

PURE BIOSCIENCE, INC.
 Form 424B5
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 Filed Pursuant to Rule 424(b)(5)

Registration No. 333 — 158555
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PROSPECTUS SUPPLEMENT
 (to the prospectus dated May 5, 2009)

\$2,575,000 in Shares of Common Stock

Pursuant to this prospectus supplement and the accompanying prospectus, we are offering up to \$2,575,000 in shares of our common stock, par value \$0.01 per share, to Lincoln Park Capital Fund, LLC, or Lincoln Park, under a purchase agreement entered into on December 15, 2011.

The shares to be offered pursuant to this prospectus supplement include (i) 1,347,709 shares of our common stock at a price per share of \$0.371 for an aggregate amount of \$500,000, (ii) up to \$2,000,000 in shares of our common stock that may be sold to Lincoln Park from time to time over a 36-month period, from time to time and at our discretion, at a per share purchase price equal to the lower of (a) the lowest sale price for our common stock reported on the NASDAQ Capital Market on the purchase date of such shares or (b) the arithmetic average of the three lowest closing sale prices for our common stock during the 12 consecutive business days ending on the business day immediately preceding the purchase date of such shares; provided that in no event will such shares be sold to Lincoln Park at a price of less than \$0.25 per share, and (iii) 156,904 shares of our common stock to be issued to Lincoln Park on the date of the prospectus supplement, at no cost to Lincoln Park, as consideration for its commitment to purchase such shares.

Our common stock is traded on the NASDAQ Capital Market under the symbol “PURE”. On December 14, 2011, the last reported sale price of our common stock on the NASDAQ Capital Market was \$0.48.

As of November 1, 2011, the aggregate market value of our outstanding common stock held by non-affiliates was approximately \$26,867,000, based on 41,148,206 shares of outstanding common stock, of which 38,380,775 shares were held by non-affiliates, and a per share price of \$0.70 based on the closing sale price of our common stock on such date. During the period of 12 calendar months immediately prior to, and including, the date of this prospectus supplement, we have sold 3,973,667 shares of our common stock pursuant to General Instruction I.B.6. of Form S-3.

| | Per Share | Total |
|--|-----------|-------------|
| Offering Price to Lincoln Park | \$0.371 | \$500,000 |
| | Unknown | \$2,000,000 |
| Commitment Shares to Lincoln Park ¹ | \$0.48 | \$75,000 |
| Proceeds to us, before other expenses ² | — | \$2,500,000 |

- 1 The price per Commitment Share equals the average of the closing sale prices of our common stock for the ten (10) consecutive business days prior to December 2, 2011, or \$.478 per share.
 - 2 Does not include fees that may be paid by us to Wharton Capital Markets LLC for its assistance in arranging our agreements with Lincoln Park. See “Plan of Distribution”.
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Investing in our securities involves a high degree of risk. Before deciding whether to invest in our securities, you should review carefully the risks and uncertainties described under the heading "Risk Factors" on page S-5 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is December 15, 2011.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying prospectus are an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of their respective dates.

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying base prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a “shelf” registration process. Each time we sell securities under the accompanying base prospectus we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the price, the amount of securities being offered and the plan of distribution. The shelf registration statement, as amended, was filed with the SEC on May 6, 2009, and was declared effective by the SEC on May 8, 2009, and a registration statement registering additional shares of our common stock pursuant to Rule 462(b) under the Securities Act of 1933, as amended, was filed with the SEC on April 29, 2011. This prospectus supplement describes the specific details regarding this offering, including the price, the amount of common stock being offered, the risks of investing in our common stock and arrangements with Lincoln Park. The accompanying base prospectus provides general information about us, some of which, such as the section entitled “Plan of Distribution,” may not apply to this offering.

If information in this prospectus supplement is inconsistent with the accompanying base prospectus or the information incorporated by reference, you should rely on this prospectus supplement. This prospectus supplement, together with the base prospectus and the documents incorporated by reference into this prospectus supplement and the base prospectus, includes all material information relating to this offering. We have not authorized anyone to provide you with different or additional information. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates. You should carefully read this prospectus supplement, the base prospectus, the information and documents incorporated herein by reference and the additional information under the heading “Where You Can Find More Information” before making an investment decision.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement, the accompanying base prospectus and the documents incorporated by reference. This summary does not contain all of the information that you should consider before deciding to invest in our securities. You should read this entire prospectus supplement and the accompanying base prospectus carefully, including the section entitled “Risk Factors” beginning on page S-5 and our consolidated financial statements and the related notes and the other information incorporated by reference into this prospectus supplement and the accompanying prospectus before making an investment decision.

OUR BUSINESS

We are focused on the discovery, development and commercialization of bioscience products that provide solutions to global health challenges. Our technology platform is based on stabilized ionic silver, and our initial products contain silver dihydrogen citrate, or SDC. SDC is a broad-spectrum, non-toxic antimicrobial. We manufacture and sell SDC-based disinfecting and sanitizing products, which are registered by the Environmental Protection Agency, or EPA, to distributors and end users. We also manufacture and sell various SDC-based formulations to manufacturers for use as a raw material in the production of personal care and other products. We believe our technology platform has potential application in a number of industries, and we have ongoing research and development projects in food processing, agriculture, water treatment, pharmaceuticals, and oil and gas.

We are an early stage company and have encountered, and likely will continue to encounter, risks and difficulties in introducing or establishing our products in rapidly evolving and highly competitive and regulated markets. Our current SDC-based products, and, we believe, SDC-based products that may be developed in the future, require or will require approval by government agencies prior to marketing or sale in the U.S. or in foreign markets. Complying with applicable government regulations and obtaining necessary approvals has historically been, and we expect to continue to be, time consuming and expensive, due in part, we believe, to the novel nature of our technology. While our goal is to become a sustainable company by using our proprietary technology platform to deliver leading antimicrobial products to multiple industries, our history of losses and inability in past periods to generate sufficient cash from our operations leads us to we anticipate that market acceptance of our novel technology may be a long term achievement.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus to “we,” “us” and “our” refer to Pure Bioscience, Inc., a Delaware corporation. We own the registered trademarks or pending trademark applications for PURE Bioscience®, Powered by SDC Ag+®, Staph Attack®, Staphacide®, Axenohl™, Axen™, Silvéron®, Kinderguard®, Cruise Control®, Nutripure™, Elderguard®, Critterguard® and Innovex®. In addition, we have applications for other trademarks, tradenames and service marks pending in countries outside of the United States. All other trademarks, tradenames and service marks included or incorporated by reference into this prospectus supplement, the prospectus, any other prospectus supplement or any related free writing prospectus, are the property of their respective owners.

We were incorporated in the state of California on August 24, 1992 under the name “Innovative Medical Services”. We changed our name to Pure Bioscience on October 6, 2003. On March 24, 2011, we changed our state of incorporation from California to Delaware and changed our name from Pure Bioscience to Pure Bioscience, Inc. Our principal executive offices are located at 1725 Gillespie Way, El Cajon, California, 92020. Our telephone number is (619) 596-8600. Our website is located at www.purebio.com. The information found on, or accessible through, our website is not a part of this prospectus.

RECENT DEVELOPMENTS

Agreements with Lincoln Park Capital Fund, LLC

We have entered into two purchase agreements and a registration rights agreement with Lincoln Park Capital Fund, LLC, or Lincoln Park.

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On December 15, 2011, we entered into a purchase agreement with Lincoln Park, or the \$2.5M Purchase Agreement, pursuant to which Lincoln Park has agreed to purchase from us the securities being offered pursuant to this prospectus supplement for gross proceeds to us of up to \$2,500,000 (subject to certain limitations). Under the terms of the \$2.5M Purchase Agreement, Lincoln Park will initially purchase 1,347,709 shares of our common stock at a price per share of \$0.371 for an aggregate amount of \$500,000. Thereafter, we may, from time to time and at our sole discretion but no more frequently than every two business days during the 36-month period commencing on the date of this prospectus supplement, direct Lincoln Park to purchase up to 200,000, 250,000, or 300,000 shares of our common stock on any such day, depending on the closing sale price of our common stock on such day, up to an aggregate amount of \$2,000,000 of our common stock, at a purchase price per share, or the Purchase Price, equal to the lower of (i) the lowest sale price for our common stock reported on the NASDAQ Capital Market on the purchase date of such shares or (ii) the arithmetic average of the three lowest closing sale prices for our common stock during the 12 consecutive business days ending on the business day immediately preceding the purchase date of such shares; provided that in no event will such shares be sold to Lincoln Park at a price of less than \$0.25 per share. The Purchase Price will be equitably adjusted for any reorganization, recapitalization, non-cash dividend, stock split, or other similar transaction occurring during the business days used to compute the Purchase Price.

On December 14, 2011, we entered into a purchase agreement, or the \$7.5M Purchase Agreement, and a Registration Rights Agreement, or the Registration Agreement, with Lincoln Park, pursuant to which Lincoln Park has agreed to purchase from us up to \$7,500,000 in shares of our common stock (subject to certain limitations) from time to time over the 36-month period commencing on the date of the effectiveness of a registration statement for the resale of such shares that we must file with the SEC pursuant to the Registration Agreement. We do not have the right to commence any sales to Lincoln Park under the \$7.5M Purchase Agreement until the SEC has declared effective the resale registration statement, but after such registration statement is declared effective, we may direct Lincoln Park, from time to time and at our sole discretion but no more frequently than every two business days, to purchase at the Purchase Price up to 200,000, 250,000 or 300,000 shares of our common stock on any such day, depending on the closing sale price of our common stock on such day; provided that in no event will such shares be sold to Lincoln Park at a price of less than \$0.25 per share.

As consideration for Lincoln Park's commitment to purchase our common stock pursuant to the \$2.5M Purchase Agreement, we will issue to Lincoln Park an additional 156,904 shares of our common stock on the date of this prospectus supplement, at no cost to Lincoln Park, all of which are being offered pursuant to this prospectus supplement. Additionally, as consideration for Lincoln Park's commitment to purchase our common stock pursuant to the \$7.5M Purchase Agreement, we have issued to Lincoln Park 470,711 shares of our common stock that are not registered under this prospectus supplement but, pursuant to the Registration Agreement, must be registered for resale under the registration statement that we are required to file with the SEC pursuant to the Registration Agreement.

Termination of "At the Market" Offering

Effective as of December 14, 2011, we have terminated the Sales Agreement, dated April 29, 2011, that we entered into with C. K. Cooper and Company, Inc., or CKCC, in connection with sales by CKCC of shares of our common stock in "at the market" offerings, as defined in Rule 415 of the Securities Act of 1933, as amended, or the Securities Act. Since July 31, 2011, we have sold 1,337,091 shares of our common stock pursuant to these "at the market" offerings, for net proceeds to us of \$948,000. As of the date of this prospectus, \$2,674,340 remains available on our Registration Statement on Form S-3 (Registration No. 333-158555), together with our Registration Statement on Form S-3MEF (Registration No. 333-173826).

Richmont Litigation

We filed suit against Richmont Sciences, LLC on June 29, 2011 in San Diego County Superior Court, Case No. 37-2011-00068549-CU-CO-EC asserting various causes of action to collect on outstanding invoices. Richmont

Sciences, LLC and Richmond Holdings, LLC filed a cross-complaint for damages against us asserting contract, tort and statutory (trade secret) claims arising out of business dealings with us. We then filed a cross-complaint for compensatory and punitive damages against both Richmond entities asserting contract and fraud claims. We intend to vigorously pursue our claims and defend against the cross-claims, but we may not be able to resolve this matter on terms favorable to us and our efforts could be costly.

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THE OFFERING

The following is a brief summary of some of the terms of the offering and is qualified in its entirety by reference to the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus. For a more complete description of the terms of our common stock, see the “Description of the Securities We Are Offering” section in this prospectus supplement.

| | |
|---|--|
| Securities We Are Offering | <p>156,904 shares of our common stock, par value \$0.01 per share, to be issued to Lincoln Park on the date of this prospectus supplement at no cost to Lincoln Park, as consideration for its commitment to purchase our common stock;</p> <p>1,347,709 shares of our common stock, par value \$0.01 per share, to be sold to Lincoln Park at a price per share of \$0.371 for an aggregate amount of \$500,000; and</p> <p>up to \$2,000,000 of our common stock, par value \$0.01 per share, subject to certain limitations, which may be sold to Lincoln Park, from time to time and at our discretion over a 36-month period commencing on the date of this prospectus supplement, at a purchase price of the lower of (i) the lowest sale price for our common stock on the purchase date of such shares or (ii) the arithmetic average of the three lowest closing sale prices for our common stock during the 12 consecutive business days ending on the business day immediately preceding the purchase date of such shares; provided that in no event will such shares be sold to Lincoln Park at a price of less than \$0.25 per share.</p> |
| Common Stock Outstanding Immediately Before This Offering | 41,992,461 shares (which includes an aggregate of 470,711 in commitment shares issued to Lincoln Park pursuant to the \$7.5M Purchase Agreement, as described herein. |
| Use of Proceeds | General corporate purposes, which may include sales and marketing efforts relating to our products and product candidates. For more information, see “Use of Proceeds” on page S-18. |
| Risk Factors | See “Risk Factors” and other information included in this prospectus supplement, or incorporated herein by reference, for a discussion of factors you should carefully consider before deciding to invest in our common stock. |
| NASDAQ Capital Market Symbol | PURE |

Except as otherwise indicated, the information contained in this prospectus supplement assumes the sale of all of the shares offered hereby.

The number of shares of our common stock outstanding as of December 13, 2011, which was 41,521,750, excludes:

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- 1,509,100 shares of our common stock issuable upon exercise of warrants outstanding on December 13, 2011, all of which are exercisable at prices ranging from \$2.06 to \$8.60 per share;
- 2,887,750 shares of our common stock issuable upon exercise of options outstanding as of December 13, 2011, of which approximately 1,772,238 shares are exercisable; and
- 1,733,550 shares of our common stock available for future grants under our stock option plan as of December 13, 2011.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. Before purchasing our common stock, you should carefully consider the following risk factors as well as all other information contained in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference, including our consolidated financial statements and the related notes. Each of these risk factors, either alone or taken together, could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock. There may be additional risks that we do not presently know of or that we currently believe are immaterial which could also impair our business and financial position. If any of the events described below were to occur, our financial condition, our ability to access capital resources, our results of operations and/or our future growth prospects could be materially and adversely affected and the market price of our common stock could decline. As a result you could lose some or all of any investment you may have made or may make in our common stock.

Risks Related to this Offering and our Common Stock

The sale or issuance of our common stock to Lincoln Park may cause dilution and the sale of the shares of common stock acquired by Lincoln Park, or the perception that such sales may occur, could cause the price of our common stock to fall

On December 15, 2011, we entered into the \$2.5M Purchase Agreement with Lincoln Park, pursuant to which we may issue to Lincoln Park the securities being offered pursuant to this prospectus supplement, or up to \$2,500,000 of our common stock (subject to certain limitations) and 156,904 shares to be issued to Lincoln Park at no cost as a fee for its commitment to purchase such shares. In addition, on December 14, 2011, we entered into the \$7.5M Purchase Agreement with Lincoln Park, pursuant to which Lincoln Park has committed to purchase an additional \$7,500,000 of our common stock, from time to time over a 36-month period commencing after the SEC has declared effective a registration statement for the resale of such shares that we must file with the SEC within 30 business days after the date of such agreement.

Other than Lincoln Park's initial purchase under the \$2.5M Purchase Agreement of 1,347,709 shares of our common stock at a price per share of \$0.371 for an aggregate amount of \$500,000, or the Initial Purchase, the purchase price for the shares that we may sell to Lincoln Park will fluctuate based on the price of our common stock. It is anticipated that shares registered by this prospectus supplement will be sold over a period of up to 36 months after the date of this prospectus supplement. Depending on market liquidity at the time, sales of such shares may cause the trading price of our common stock to fall.

We generally have the right to control the timing and amount of any sales of our shares to Lincoln Park, except that, pursuant to the terms of our agreements with Lincoln Park, we would be unable to sell shares to Lincoln Park if and when the market price of our common stock is below \$0.25 per share. Sales of our common stock, if any, to Lincoln Park will depend upon market conditions and other factors to be determined by us. As such, other than the Initial Purchase, Lincoln Park may ultimately purchase all, some or none of the shares of our common stock offered pursuant to this prospectus supplement and, after it has acquired shares, Lincoln Park may sell all, some or none of those shares. Therefore, sales to Lincoln Park by us pursuant to the \$2.5M Purchase Agreement could result in substantial dilution to the interests of other holders of our common stock. Additionally, the sale of a substantial number of shares of our common stock to Lincoln Park, or the anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

You may experience immediate dilution in the book value per share of the common stock you purchase

Because the price per share of our common stock being offered pursuant to this prospectus supplement may be substantially higher than the book value per share of our common stock, you may suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. After giving effect to the sale by us of \$2,500,000 of common stock in this offering, and based on an estimated public offering price of \$0.48 per share in this offering and a pro forma net tangible book value per share of our common stock of \$0.07 as of October 31, 2011, if you purchase securities in this offering, you will suffer immediate and substantial dilution in the net tangible book value of the common stock purchased. See "Dilution" on page S-17 for a more detailed discussion of the dilution you may incur in connection with this offering.

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Management will have broad discretion as to the use of the proceeds from this offering, and we may not use the proceeds effectively

We have not designated any portion of the net proceeds from this offering to be used for any particular purpose. Accordingly, our management will have broad discretion as to the application of the net proceeds from this offering, and could spend the proceeds in ways that do not necessarily improve our operating results or enhance the value of our common stock.

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

The price and trading volume of our common stock have historically been volatile. For example, in the twelve months through December 13, 2011, the closing market price of our common stock ranged from \$0.37 per share to \$2.64 per share, and the monthly trading volume varied from approximately 1.8 million shares to 15.5 million shares. Our agreements with Lincoln Park to sell up to \$2,500,000 and \$7,500,000 of our common stock to Lincoln Park could increase the volatility of the price of our common stock for the duration of such agreements. Other factors that could contribute to the continued volatility of the market price of our common stock include:

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

In addition, the stock market in general, the NASDAQ Capital Market, and the market for shares of novel technology and biotechnology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, the market prices of bioscience companies have been unusually volatile in the last year, and such volatility may continue for the foreseeable future. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In addition, this volatility could adversely affect an investor's ability to sell shares of our common stock, and/or the available price for such shares, at any given time.

Following periods of volatility in the market price of a company's securities, stockholder derivative lawsuits and securities class action litigation are common. Such litigation, if instituted against us or our officers and directors, could result in substantial costs and a diversion of management's attention and resources.

We may not be able to maintain our NASDAQ listing

In April 2008, we obtained a listing for our common stock on the NASDAQ Capital Market. In order to maintain our listing, we will need to continue to meet certain listing standards that include maintaining minimum thresholds of stockholders' equity, market value of our listed or publicly held securities, number of publicly held shares, bid price for our common stock, number of stockholders, number of market makers, and our net income. In addition, certain of our corporate governance policies are required to remain compliant with standards determined, and amended from time to time, by the NASDAQ Stock Market, or NASDAQ.

On September 16, 2011, we received a deficiency letter, the Notification Letter, from NASDAQ notifying us that we no longer meet NASDAQ's requirements for continued listing on the NASDAQ Capital Market under NASDAQ Listing Rule 5550(a)(2), the Bid Price Rule, because the minimum bid price of our common stock did not equal or exceed \$1.00 at least once over a period of 30 consecutive trading days. NASDAQ explained in the Notification Letter that under NASDAQ Listing Rule 5810(c)(3)(A), we will be afforded 180 calendar days, or until March 14, 2012, to regain compliance with the Bid Price Rule. To regain compliance, the closing bid price of our common stock must meet or exceed \$1.00 per share for at least 10 consecutive business days. If we do not regain compliance by March 14, 2012, NASDAQ will provide written notification to us that our common stock will be subject to delisting from the NASDAQ Capital Market. We may, however, be eligible for an additional grace period of 180 calendar days if we satisfy the continued listing requirement for market value of publicly held shares and all other initial listing standards (with the exception of the Bid Price Rule) for listing on the NASDAQ Capital Market, and submit a timely notification to NASDAQ of our intention to cure the deficiency during the second compliance period, by effecting a reverse stock split, if necessary, which would need to be approved by our stockholders.

We are evaluating various actions to pursue to ensure compliance with NASDAQ's continued listing requirements, and there can be no assurance that we will be able to regain compliance with NASDAQ's continued listing requirements. If we fail to regain compliance with the Bid Price Rule or otherwise maintain the standards required now or in future by NASDAQ, our common stock could be delisted. Such delisting could cause our stock to be classified as "penny stock," among other potentially detrimental consequences, any of which could significantly impact your ability to sell your shares of our common stock or to sell your shares at a price that you may deem to be acceptable.

We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future

The continued operation and expansion of our business will require substantial funding. Investors seeking cash dividends in the foreseeable future should not purchase our common stock. We have paid no cash dividends on any of our capital stock to date and we currently intend to retain our available cash to fund the development and growth of our business. Any determination to pay dividends in the future will be at the discretion of our Board and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our Board deems relevant. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any return to stockholders will therefore be limited to the appreciation of their stock, which may never occur.

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

Certain provisions of our charter and bylaws may delay or frustrate the removal of incumbent directors and may prevent or delay a merger, tender offer, or proxy contest involving us that is not approved by our Board, even if such events may be beneficial to the interests of stockholders. For example, our Board, without stockholder approval, has the authority and power to issue 5,000,000 shares of preferred stock and such preferred stock could have voting or conversion rights which could adversely affect the voting power of the holders of our common stock. In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may discourage, delay or prevent certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our charter documents may make it more difficult for stockholders or potential acquirers to initiate actions that are opposed by the then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest or other change of control transaction involving our company. Any delay or prevention of a change of control transaction could cause stockholders to lose a substantial premium over the then-current market price of their shares.

Risks Related to Our Business and Industry

We will need to raise additional capital in order to continue operating our business and continue to develop new products and technologies, and such additional funds may not be available on acceptable terms or at all

We have not generated, and may never generate, significant cash from operations and must raise additional funds in order to continue operating our business. Our cash outflows for operating activities and for investments in patents and fixed assets were \$1.5 million in the three months ended October 31, 2011, and \$6.4 million in the year ended July 31, 2011. Cash outflows may be greater in future periods.

Our capital requirements will depend on many factors, including, among other factors:

- the acceptance of, and demand for, our products;
- our success and that of our strategic partners in developing and selling products derived from our technology;
 - the costs of further developing our existing, and developing new, products or technologies;

- the extent to which we invest in new technology, testing and product development;
- the timing of vendor payments and of the collection of receivables, among other factors affecting our working capital;
 - the exercise of outstanding options or warrants to acquire our common stock;
 - the number and timing of acquisitions and other strategic transactions, if any; and
- the costs associated with the continued operation, and any future growth, of our business.

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We will need to increase our liquidity and capital resources. We have entered into agreements with Lincoln Park to raise capital through the issuance of our common stock, on which we expect to rely in the near term. However, pursuant to the terms of such agreements, we would be unable to sell shares to Lincoln Park if and when the market price of our common stock is below \$0.25 per share. Additionally, we anticipate that we may require additional capital in future periods to continue our operations and further develop our products and technologies. Until we can generate a sufficient amount of revenue to finance our cash requirements, which we may never do, we expect to increase our liquidity and capital resources by one or more measures, which may include reducing operating expenses, raising additional financing through the issuance of debt, equity (whether through our agreements with Lincoln Park or otherwise), or convertible securities, entering into partnerships, licenses, or other arrangements with third parties, reducing the exercise price of outstanding warrants, or through other means, any one of which could reduce the value to us, perhaps substantially, of our technology and its commercial potential. There is no guarantee that we will be able to obtain capital on terms acceptable to us, or at all. Insufficient funds would result in a material adverse effect on our business and operations and could cause us to fail to execute our business plan, fail to take advantage of future opportunities, or fail to respond to competitive pressures or customer requirements, and further may require us to delay, scale back or eliminate some or all of our research and product development programs, license to third parties the right to commercialize products or technologies that we would otherwise commercialize ourselves, to reduce or cease operations, or otherwise significantly modify our business model or cease operations altogether. Modification of our business model and operations could result in an impairment of assets, which cannot be determined at this time. Furthermore, if we issue equity or convertible debt securities to raise additional funds, our existing stockholders may experience dilution, and in addition the new equity or debt securities may have rights, preferences and privileges that are superior to those of our existing stockholders. If we incur debt, it may increase our leverage relative to our earnings or to our equity capitalization.

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

We had a loss of \$2.4 million for the three months ended October 31, 2011, and a loss of \$8.3 million for the year ended July 31, 2011. As of October 31, 2011, we had an accumulated deficit of approximately \$56.0 million. Although we expect to continue to have losses in future periods, we are unable to predict the extent of our future losses or when or if we will become profitable, and it is possible we will never become profitable. Even if we do achieve profitability, we may not be able to sustain or increase profitability on an ongoing basis.

None of our existing agreements contain provisions that guarantee us any minimum revenues. If the penetration into the marketplace of SDC and SDC-based products is unsuccessful, revenue growth is slower than anticipated or operating expenses exceed expectations, it may take an unforeseen period of time to achieve or maintain profitability and we may never achieve or maintain profitability. Slower than anticipated revenue growth could force us to reduce research, testing, development and marketing of our technologies, and/or force us to reduce the size and scope of our operations, to sell or license our technologies to third parties, or to cease operations altogether.

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

Raising additional funds by issuing securities or through collaboration and licensing arrangements, or other issuances of our securities, may cause dilution to existing stockholders, restrict our operations or require us to relinquish

proprietary rights

We expect that we will need to increase our liquidity and capital resources in the year ending July 31, 2012 and in future periods. We have a history of raising funds through offerings of our common stock, and we may in the future raise additional funds through public or private equity offerings (including pursuant to our recent agreements with Lincoln Park or otherwise), debt financings or corporate collaborations and licensing arrangements. The extent to which we rely on Lincoln Park as a source of funding will depend on a number of factors including, without limitation, the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources. To the extent that we raise additional capital by issuing equity securities, our stockholders' ownership will be diluted. Any debt financing we obtain may involve covenants that restrict our operations. These restrictive covenants may include, among other things, limitations on borrowing, specific restrictions on the use of our assets, as well as prohibitions on our ability to create liens on our assets, pay dividends on or redeem our capital stock or make investments. In addition, if we raise additional funds through collaboration and licensing arrangements, it may be necessary to grant licenses on terms that are not favorable to us or relinquish potentially valuable rights to our products or proprietary technologies. We may be required in future collaborations to relinquish all or a portion of our sales and marketing rights with respect to our products or license intellectual property that enable licensees to develop competing products in order to complete any such transaction.

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Our authorized common stock is 100,000,000 shares. In addition to capital raising activities, other possible business and financial uses for our authorized common stock include, without limitation, future stock splits, acquiring other companies, businesses or products in exchange for shares of common stock, issuing shares of our common stock to partners in connection with strategic alliances, attracting and retaining employees by the issuance of additional securities under our various equity compensation plans, or other transactions and corporate purposes that our Board of Directors, or Board, deems are in the Company's best interest. Additionally, shares of common stock could be used for anti-takeover purposes or to delay or prevent changes in control or management of the Company. For example, without further stockholder approval, the Board could sell shares of common stock in a private transaction to purchasers who would oppose a takeover or favor our current Board. We cannot provide assurances that any issuances of common stock will be consummated on favorable terms or at all, that they will enhance stockholder value, or that they will not adversely affect our business or the trading price of our common stock.

Under our Certificate of Incorporation, the Board could also issue 5,000,000 shares of preferred stock on terms determined by the Board. If any common or preferred stock is issued, the interests of holders of our common stock could be diluted, and shares of preferred stock could be issued in a financing in which investors purchase preferred stock with rights, preferences and privileges that may be superior to those of the common stock, and the market price of our common stock could decline.

If outstanding options and warrants to purchase shares of our common stock are exercised, the interests of our stockholders could be diluted

In addition to 41,521,750 shares of common stock issued and outstanding, we currently have 2,887,750 shares reserved for issuance under equity compensation plans for vested and unvested stock options. We also have 1,509,100 shares reserved for issuance on the exercise warrants and we have agreed to issue, subject to certain conditions, an additional warrant exercisable for 200,000 shares to Wharton Capital Markets LLC for its assistance in arranging our agreements with Lincoln Park. We may elect to reduce the exercise price of outstanding warrants as a means of providing additional financing to us. The exercise of options and warrants, and the sale of shares underlying such options or warrants, could have an adverse effect on the market for our common stock, including the price that an investor could obtain for their shares. Investors may experience dilution in the net tangible book value of their investment upon the exercise of outstanding options and warrants granted under our stock option plans, and options and warrants that may be granted or issued in the future.

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

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

- we may not increase our sales to our existing customers and/or expand our customer base;
- we may not succeed in materially penetrating markets and applications for our SDC technology;
 - we or our partners and/or distributors may not establish or maintain effective