



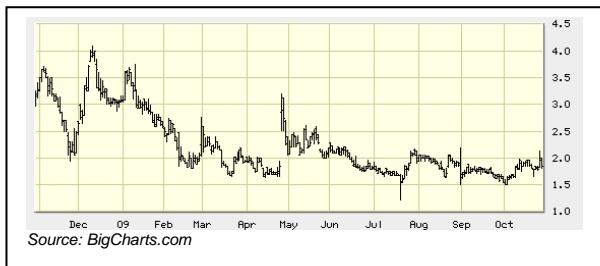
PURE BIOSCIENCE (NASDAQCM: PURE)

- **PURE adopts aggressive marketing strategy.**
- **The Company has found a sweet spot in food protection:**
 - **A sanitizer for food processing and preparation areas has won regulatory approval and commercial launch is likely within six months;**
 - **An antimicrobial agent for foods is being readied for an enormous market – regulatory agencies to review supporting documents in 2010;**
 - **Data from U.S. trials of agricultural formulations of SDC are due in six months.**
- **Silver is becoming the antimicrobial of choice for personal care products worldwide, and SDC is being formulated for multiple healthcare applications.**
- **We are maintaining our BUY recommendation and our price target of \$8.00 per share.**

PURE Bioscience (NasdaqCM: PURE) has a patented method of stabilizing the world's oldest antimicrobial agent in its active form, the silver ion. The innovative chemistry is a chelate of silver and citrate, which, combined, creates a very effective broad-spectrum antimicrobial agent. Since citrate is a food for such microorganisms as bacteria, silver dihydrogen citrate (SDC) actually attracts them before the silver ions destroy them. Also, silver acts at multiple sites in killing microbes, which limits the potential for the development of resistant strains. Yet, SDC is non-toxic to humans.

PURE has developed three products from SDC thus far: a disinfectant for hard surfaces, a food contact surface sanitizer, and a disinfectant for close-living quarters such as those on cruise ships. In addition, the Company has cultivated a close relationship with BASF to replace a highly toxic antimicrobial agent with SDC in a wide range of personal care products. The new formulations are only just beginning to enter the

Share Price (10/29/09)	\$1.79
52-Week Price Low / High	\$1.22-\$4.10
Mkt. Capitalization (issued)	\$61 M
Shares Outstanding (issued)	34.1 M
12-month Target Price	\$8.00
Website	www.purebio.com



global marketplace. Meanwhile, new agricultural and healthcare uses are under investigation.

With PURE taking an active role in marketing its products, the stage is set for significant sales growth. We are maintaining our BUY recommendation and our target price of \$8 a share.

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INVESTMENT OVERVIEW:

The momentum is beginning to build. Indeed, PURE seems poised to realize meaningful sales of products containing the antimicrobial agent SDC for the first time in its history. The upturn in the world's business activity that is getting under way should provide a favorable backdrop for new and existing products that have been held up by the economic weakness of the past 12 to 18 months. The Company has taken a timely step in securing the support of an experienced marketer that has worked on well-known accounts, including The Dial Corporation, Mary Kay Cosmetics, Armor Holdings, and Dirt Devil. Richmond Sciences, a subsidiary of Richmond Holdings, will invest its own money in initially promoting SDC concentrate, an SDC household disinfectant, and a new hard surface food contact sanitizer to commercial and select retail customers. (Additional products will likely join the list over time.) In exchange, PURE will pay Richmond a percentage of its gross profits. We view the deal as a major change in business strategy, since it enables the Company to establish relations with end users, rather than working through distributors. It also increases the potential for high returns on SDC, because the Company will book sales directly to customers. Meanwhile, other new products are moving toward commercialization – PURE is expanding its product line related to the food/agricultural sector, working with cruise lines to complete field tests of CruiseControl, and assisting in the development of SDC formulations for healthcare applications. We believe more personal care products will debut in the months ahead, too, as customers of the former Ciba specialty chemicals division (now owned by BASF) replace a toxic preservative with SDC, which is non-toxic to humans and poses no threat to the environment. In all, the next 12 months should be telling in the development of PURE Bioscience. We are reiterating our BUY recommendation and maintaining our target price of \$8.00 per share.

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PURE TAKES AGGRESSIVE MARKETING STANCE

The Company has changed its business model to gain greater control over its own destiny. Rather than rely on many small distributors to promote SDC-based disinfectants, as it has historically, the Company has entered into a relationship with Richmond Holdings, an experienced marketer that has worked with Mary Kay, Dirt Devil, Armor Holdings, American and United Airlines, and The Dial Corporation, among others. We believe the decision to change the corporate strategy was based on difficulties that small distributors have had introducing the disruptive technology of SDC effectively and the fact that large corporate clients have been working at their own pace in developing and commercializing products that include PURE's unique antimicrobial agent. The Richmond agreement covers three products at this juncture, including the SDC-based disinfectant, SDC concentrate, and a recently registered sanitizer for hard surfaces involved in food processing and preparation (discussed below). Richmond will serve as a marketing agent for PURE's finished goods by calling on commercial and institutional customers, as well as some select retailers. In exchange, it will receive a share of the profits (after deducting company-specific expenses). We like the new business model, since it incentivizes an experienced marketer to increase acceptance of PURE's products, while enabling the Company to focus on product development and manufacturing. This should result in higher returns on corporate investments.

SDC – A NATURAL FOR FOOD PROTECTION

Silver dihydrogen citrate meets all of the requirements deemed ideal for an antimicrobial agent used on food processing and preparation surfaces and even on food itself. It has a broad spectrum of antimicrobial activity that includes molds, viruses, and bacteria, yet it is safe for human consumption, colorless, odorless, and tasteless. It is also non-flammable and non-corrosive, rendering it suitable for use with food-processing machinery. Indeed, based on all of SDC's properties, we believe down-time for periodic cleaning of food-processing equipment will be minimized. Moreover, SDC formulates well with other aqueous biocides, which can result in a combination agent that targets multiple metabolic pathways to destroy microbes.

Table 1. SDC Activity Against Foodborne Disease Causing Microbes^{1,2}

Microbe	Microbe Type	Killed by SDC	Food Borne Disease %	Food Vehicle	Symptoms & Characteristics
Norovirus	virus	✓	62%	leafy vegetables & any food contaminated by infected person	causes severe gastroenteritis, highly infectious, mutates readily
Salmonella choleraesius	bacteria	✓	14%	poultry, eggs, meat products, raw fruits and vegetables	infects cattle & pigs; can cause severe human infections
Clostridium perfringes	bacteria	unknown	4%	meats, poultry, time- and/or temperature-abused foods	forms resistant spores; proliferates in small intestine where enterotoxin release causes diarrhea and cramps
Escherchia coli	bacteria	✓	4%	undercooked beef and contaminated, raw fruits and vegetables	bowel infections causing pain, vomiting, and diarrhea (sometimes bloody)
Staphylococcus aureus	bacteria	✓	4%	improperly stored meats, and potato and egg salads	causes severe nausea/vomiting due to consumption of preformed Staph enterotoxins
Listeria monocytogenes	bacteria	✓	4%	coleslaw, processed meats, and smoked fish	diarrhea, abdominal cramps, and invasive infections (e.g., meningitis)
Campylobacter jejuni	bacteria	✓	3%	raw and undercooked poultry	causes gastroenteritis, often with bloody diarrhea, and can cause septicemia

"Killed by SDC" refers to complete eradication of that specific microbe in a standardized test using 30 ppm silver dihydrogen citrate.

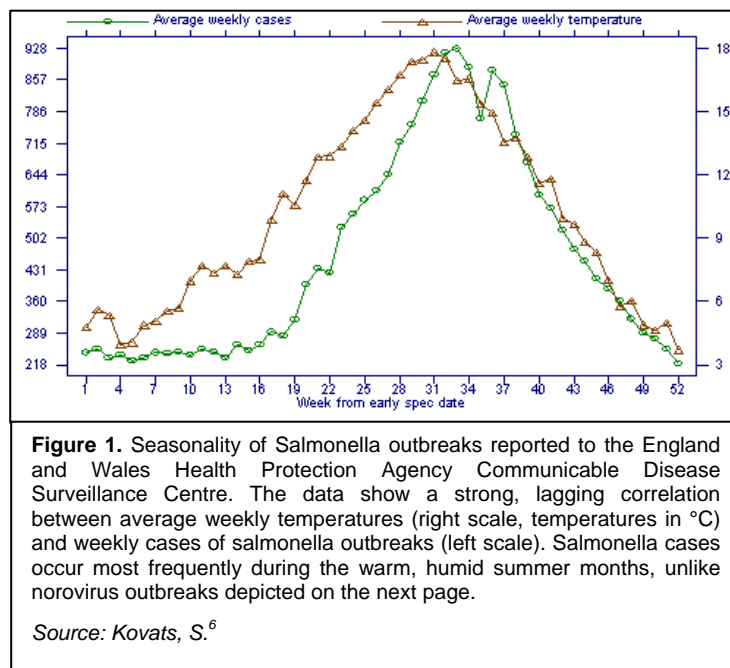
The microorganisms listed in Table 1 are noteworthy, as they account for 91% of all food-borne illnesses caused by microbial contaminants that were reported to the Centers for Disease Control and Protection

¹ Piacquadio, D, et al, Silver dihydrogen citrate: preliminary assessment of a potential new anti-infective for dermatology. J Am Acad Dermatol 2005; 52(3): P94.

² PURE Bioscience communication.

(CDC) in 2006, the most recent year of available data.³ (This distribution of causative agents is consistent with those reported for 2001-2005.) The disparity between the number of cases traced to bacteria and to the norovirus reflects the success and lack thereof in measures taken to prevent contamination of food by these microorganisms. Indeed, it is only recent that identification of the norovirus via genotyping has yielded definitive information about the presence of this contaminant. Pertinent to PURE's prospects is that almost all of the contaminants have tested positive for sensitivity to SDC, as indicated in the "Killed by SDC" column, and nearly all of the food vehicles and handling areas (e.g., leafy vegetables and countertops, respectively) may be treated with SDC to minimize the potential for infection.

The health threat posed by these microorganisms should not be underestimated. Evidence indicates that foodborne diseases exact a significant toll on humanity, with 2.2 million deaths from diarrhea globally per annum,⁴ and the trend is worsening partly because of an increased interaction between humans and wildlife and partly because of climate change.⁵ The World Health Organization has initiated a multinational surveillance system that is expected to report interim results in the near future. Nonetheless, individual countries have already begun to provide data independently. Based on information collected by the CDC, for instance, there were an estimated 195 million episodes of foodborne illnesses in the United States in 1998-1999.⁶ Even this seemingly high incidence is probably an underestimate, since many cases are not treated and of those that are, the information provided to the CDC is often incomplete. Then, too, food contamination by bacteria and viruses varies by season (see Figure 1)⁷ and by year (see Figure 2), making estimations that much more difficult to calculate.⁸



³ Ayers, LT, et al. Surveillance for foodborne disease outbreaks – United States, 2006. *Morb Mortal Wkly Rep* 2009; 58(22): 609.

⁴ Kuchenmüller, T, et al. Estimating the global burden of foodborne diseases – a collaborative effort. *Euro Surveill* 2009; 14(18): 1.

⁵ Jones, KE, et al. Global trends in emerging infectious diseases. *Nature* 2008; 451(21): 990.

⁶ Imhoff, B, et al. Burden of self-reported acute diarrheal illness in FoodNet surveillance areas, 1998-1999. *Clin Infect Dis* 2004; 38(suppl 3): S219.

⁷ Kovats, S. Climate change, temperature and foodborne disease. *Euro Surveill* 2003; 7(49): 2339.

⁸ Lopman, B, et al. Host, weather and virological factors drive norovirus epidemiology: Time-series analysis of laboratory surveillance data in England and Wales. *PLoS ONE* 2009; 4(8): e6671.

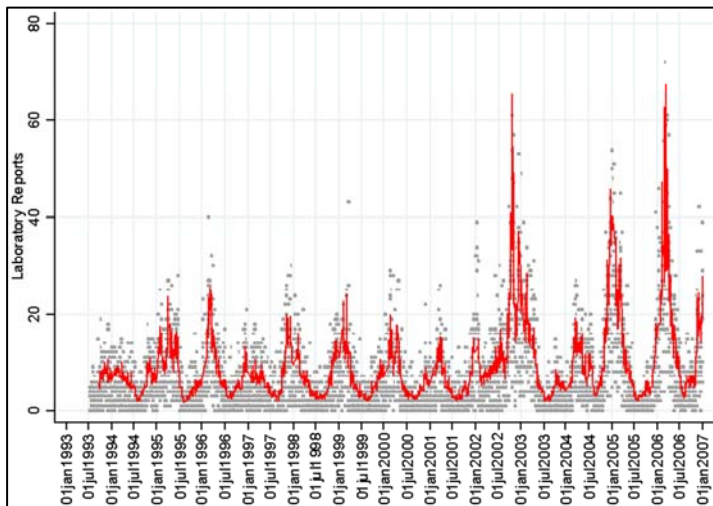


Figure 2. Daily norovirus lab reports (dots) and predicted values based on temperature, relative humidity, immunity, and new variants in England and Wales. Norovirus outbreaks are seasonal, occurring largely during periods of low temperature and humidity. Seasonality also is influenced by the development of immune resistance, which helps to quell the seasonal outbreaks. Immune selection plays a role in year-to-year differences by favoring the emergence of new variants that give rise to the next seasonal outbreak.

Source: Lopman, B, et al.⁷

Because bacterial and viral contaminations follow different seasonality patterns, a safe biocide, such as SDC, is likely to be required year round. Moreover, SDC's broad-spectrum antimicrobial activity, which does not induce the development of resistance, should provide good protection even though new variants of microbes (e.g., norovirus) emerge as a result of immunological or other selective pressures.⁹

REGULATORS APPROVED AN SDC-BASED SANITIZER

Pure Biosciences received an important decision from the U.S. Environmental Protection Agency recently via the registration of a more potent preparation of SDC (50 parts per million) as a hard surface sanitizer for food preparation. This decision followed the publication of an exemption from a requirement for tolerance testing because of the good safety profile of silver developed from historical animal and human toxicological testing.¹⁰ PURE's new formulation opens a huge market consisting of public eating places, food and beverage manufacturers, and locations with meat, poultry, seafood, and dairy processing equipment. Given SDC's properties discussed above, we believe the product will gain wide acceptance. Then, too, there have been ample incidences of outbreaks of foodborne diseases that have been traced to meat processors over the past few years, resulting in major product recalls and at least one large bankruptcy. A new sanitizer that protects against such business losses without major disruptions in production would offer a clear and attractive alternative. (Note that based on federal regulations, the new product must be labeled a sanitizer, rather than a disinfectant. That's because microorganisms are considered to be growing on any surface that comes into contact with food, and hence, such surfaces are never considered disinfected.)

We've included roughly \$1 million and \$5 million in sales from the new sanitizer in our estimates for fiscal 2010 (ends July 31, 2010) and 2011, respectively.

A FOOD AID WILL SOON UNDERGO REGULATORY REVIEW

The next product to emerge from PURE's R&D pipeline will likely be a formulation of SDC that will be used to control microorganisms on raw meats, fruits, and vegetables. As shown in Table 1, a product capable of reducing the microbial load on these foods would probably have a noticeable impact on public health. SDC appears ideally suited to the task, given its broad spectrum of activity, solubility in water, and lack of effect on food taste or appearance. Two universities are preparing protocols to study the use of SDC as a wash for beef and poultry at different stages of processing. The company believes its antimicrobial would lower the cost and improve the efficacy of existing washes. Also, it is not hard to

⁹ Lindesmith, LC, et al. Mechanisms of GII.4 norovirus persistence in human populations. PLoS Med 2008; 5(2): e31.

¹⁰ Environmental Protection Agency. Residues of silver in foods from food contact surface sanitizing solutions; exemption from the requirement of a tolerance. Federal Register 2009; 74(110): 27447.

imagine leafy vegetables or fresh strawberries being dipped or sprayed with an SDC preparation, rather than just water, to remove soil and other farm contaminants. Both of these foods have been associated with outbreaks of foodborne diseases in the past few years,¹¹ and the Food and Drug Administration has acknowledged the difficult task it faces in protecting the public from tainted foods sourced abroad.

The FDA and the U.S. Department of Agriculture must approve the food aid (a food disinfectant/protectant), which means that PURE will probably be able to launch it in fiscal 2011. Our estimates include \$1 million from the food aid in its inaugural year.

AGRICULTURAL FORMULATIONS OF SDC ARE IN U.S. TRIALS

The Company is sponsoring tests of SDC on field crops and farm animals with several agricultural universities in the United States. Among the plants in the trials are peppers, tomatoes, potatoes, soybeans, and ornamentals. These were selected because of their susceptibility to certain fungal diseases and their relatively high commercial value. (Note that field trials of SDC-based pesticides, sponsored by an SDC distributor in Brazil last year, were halted because of the economic downturn.) PURE hasn't disclosed the uses it is investigating with animals, but it seems likely that there are ample opportunities to protect the primary food species. We note, for instance, that salmonella is a relatively common problem with poultry raised in the United States.¹² A food aid used during the preparation of meat by abattoirs might prevent many of the estimated 1.4 million infections and 400 deaths attributed to this pathogen annually. Also, PURE's hard surface sanitizer has been registered for use on dairy cattle milk production equipment, suggesting it will find a place on dairy farms and in milk bottling plants.

Results from some university collaborations will become available over the next six months, which may enable an agricultural formulation of SDC to be launched in calendar 2010. The Company has revealed that it has been in discussions with agricultural chemical manufacturers, including BASF, regarding the incorporation of SDC into their brands. Given the uncertainty over the timing of these products' commercialization, though, we have included only a \$1 million contribution from them in our estimates for fiscal 2011.

SILVER NOW IN PERSONAL CARE PRODUCTS

PURE's collaboration with the former Ciba specialty chemical division (now owned by BASF) is beginning to pay off, as these corporate customers have begun to introduce personal care products containing SDC. We believe two forces are behind the adoption of the Company's antimicrobial agent. First, green technology is gaining favor among consumers who recognize the importance of preserving the earth's environment. SDC is consistent with this trend, since it has minimal human toxicity and negligible environmental impact (classified in Category IV by the U.S. Environmental Protection Agency). Second, the company is promoting the use of SDC as a replacement for an older, far more toxic antimicrobial agent (Ciba's triclosan) in a wide selection of personal care products. (Note that since BASF acquired Ciba earlier this year, the new parent has expressed its commitment to this replacement strategy.) Just as important, BASF's customers have begun to launch their own products incorporating SDC as either a preservative or as an active ingredient. Among the new entries are several in which SDC is an active ingredient and/or preservative: men's deodorants from Beiersdorf (under the Nivea brand name) and Szaidel; a liquid antibacterial soap from Etos (Netherlands); a deodorant foot spray from Mawa (Germany); and skin care products from Bioton. Many more products should enter the global marketplace soon, as more regulators approve SDC as a preservative or an active ingredient.

The introduction of such products should help to generate recognition among consumers for PURE's antimicrobial agent, and it will increase sales of the Company's most lucrative product, SDC concentrate.

¹¹ Ippolito International, LP voluntarily recalls bunch spinach because of possible health risk nationwide and Canada. Press release, dated September 18, 2009. Accessed via www.fda.gov/safety/recalls/ucm182964.htm.

¹² Hedican, E., et al. Multistate outbreaks of *Salmonella* infections associated with live poultry – United States, 2007. *Morbidity and Mortality Weekly Report* 2009; 58(2): 25.

Although the personal care products' market is huge, with annual sales measured in the billions of dollars, the very small quantity of SDC incorporated in these items and the large number of end-user products will probably translate into gradual increases at PURE's top and bottom lines over the next few years. We estimate that the sales potential for SDC into the personal care arena is about \$75 million annually.

OTHER NEW PRODUCTS ADVANCING IN R&D PIPELINE

An important aspect of PURE's product development strategy has been to work with outside specialists in the application of its SDC technology. This was an important facet in its partnering with BASF originally and with other companies more recently.

CRUISECONTROL® TO UNDERGO FIELD TESTS SOON.

Although this product is already available commercially, we have chosen to discuss it in the R&D section, because its acceptance hinges on field tests that cruise lines have planned for the near future. Key to CruiseControl's acceptance will be its ability to combat the norovirus, which has been a particularly challenging opponent of the cruise line industry over the past decade, causing severe outbreaks that have necessitated disruptions in service and lost business. This SDC disinfectant quickly kills the virus and can be applied to all surfaces as a spray or by sponge without leaving a residue. Moreover, it affords 24-hour protection, which may be important in a cruise ship setting, since the virus is spread via vomit aerosol and direct person-to-person contact. Note that norovirus infections on cruise ships have a slightly different seasonal pattern than found elsewhere, with peak activity in the spring and summer months due to the advent of new variants.¹³

The first field test, which was conducted last spring, happened to occur on a ship that experienced a norovirus outbreak. The results, shown in Figure 3,¹⁴ demonstrated that PURE's disinfectant quickly reduced the number of infections when compared with other outbreaks, one of which is illustrated in Figure 4.¹⁵

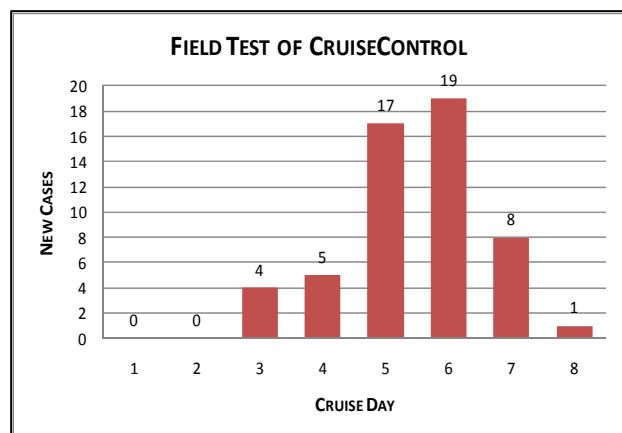


Figure 3. The number of cases of norovirus from a field test of CruiseControl aboard a commercial cruise ship in the spring of 2009 demonstrated that application of the disinfectant throughout the ship on day 5 (Thursday) resulted in a prompt decline in the number of new cases.

Source: PURE Biosciences¹³

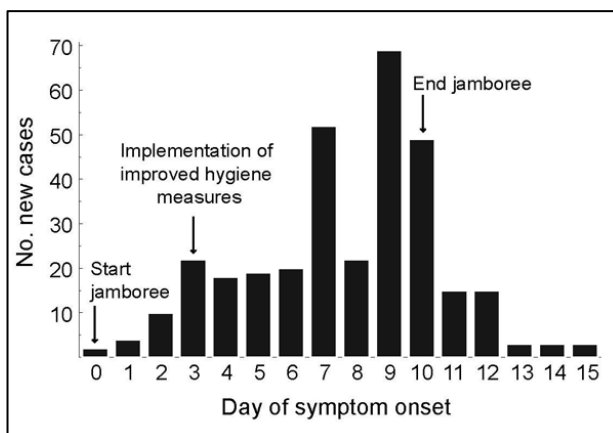


Figure 4. Progression of an outbreak of norovirus during a Boy Scout Jamboree in Europe. Implementation of improved hygiene measures (e.g., hand washing) reduced the rate of new infections, but not enough to prevent further spread (days 7 through 10).

Source: Heinje, JCM, et al.¹⁴

¹³ Verhoef, L, et al. Emergence of new norovirus variants on spring cruise ships and prediction of winter epidemics. Emerg Infect Dis 2008; 14(2): 238.

¹⁴ PURE Bioscience conference call, October 14, 2009.

¹⁵ Heinje, JCM, et al. Enhanced hygiene measures and norovirus transmission during an outbreak. Emerg Infect Dis 2009; 15(1): 24.

Note that the incubation period for most norovirus infections is 24 to 48 hours, which means that the travelers who became ill on day 6 were already infected when CruiseControl was applied the day before. The results of the trial contrast with those of a Boy Scout Jamboree in Europe, where improved hygiene failed to reduce viral reproduction sufficiently to prevent further spread of the disease (Figure 4). But then the virus has proven difficult to combat in another confined facility, a long-term nursing home, where changes in hygiene, segregation of affected persons, and having ill employees remain at home failed to bring a halt to multiple outbreaks.¹⁶ One of the characteristics of norovirus infections is repetitive outbreaks, as illustrated by the nursing home experience in which three occurred within six months and one lasted for 63 days. PURE's disinfectant should be particularly helpful in preventing reoccurrences, after limiting the extent of an individual outbreak.

Additional studies of CruiseControl are planned by several cruise lines in the months ahead. The goal is to gain additional experience working with the product to ensure it is used effectively to halt spread of the disease. We note that it has several favorable traits – it can be applied in different ways (e.g., spray or sponge) without concern over toxicity; it leaves no residue upon drying, yet it affords 24-hour protection against a variety of microbes; and it kills a broader range of microorganisms faster and more safely than other antimicrobial agents. These characteristics are important, because although the virus can be associated with contaminated food, it also spreads easily via direct skin contact.¹³ CruiseControl is priced at a premium to the Axen30 disinfectant sold under the labels of independent distributors. The potential market for this product is substantial, consisting of \$200 million in annual disinfectant sales.

CLEVELAND CLINIC NOW INVOLVED IN SDC RESEARCH

This prestigious research center has committed funds to assist a PURE partner, FTA Therapeutics, develop SDC for healthcare applications. Given the struggle to fight resistant microorganisms throughout the healthcare system, PURE's technology faces a large and inadequately served market. The precise applications for SDC being investigated have not been disclosed, but we believe they include such areas as medical disinfectants/sanitizers/antiseptics, antimicrobial coatings, preservatives, and medical therapies. The Company expects FTA will seek FDA approval to initiate clinical studies of a few products in the coming year. Most will require time-consuming testing to gain regulatory approval for commercialization, and so, we have assumed that healthcare products, aside from a hospital-strength disinfectant (capable of killing such microorganisms as *Clostridium difficile* and *Mycobacterium tuberculosis*), will launch in 2014.

OPERATIONS SHOULD TURN PROFITABLE SOON

We expect sales growth will accelerate in calendar 2010. For starters, the world economy should provide a more favorable backdrop for both consumer and commercial goods than we've experienced over the past 12 to 18 months. The difference will stem from both financial and psychological factors, as a growing economy provides more funds for discretionary purchases and creates an atmosphere in which consumers are more apt to try new products. This should benefit PURE's existing line-up, as well as new entries. Then, too, we believe some personal care products developed by BASF clients haven't reached the marketplace simply because of the serious challenge posed by a weak economy. Their introduction will also help to increase sales, notably of PURE's lucrative SDC concentrate.

The new marketing partner is coming on board at the right time, in our opinion. The promotional support should gain traction with end-users of the Company's products, partly because of the improving economic environment and partly because of the higher level of awareness that Richmond will be able to generate. The small distributors that have promoted PURE's disinfectants, for instance, have been at a disadvantage in competing individually against national brands. Nonetheless, the awareness that they have been able to generate at trade shows indicates that they have served the Company well. With

¹⁶ Cieslak, PR, et al. Recurring norovirus outbreaks in a long-term residential treatment facility – Oregon, 2007. *Morb Mortal Wkly Rep* 2009; 58(25): 694.

Richmont's support, the disinfectant will likely attract greater attention from large accounts that are best serviced at the corporate level. We believe similar benefits await PURE's other products.

The new business model will alter PURE's expenses. At this juncture, the Company and its auditors haven't decided how Richmont's remuneration will appear on its income statement. The two alternatives are for the costs to be included as part of cost of goods sold or to be shown as an operating expense. Separate from this issue, the incremental business will improve the gross margin, since PURE will sell its products directly to customers that Richmont engages, the product mix will change with larger contributions from wide-margin products, and the higher volume should translate into better use of manufacturing capacity. We've assumed that PURE books its financial obligations to Richmont as a selling expense. Besides this incremental cost, operating expenses will likely rise as the Company hires more personnel to support the growing product line.

Overall, we estimate operations will turn profitable by the end of fiscal 2010 (ends July 31st) and move well into the black the following year. The uptrend should continue thereafter as PURE's products gain broader acceptance and additional formulations of SDC are rolled out.

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INVESTMENT CONCERNS AND RISKS

For a complete description of risks and uncertainties related to PURE Bioscience's business, see the "Risk Factors" section in PURE's SEC filings, which can be accessed directly from the SEC Edgar filings at www.sec.gov. Potential risks include:

- **Stock risk and market risk:** There is a limited trading market for the Company's common stock. There can be no assurance that an active and liquid trading market will develop or, if developed, that it will be sustained, which could limit one's ability to buy or sell the Company's common stock at a desired price. Investors should also consider technical risks common to many small-cap or micro-cap stock investments, such as small float, risk of dilution, dependence upon key personnel, and the strength of competitors that may be larger and better capitalized.
- **Competitive risk:** The specialty chemical markets are highly competitive, based on individual product characteristics, pricing, and marketing support. Other companies are actively engaged in the development/commercialization of environmentally friendly antimicrobial agents to directly or indirectly address the uses being pursued by PURE. These companies may have substantially greater research and development capabilities, as well as significantly greater marketing, financial, and human resources than PURE.
- **Products still in development phases:** Many end-products based on PURE's SDC have yet to be commercialized. Such products may appear to be promising, but may not reach commercialization for various reasons, including failure to achieve regulatory approvals, safety concerns, and/or the inability to be manufactured at a reasonable cost. And even if the products are commercialized, there can be no assurance that they will be accepted, which may prevent the Company from becoming profitable.
- **Funding requirements:** It is difficult to predict PURE's future capital requirements. The Company may need additional financing to continue funding the research and development of its products and to expand its business. There is no guarantee that it can secure the desired future capital or, if sufficient capital is secured, that current shareholders will not suffer significant dilution.
- **Regulatory risk:** There is no guarantee that PURE's products will be approved by the U.S. Environmental Protection Agency, the Food and Drug Administration (FDA) or international regulatory bodies for marketing in the U.S. or abroad.
- **Patent risk:** The field of specialty chemicals is very competitive, and although PURE has received and/or filed for numerous patents to secure its right to commercialize its technology, not all of these patents have been challenged, and therefore some may not protect the Company's rights adequately in the marketplace.
- **Business concentration risk:** Because of its distribution and licensing agreements, PURE is dependent upon its partners for end-product sales. The loss of one of these important customers might have a significant effect on PURE's financial performance.

FINANCIAL FORECASTS & VALUATION

REVENUE SOURCES[#] (FISCAL YEAR ENDS JULY 31ST.)

All data in thousands

Revenue by Product Line					
	2010	2011	2012	2013	2014
Household	\$ 8,640	\$ 31,321	\$ 53,950	\$ 77,284	\$ 101,079
Personal Care	\$ 3,200	\$ 11,413	\$ 19,790	\$ 28,333	\$ 37,046
Agriculture	\$ 960	\$ 6,237	\$ 29,522	\$ 56,082	\$ 86,265
Medical	\$ -	\$ -	\$ -	\$ -	\$ 3,343
Total	\$ 12,800	\$ 48,971	\$ 103,262	\$ 161,699	\$ 227,732

Assumptions regarding Revenue Sources:

- Combined, sales generated from Richmond Sciences amount to about \$10 million in fiscal 2010 and rise to \$40 million in 2011. All of the sales are related to household and agriculture product lines.
- BASF customers and disinfectant distributors account for about \$3 million of sales in 2010. Both contribute larger volumes of business in fiscal 2011.
- CruiseControl and the food sanitizer begin to contribute meaningfully in fiscal 2011. A year later, the first agricultural/farming product begins to generate sizeable sales, and the food aid (food sanitizer/protectant) is launched.
- In 2014, the first SDC product for medical use enters the market. (Note that the hospital disinfectant is included in the household product line.)

GROSS PROFIT BY PRODUCT LINE[#]

All data in thousands

Gross Profit – by Product Line					
	2010	2011	2012	2013	2014
Agriculture	\$ 739	\$ 4,802	\$ 22,732	\$ 43,183	\$ 66,424
Personal Care	2,880	10,272	17,811	25,500	33,341
Household	8,177	23,553	40,463	57,963	75,809
Medical	-	-	-	-	2,842
Total Gross Profit	\$ 11,796	\$ 38,628	\$ 81,006	\$ 126,646	\$ 178,415

Assumptions regarding Gross Profits:

- The gross margin on personal care products is much higher than on the agriculture/food and household lines because PURE ships only SDC concentrate, its most lucrative product, to BASF for distribution to its customers. This results in low volume, very profitable business with a gross margin of 90%.
- The cost of manufacturing end-user formulations of agriculture/food and household products and the cost of marketing these products results in high-volume sales and moderate gross margins, of 75%-80%.
- The medical product line ultimately consists of a mix of products, some of which generate higher sales than others and some that are more lucrative than others. Overall, we've assumed that the gross profit margin on medical products is 85%.

INCOME STATEMENT[#] (FISCAL YEAR ENDS JULY 31ST.)

All data in thousands, except per share figures.

	2010	2011	2012	2013	2014
Total revenue	\$ 12,800	\$ 48,971	\$ 103,262	\$ 161,699	\$ 224,389
COGS	1,004	10,344	22,257	35,053	49,317
Gross profit	\$ 11,796	\$ 38,628	\$ 81,006	\$ 126,646	\$ 175,072
Operating expenses					
R&D	9% \$ 1,700	\$ 2,000	\$ 7,000	\$ 14,553	\$ 20,195
Selling & marketing	35% 5,129	13,520	28,352	44,326	61,275
General & administrative	7% 5,000	5,500	7,000	11,319	15,707
Total expense	11,829	21,020	42,352	70,198	97,178
Operating profit	\$ (32)	\$ 17,608	\$ 38,654	\$ 56,448	\$ 77,895
Total non-operating	-	-	-	-	-
Pretax profit	\$ (32)	\$ 17,608	\$ 38,654	\$ 56,448	\$ 77,895
Income tax	40% 0	2,113	4,638	22,579	31,158
Net income	\$ (32)	\$ 15,495	\$ 34,015	\$ 33,869	\$ 46,737
Earnings (loss) per share	\$ (0.00)	\$ 0.39	\$ 0.85	\$ 0.84	\$ 1.14
Diluted shares outstanding	39000	39500	40000	40500	41000

Assumptions regarding the Income Statement:

- R&D costs are held under a tight rein over the next two years. Thereafter, product development accelerates and by 2013, 9% of revenue is devoted to this undertaking.
- The Company has low direct selling and marketing expenses, since it has partnered with Richmond. We've assumed that PURE books approximately 35% of its gross profit its selling expense.
- General and administrative expenses increase marginally over the next two years. By 2013, we've booked these costs at 7% of revenue.
- No allocations have been made for non-operating expenses.
- Income taxes are booked at a 40% effective rate for financial reporting purposes, starting in 2011. However, cash payments are minimized through 2016 through the application of net operating loss carryforwards, which amounted to \$50 million as of July 31, 2009 at the federal level and about \$40 million at the state level.
- Diluted shares outstanding increase or decrease as stock options and warrants are issued or forfeited.

BALANCE SHEET# (FISCAL YEAR ENDS JULY 31ST.)

All data in thousands, except per share figures.

ASSETS	7/31/2009	7/31/2008
Current Assets		
Cash & equivalents	4,214	6,633
Accounts Receivable	143	835
Inventory	422	370
Other	69	52
Total Current Assets	\$ 4,848	\$ 7,890
Property & equipment	\$ 857	\$ 1,035
Intangible assets	1,944	2,016
Other		
Total Assets	\$ 7,649	\$ 10,941
 LIABILITIES		
Current Liabilities		
Accounts payable	\$ 369	\$ 596
Debt due	-	-
Other	195	385
Total Current Liabilities	\$ 564	\$ 981
Long-term debt	\$ -	\$ -
Other	19	16
Total Long-Term Liabilities	\$ 19	\$ 16
Shareholders Equity		
Common Stock, par value	\$ 38,498	\$ 37,202
Additional Paid-In Capital	4,566	4,156
Accumulated Deficit	(35,998)	(31,414)
Treasury Stock	-	-
Total Shareholders Equity	\$ 7,066	\$ 9,944
Total liabilities & equity	\$ 7,649	\$ 10,941

DISCOUNTED CASH FLOW ANALYSIS[#] (FISCAL YEAR ENDS JULY 31ST.)

All data in thousands, except per share figures.

	2010	2011	2012	2013	2014
Revenue	\$ 12,800	\$ 48,971	\$ 103,262	\$ 161,699	\$ 224,389
Operating income	(32)	17,608	38,654	56,448	77,895
Net income	(32)	15,495	34,015	33,869	46,737
Depreciation/amortization	406	447	430	450	450
Stock-based compensation	500	750	750	1,000	1,000
Tax loss carryforwards	-	2,113	4,638	22,579	31,158
Capital expenditures	(200)	(300)	(500)	(500)	(750)
Asset purchases					
Other					
Total cash flow adjustments	706	3,010	5,318	23,529	31,858
Free cash flow	\$ 674	\$ 18,505	\$ 39,334	\$ 57,398	\$ 78,595
Risk-adjusted free cash flow	\$ 674	\$ 6,202	\$ 14,048	\$ 20,942	\$ 28,714

Discount Rate	Discounted Cash Flows (2010 - 2025)	PV of Terminal Value at a			Enterprise Value		
		Perpetual growth rate of rFCF					
		2.0%	3.0%	4.0%	2.0%	3.0%	4.0%
7.5%	\$301,732.40	\$ 509,633	\$ 628,992	\$ 816,555	\$811,366	\$930,724	\$1,118,288
10.0%	\$240,450.49	\$ 248,180	\$ 286,415	\$ 337,395	\$488,631	\$526,866	\$577,846
12.5%	\$194,231.57	\$ 134,980	\$ 150,651	\$ 170,010	\$329,212	\$344,883	\$364,241
15.0%	\$158,922.72	\$ 78,404	\$ 85,770	\$ 94,476	\$237,326	\$244,693	\$253,398
17.5%	\$131,612.35	\$ 47,626	\$ 51,410	\$ 55,754	\$179,239	\$183,022	\$187,367

Discount Rate	Net Debt	Total Equity Value			Value per Diluted Share		
		2.0%	3.0%	4.0%	2.0%	3.0%	4.0%
		7.5%	\$ (4,214)	\$815,580	\$934,938	\$1,122,502	\$ 19.65
10.0%	(4,214)	\$492,845	\$531,080	\$582,060	\$ 11.88	\$ 12.80	\$ 14.03
12.5%	(4,214)	\$333,426	\$349,097	\$368,455	\$ 8.03	\$ 8.41	\$ 8.88
15.0%	(4,214)	\$241,540	\$248,907	\$257,612	\$ 5.82	\$ 6.00	\$ 6.21
17.5%	(4,214)	\$183,453	\$187,236	\$191,581	\$ 4.42	\$ 4.51	\$ 4.62

Discount Rate	Terminal Value as % Enterprise Value			Implied EBITDA Multiple		
	2.0%	3.0%	4.0%	2.0%	3.0%	4.0%
	7.5%	62.8%	67.6%	73.0%	11.19	13.81
10.0%	50.8%	54.4%	58.4%	7.69	8.88	10.46
12.5%	41.0%	43.7%	46.7%	5.86	6.54	7.38
15.0%	33.0%	35.1%	37.3%	4.74	5.18	5.71
17.5%	26.6%	28.1%	29.8%	3.97	4.29	4.65

Assumptions regarding the Discounted Cash Flow Analysis:

- We've assigned the following probabilities to commercial development of PURE's four product lines as follows:
 - Agriculture: 45%
 - Personal care: 45%
 - Household: 60%
 - Medical: 10%

These probabilities were selected based upon the development stages of the different products in the R&D pipeline and those that are already commercialized. They also reflect the relative importance of the products to the projected revenue for each product line (i.e., a product at an early stage of

development that is being prepared for a huge market would result in a low probability, even if products were already commercialized for limited markets).

- The DCF model projects cash flow through 2025, discounted back at multiple annual rates (7.5%, 10.0%, 12.5%, 15.0%, and 17.5%) to demonstrate the potential variability related to this assumption. It also includes three perpetual growth rates (2%, 3%, and 4%) to show the impact on the present value of the Company's terminal value. The rates used in calculating the per-share value for PURE Bioscience are a 12.5% annual discount rate and a perpetual growth rate of 3%. The number of fully-diluted shares estimated to be outstanding in 2015, 41.5 million, is used in the per-share calculation.
- The cash flows are risk adjusted, based on the proportional gross profit contribution by each end market on an annual basis and the probability of suitable products being commercialized. During periods in which losses are estimated, the probability is conservatively set at 100%.

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PRICE CHART



Source: BigCharts.com

12/03/2008 – Initiating Coverage: share price: \$2.79; rating: BUY; 12-month price target: \$8.00; **10/30/2009** – Update Report: share price: \$1.79; 12-month price target: \$8.00.

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