PURE BIOSCIENCE
Form 10QSB
March 17, 2006

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, 2006

[ ] 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 __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ___ 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: 18,791,834 as of March 15, 2006.

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CONSOLIDATED BALANCE SHEETS

	(Unaudited) Jan 31 2006	July 31 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 72,631	$ 405,888
Accounts receivable, net of allowance for doubtful accounts of $ 8,000 at July 31, 2005 and $8,000 at January 31, 2006	51,257	73,261
Other receivables		132,521
Notes receivable		200,000
Inventories	96,384	52,059
Prepaid expenses	47,814	72,344
Interest receivable		2,817
Total current assets	268,086	938,890
Property, Plant and Equipment		
Property, plant and equipment	126,421	151,990
Total property, plant and equipment	126,421	151,990
Other Assets		
Prepaid consulting	548,508	
Deposits	9,744	9,744
Patents and licenses	2,116,126	2,213,413
Total other assets	2,674,378	2,223,157
Total assets	$ 3,068,884	$ 3,314,037
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 131,458	$ 191,803
Accrued liabilities	242,712	158,698
Income taxes payable		2,800
Total current liabilities	374,170	353,301
Stockholders' Equity		
Preferred Stock		
Class A common stock, no par value: 50,000,000 shares authorized 18,378,305 issued and outstanding at January 31, 2006, and 17,713,306 issued and outstanding at July 31, 2005	20,581,497	19,317,001
Warrants: 622,429 issued and outstanding at January 31, 2006, and 640,929 issued and outstanding at July 31, 2005	196,643	198,471
Accumulated deficit	(18,083,426)	(16,554,736)
Total stockholders' equity	2,694,714	2,960,736
Total liabilities and stockholders' equity	$ 3,068,884	$ 3,314,037

	(Unaudited) Jan 31 2006	July 31 2005

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Six Months Ended January 31		For the Three Months Ended January 31	
	2006	**2005**	**2006**	**2005**
Net revenues	$ 114,611	$ 76,411	$ 59,442	$ 50,964
Cost of sales	43,993	21,785	$ 29,182	14,046
Gross profit	70,619	54,626	30,260	36,918
Selling expenses	241,671	294,387	143,856	201,465
General and administrative expenses	866,723	487,707	571,184	211,314
Research and development	483,508	670,017	234,539	386,760
Total operating costs	1,591,902	1,452,111	949,579	799,539
Loss from operations	(1,521,283)	(1,397,485)	(919,318)	(762,621)
Other income and (expense):				
Interest income	1,194	100,822	37	50,411
Interest expense	(274)	(101,109)	(274)	(55,661)
Other	(8,327)	(6,977)	399	(3,958)
Total other income (expense)	(7,407)	(7,264)	162	(9,208)
Loss from continuing operations	(1,528,690)	(1,404,749)	(919,156)	(771,829)
Discontinued operations:				
Income from discontinued operations		391,195		241,025
Net loss before taxes	(1,528,690)	(1,013,554)	(919,156)	(530,804)
Income tax provision				
Net loss after taxes	$ (1,528,690)	$ (1,013,554)	$ (919,156)	$ (530,804)
Net loss per common share, basic and diluted				
Continuing operations	$ (0.09)	$ (0.08)	$ (0.05)	$ (0.04)
Discontinued operations		0.02		0.01
Income tax provision				
Net loss	$ (0.09)	$ (0.06)	$ (0.05)	$ (0.03)

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICITS

	(Unaudited) Year-to-Date Ended January 31 2006	Year Ended July 31 2005

Balance, beginning of period	$ (16,554,736)	$ (16,237,666)
Net income (loss)	(1,528,690)	(317,070)
Balance, end of period	$; (18,083,426)	$ (16,554,739)

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended January 31 2006	2005
Cash flows from operating activities:		
Net loss	$ (1,528,690)	$ (1,013,554)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	109,022	78,669
Depreciation	34,590	40,633
Services and interest paid for with stock and options	256,159	296,087
Pre-tax income from discontinued operations		(391,195)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	22,004	80,631
(Increase) decrease in other receivables	132,521	
(Increase) decrease in notes receivable	200,000	
(Increase) decrease in prepaid expense	24,531	
(Increase) decrease in interest receivable	2,817	(100,823)
(Increase) decrease in inventory	(44,325)	(3,942)
Increase (decrease) in accounts payable	(60,346)	(18,778)
Increase (decrease) in accrued cash liabilities	84,014	129,876
Increase (decrease) in income tax payable	(2,800)	
Increase (decrease) in loans from shareholders		90,000
Net cash (used) in operating activities	(770,503)	(812,396)
Cash flows from investing activities		
Investment in capitalized patents and licenses	(11,734)	(27,461)
Purchase of property, plant and equipment	(9,020)	(7,060)
Net cash (used) in investing activities	(20,754)	(34,521)
Cash flows from financing activities		
Proceeds from short-term loans	80,000	90,000
Payment of short-term loans	(80,000)	
Proceeds from sale of common stock	458,000	480,500
Net cash provided by financing activities	458,000	570,500
Cash flows from discontinued operations:		
Cash flows from operation of Water Treatment Division		395,789
Net cash from discontinued operations		395,789
Net increase (decrease) in cash and cash equivalents	$ (333,257)	$ 119,372
Cash and cash equivalents at beginning of period	405,888	17,366
Cash and cash equivalents at end of period	$ 72,631	$ 136,738
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 274	$
Cash paid for taxes	$ 2,400	$ 3,416
Non-cash investing and financing activities:		
Value of options issued in exchange for services - prepaid	548,508	

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Financial Statements

The financial statements included herein have been prepared by PURE Bioscience (we , us) 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 we believe that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with our audited financial statements for the period ending July 31, 2005 and their accompanying notes, as filed with the Securities and Exchange Commission in our 10K-SB on October 31, 2005. While management believes the procedures followed in preparing the financial statements contained in the financial statements included in this quarterly report on Form 10Q-SB are reasonable, the accuracy of the amounts are at least partially dependent upon facts that will exist and results that will be accomplished by us later in the fiscal year. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year.

We believe 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, Disclosures about Segments of an Enterprise and Related Information, 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.

Our business activity was historically divided, managed and conducted in two basic business segments; the Water Treatment division, including Commercial Water and Residential Retail products and the Nutripure Water Dealer program; and the Bioscience division, consisting of our Silver Dihydrogen Citrate antimicrobial and the Innovex line of pest control products. However, in May 2005 we sold the assets of our Water Treatment Division to Maryland-based Innovative Medical Services, LLC. In the financial statements included in this report, the Water Treatment division is included as a Discontinued Operation in the Consolidated Statements of Operations and Cash Flows presented for comparative purposes relating to the periods ending January 31, 2005.

Subsequent to the sale of the Water Treatment division, we have determined that based upon the end use of our products, the value added processes 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.

During the six months ended January 31, 2006, 87% of sales were made to three strategic partners that are also developing markets for our products. 54% of sales during the first six months of the current fiscal year were made to U.S. domestic customers, and 46% were made to international customers.

Note 3. Reclassifications

Certain reclassifications have been made to previously reported statements to conform to our current financial statement format.

Note 4. Common Stock

In November 2005, we sold 39,999 shares of common stock in a private placement to an accredited investor, for $0.75 per share (a total value of $30,000). In December 2005, we issued 25,000 shares of common stock valued at $19,250 ($0.77 per share, based on the market price of the stock at the time services were rendered) in exchange for regulatory and consulting services. In the same month we issued options on 50,000 shares in exchange for investor relations and investment banking consulting services, at an exercise price of $0.75, valued at $17,229 (based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 82.23% and a risk-free interest rate of 4.25%). Additionally, in December 2005 we issued options on 50,000 shares in exchange for business development consulting services, at an exercise price of $0.80, valued at $15,426 (based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 82.23% and a risk-free interest rate of 4.25%).

In January 2006, we sold 500,000 shares of unregistered common stock in a private placement to an unaffiliated, accredited investor at $0.75 per share (a total value of $375,000). In the same month, we issued options on 300,000 shares in exchange for investor relations and investment banking consulting services, at an exercise price of $1.00, valued at $154,390 (based on the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 82.23% and a risk-free interest rate of 4.25%).

Also during the quarter, we agreed to issue 2,000,000 options to a newly elected director of the Company, related to a two-year consulting agreement for domestic and international business development, with vesting of all options in future periods subject to performance under the consulting agreement. We also agreed to issue 300,000 options to a second newly elected director of the Company, related to a two-year consulting agreement for domestic and international business development, with these options similarly vesting in future periods subject to performance under the consulting agreement. See Note 5 for more detail on the accounting treatment of these option agreements.

Note 5. Prepaid Consulting

During the quarter, we entered into a two-year consulting agreement with Mr. Michael Sitton for domestic and international business development, the compensation for which is a fee of $12,500 per month and an option on two million shares of unregistered common stock, which vest over three years. We also entered into a two-year consulting agreement with Secretary Tommy Thompson, for domestic and international business development, the compensation for which is a fee of $12,500 per month and an option on three hundred thousand shares of unregistered common stock, which vest over three years. Under the option agreements, unvested options will not be issued if the associated consulting agreements are terminated prior to their two year term, and the Company does not have an obligation to register the underlying shares within a specified period. Mr. Sitton and Mr. Thompson were each subsequently elected to our Board of Directors.

During the quarter ended January 31, 2006, we recorded the value of the unvested options as a prepaid asset which will be amortized over the life of the consulting agreements. Mr. Sitton s and Secretary Thompson s options were valued at an aggregate of $598,372 based on their weighted average exercise prices of between $1.00 to $2.75, and the Black Scholes Option Pricing Model assuming no dividend yield, volatility of 82.23% and a risk-free interest rate of 4.25%. This amount will be amortized over the two year life of the consulting agreements at $24,932 per month. During the quarter ended January 31, 2006 we amortized two months of consulting expense, or $49,864. As a result, we reported a prepaid asset of $548,508 as Prepaid consulting on the face of the balance sheet as at January 31, 2006.

Note 6. Subsequent Events