%*	*19.0%*	*24.6%*	*0.8%*	*-4.7%*	*288.0%*	*112.5%*	*64.7%*	*57.1%*
CoGS	0.13	0.04	0.04	0.06	0.26	0.03	0.06	0.07	0.12	0.28	1.00	1.91	2.80	4.40
Gross Income	**$0.13**	**$0.18**	**$0.17**	**$0.34**	**$0.82**	**$0.08**	**$0.21**	**$0.19**	**$0.28**	**$0.76**	**$3.00**	**$6.59**	**$11.20**	**$17.60**
Gross Margin	*49.8%*	*81.9%*	*82.1%*	*85.4%*	*75.6%*	*71.8%*	*78.3%*	*74.0%*	*70.0%*	*73.3%*	*75.0%*	*77.5%*	*80.0%*	*80.0%*
R&D	$0.49	$0.49	$0.44	$0.44	$1.86	$0.40	$0.41	$0.30	$0.50	$1.61	$2.00	$2.50	$3.00	$4.00
% R&D	*191.8%*	*221.3%*	*212.1%*	*111.3%*	*172.2%*	*359.1%*	*154.4%*	*117.8%*	*125.0%*	*155.7%*	*50.0%*	*29.4%*	*21.4%*	*18.2%*
SG&A	$2.00	$1.89	$1.56	$2.00	$7.44	$1.48	$1.61	$1.46	$1.70	$6.25	$7.50	$8.50	$9.50	$11.00
% SG&A	*777.0%*	*852.9%*	*752.2%*	*503.8%*	*687.5%*	*1341.8%*	*612.2%*	*567.4%*	*425.0%*	*606.2%*	*187.5%*	*100.0%*	*67.9%*	*50.0%*
Other	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
% Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.1)**	**($8.5)**	**($1.8)**	**($1.8)**	**($1.6)**	**($1.9)**	**($7.1)**	**($6.5)**	**($4.4)**	**($1.3)**	**$2.6**
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	*-9.3%*	*11.8%*
Other Net	$0.0	$0.0	($0.0)	($0.1)	($0.1)	($0.4)	($0.0)	$0.0	$0.0	($0.4)	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($1.8)**	**($1.6)**	**($1.9)**	**($7.5)**	**($6.5)**	**($4.4)**	**($1.3)**	**$2.6**
Income taxes(benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported Net Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($1.8)**	**($1.6)**	**($1.9)**	**($7.5)**	**($6.5)**	**($4.4)**	**($1.3)**	**$2.6**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	*-300.0%*
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	*-9.3%*	*11.8%*
Shares Out	*5.0*	*5.3*	*5.8*	*6.3*	*5.6*	*8.7*	*11.0*	*11.3*	*12.0*	*10.7*	*15.0*	*17.5*	*20.0*	*25.0*
Reported EPS	**($0.47)**	**($0.41)**	**($0.31)**	**($0.36)**	**($1.53)**	**($0.25)**	**($0.17)**	**($0.14)**	**($0.16)**	**($0.69)**	**($0.43)**	**($0.25)**	**($0.07)**	**$0.10**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-		
One time charge	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($2.4)**	**($2.2)**	**($1.8)**	**($2.2)**	**($8.6)**	**($2.2)**	**($1.8)**	**($1.6)**	**($1.9)**	**($7.5)**	**($6.5)**	**($4.4)**	**($1.3)**	**$2.6**
Non GAAP EPS	**($0.47)**	**($0.41)**	**($0.31)**	**($0.36)**	**($1.53)**	**($0.25)**	**($0.17)**	**($0.14)**	**($0.16)**	**($0.69)**	**($0.43)**	**($0.25)**	**($0.07)**	**$0.10**

Source: Company filing and Zacks estimates

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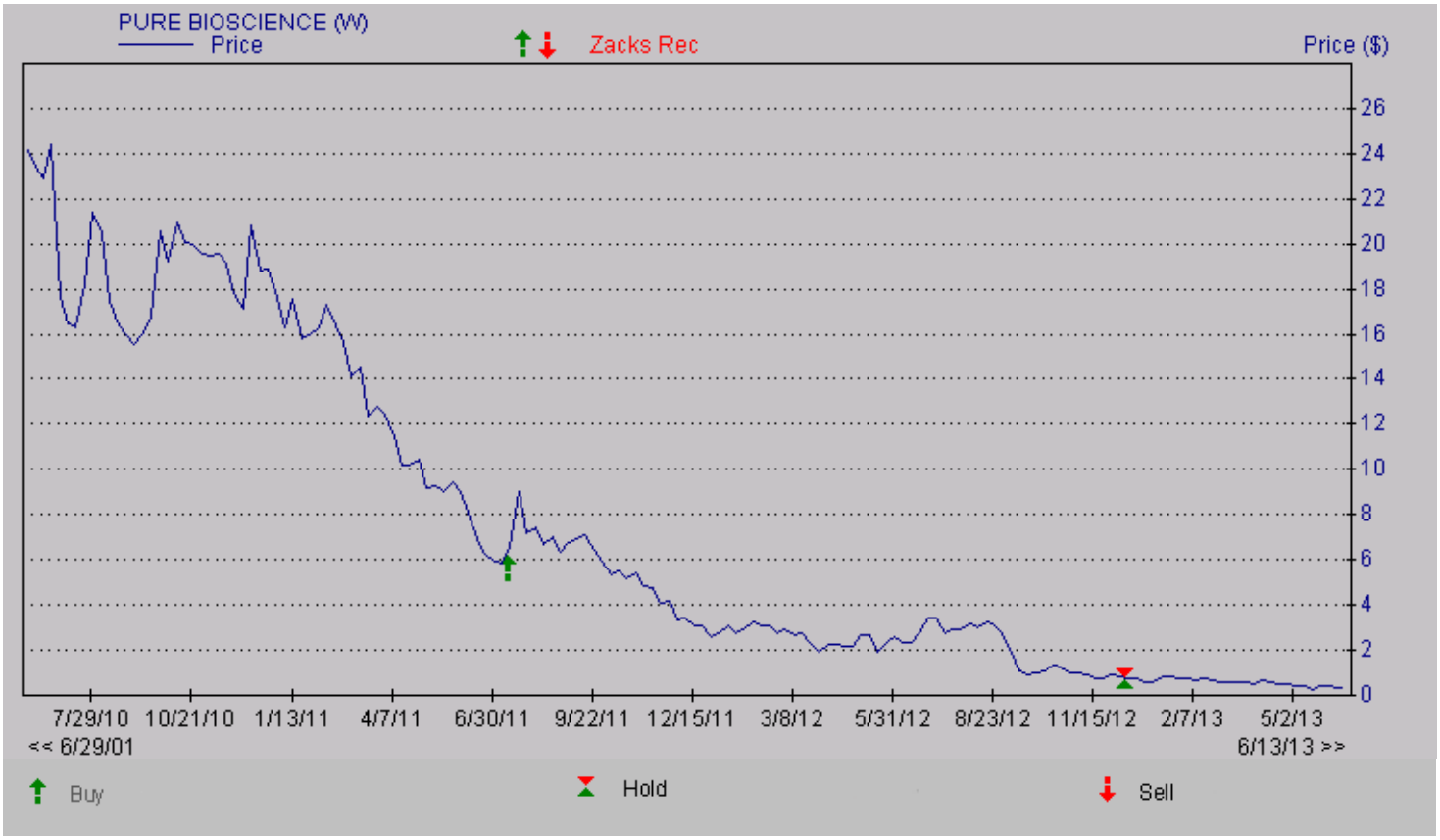
HISTORICAL ZACKS RECOMMENDATIONS



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