

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 AND EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 1996

\_\_\_\_ TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE  
EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-8814

PURE CYCLE CORPORATION

(Exact name of small business issuer as specified in its charter)

Delaware 84-0705083  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

5650 York Street, Commerce City, CO 80022  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number(303) 292 - 3456

N/A

(Former name, former address and former fiscal year,  
if changed since last report.)

Check whether the registrant (1) filed all reports required to be  
filed by Section 13 or 15(d) of the Exchange Act during the past  
12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes [x]; NO [ ]

State the number of shares outstanding of each of the issuer's  
classes of common equity, as of November 30, 1996:

Common Stock, 1/3 of \$.01 par Value 78,439,763  
(Class) (Number of Shares)

Transitional Small business Disclosure Format (Check one):  
Yes [ ]; No [x]

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PURE CYCLE CORPORATION AND SUBSIDIARY

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"SAFE HARBOR" STATEMENT UNDER THE UNITED STATES PRIVATE  
SECURITIES LITIGATION REFORM ACT OF 1995

Statements that are not historical facts contained in this Quarterly Report on Form 10-QSB are forward looking statements that involve risk and uncertainties that could cause actual results to differ from projected results. Factors that could cause actual results to differ materially include, among others: general economic conditions, the market price of water, changes in applicable statutory and regulatory requirements, changes in technology, uncertainties in the estimation of water available under decrees and timing of development, the strength and financial resources of the Company's competitors, the Company's ability to find and retain skilled personnel, climatic conditions, labor relations, availability and cost of material and equipment, delays in the anticipated permit and start-up dates, environmental risks, and the results of financing efforts.

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PURE CYCLE CORPORATION AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONSOLIDATED BALANCE SHEETS

ASSETS	November 30 1996	August 31 1996
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 327,883	\$ 126,756
Marketable securities	3,429	3,429
Prepaid expenses and other current assets	7,795	10,864
	-----	-----
Total current assets	339,287	141,049
Investment in water projects:		
Rangeview water rights (Rangeview Water Commercialization Agreement in 1995)	12,829,952	12,788,413
Paradise water rights	5,466,834	5,466,834
	-----	-----
Total investment in water projects	18,296,786	18,255,247
Note receivable	256,056	251,282
Equipment, at cost, net of accumulated depreciation of \$12,804 in 1996 and \$10,225 in 1995	4,434	5,155
Other assets	36,096	40,596
	-----	-----
	\$ 18,932,659	\$ 18,693,329
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 66,833	\$ 53,796
Long-term debt - related parties, less current maturities (Note 2)	3,098,106	2,750,311
Other non-current liabilities	129,253	127,468
Participating interests in Rangeview water rights (Minority interest in Rangeview Water Commercialization Agreement in 1995)	11,090,630	11,090,630
Stockholders' equity (Note 3):		
Preferred stock, par value \$.001 per share; authorized - 25,000,000 shares:		
Series A - 1,600,000 shares issued and outstanding	1,600	1,600
Series B - 432,513 shares issued and outstanding	433	433
Common stock, par value 1/3 of \$.01 per share; authorized - 135,000,000 shares; 78,439,763 shares issued and outstanding	261,584	261,584
Additional paid-in capital	23,633,561	23,633,561
Deficit accumulated during development stage	( 6,622,969)	( 6,499,682)
Deficit accumulated prior to September 1, 1986	(12,726,372)	(12,726,372)
	-----	-----
Total stockholders' equity	4,547,837	4,671,124

Contingency (Note 4)

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\$ 18,932,659	\$ 18,693,329
=====	=====

[FN]

See Accompanying Notes to the Consolidated Financial Statements

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PURE CYCLE CORPORATION AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three Months Ended	
	November 30	November 30
	1996	1995
	-----	-----

Expenses:		
General, administrative and marketing	\$( 79,410)	\$( 88,687)
Expiration of option to purchase water rights	--	31,997
Interest	( 49,580)	( 46,150)
	-----	-----
Total Expenses	(128,990)	(166,834)
Interest income	5,703	12,488
	-----	-----
Net Loss	\$(123,287)	\$(154,346)
	=====	=====
Net Loss per common share	\$ --*	\$ --*

\* less than \$.01 per share

[FN]

See Accompanying Notes to the Consolidated Financial Statements

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PURE CYCLE CORPORATION AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	Three Months Ended		Cumulative
	November 30	November 30	Sept. 1, 1986 to
	1996	1995	November 30, 1996
	-----	-----	-----

Cash flows from operating activities:			
Net loss	\$(123,287)	\$(154,346)	\$(6,622,969)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	721	1,394	32,259
Amortization of debt issuance costs	--	--	23,000
Amortization of warrant issuance costs	4,500	--	4,500
(Loss)/gain on sale of marketable securities	--	--	( 24,809)
Accretion of discount on long-term debt	--	--	69,630
Common shares issued as additional interest expense	--	--	25,000
Extraordinary gain on extinguishment of debt	--	--	( 559,651)
Loss on abandonment of option on water rights	--	--	781,997
Financing expense on purchase of water option	--	--	200,000
Financing costs for issuance of stock options below market price	--	--	187,500
Gain on put options waived	--	--	( 40,950)

Loss on abandonment of power plant equipment	--	--	62,500
Payment for services and expenses with common stock donated by President	--	--	298,250
Other unrealized loss on marketable securities	--	--	1,143
Increase in accrued interest on note receivable	( 4,774)	( 3,276)	( 26,746)
Other	--	--	( 1,065)
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	2,889	6,297	( 3,025)
Accounts payable and other non-current liabilities	13,037	( 41,064)	442,328
Accrued interest	49,580	44,365	1,642,222
	-----	-----	-----
Net cash used in operating activities	\$ ( 57,334)	\$ (146,630)	\$ (3,508,886)
	-----	-----	-----

(continued)

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PURE CYCLE CORPORATION AND SUBSIDIARY  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(CONTINUED)

	Three Months Ended		Cumulative
	November 30 1996	November 30 1995	Sept. 1, 1986 to November 30, 1996
	-----	-----	-----
Cash flows from investing activities:			
Investments in water rights	\$ ( 41,539)	\$ 6,525	\$ (2,393,763)
Purchase of marketable securities	--	--	(2,000,000)
Proceeds from sale of marketable securities	--	--	2,024,809
Increase in note receivable	--	( 26,300)	( 229,310)
Purchase of equipment	--	( 663)	( 17,237)
Increase in other assets	--	--	( 106,595)
	-----	-----	-----
Net cash provided by (used in) investing activities	( 41,539)	( 20,438)	(2,722,096)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from issuance of debt	300,000	--	2,977,629
Repayments of debt	--	--	(1,167,190)
Proceeds from sale of common stock	--	--	2,900,000
Proceeds from sale of Series A convertible Preferred stock	--	--	1,600,000
Proceeds from issuance of redeemable common stock	--	--	245,000
Proceeds from issuance of stock options	--	--	100,000
Repurchase of stock options	--	--	( 100,000)
	-----	-----	-----
Net cash provided by (used in) financing activities	300,000	--	6,555,439
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	201,127	(167,068)	324,457
Cash and cash equivalents beginning of period	126,756	865,803	3,426
	-----	-----	-----
Cash and cash equivalents end of period	\$ 327,883	\$ 698,735	\$ 327,883
	=====	=====	=====

PURE CYCLE CORPORATION AND SUBSIDIARY  
 (A DEVELOPMENT STAGE ENTERPRISE)  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING PRINCIPLES  
 - - - - -

The consolidated balance sheet as of November 30, 1996 and August 31, 1996, the consolidated statements of operations for the three months ended November 30, 1996 and November 30, 1995 and the consolidated statements of cash flows for the three months ended November 30, 1996 and November 30, 1995, have been prepared by the Company, without an audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows at November 30, 1996 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's 1996 Annual Report on Form 10-KSB. The results of operations for interim periods presented are not necessarily indicative of the operating results for the full year.

NOTE 2 - LONG-TERM DEBT  
 - - - - -

In August 1996, the Company entered into a loan agreement with six related party investors. The loan is for \$300,000, is unsecured, bears interest based on the prime rate plus 2%, is payable in equal quarterly installments through August 30, 1997. The agreement provides that the Company can extend the due date of any of the four quarterly installment to August 30, 2002 by issuing additional warrants (see Note 3). The funds were advanced to the Company in September 1996. In connection with the loan agreement, the Company issued warrants to purchase shares of the Company's common stock. The agreement includes a covenant that prohibits the note from being called prior to the expiration of the warrants issued in conjunction with the note.

NOTE 3 - STOCKHOLDERS' EQUITY  
 - - - - -

In connection with a loan agreement described in note 2, the Company issued warrants to purchase 600,000 shares of the Company's common stock at \$.25 per share. The warrants expire August 30, 2002. The loan agreement includes a provision entitling the Company to extend the due date of any of the installments to August 30, 2002 by issuing additional warrants to purchase common stock at \$.25 per share. The number of warrants to be issued is equal to 150% of the principal amounts due plus accrued interest, divided by \$.25. The estimated fair value of the warrants issued of \$18,000 has been capitalized and is being amortized to expense over the term of the notes.

Note 4 - CONTINGENCY/SUBSEQUENT EVENT  
 - - - - -

In October 1994, the Company joined in a lawsuit initiated by others including the Rangeview Metropolitan District (the "District"), brought in the District Court of the City and County of Denver, Colorado, against the Colorado State Board of Land Commissioners (the "State Land Board") seeking a declaratory judgment affirming that the lease, as amended, from the State Land Board to the District was valid and enforceable.

In April of 1996, the parties to the lawsuit agreed to a settlement (the "Settlement"). The Settlement, among other things, clarifies the State Land Board's royalty participation in an amended and restated lease relating to the principal value of \$24,914,058 in exchange for interests in the Company's

-----  
Rangeview water rights. The Company negotiated agreements to acquire the remainder of the District's Bonds not already owned by the Company with a Comprehensive Amendment Agreement ("CAA"). Commitments to the former bondholders and investors to share in the proceeds from the sale or other disposition of the Export Water Rights decreased from approximately \$33,546,000 to approximately \$31,807,000 as a result of the Settlement. The Settlement was subject to obtaining a final non-appealable order of the trial court approving the Settlement. The trial court order was signed June 14, 1996 and became final and non-appealable on July 29, 1996.

Certain crossclaims in the lawsuit remained pending between the District and the East Cherry Creek Valley Water and Sanitation District (the "ECCV"). One of ECCV's crossclaims would have affected the Company in that ECCV asserted that it had the right of first refusal to purchase the Export Water. If ECCV were to have prevailed on this claim, the Company would have been required to sell the Export Water to ECCV. The price for such a purchase would have been determined by the court and might have been more or less favorable than the price the Company could obtain from a third party. In December 1996, the crossclaims in the lawsuit were settled. ECCV set aside its right to first refusal to purchase the Export Water in return for a financial settlement with the District. The outcome of the settlement had no effect on the Company.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations  
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General and administrative expenses for the three months ended November 30, 1996 were approximately \$9,500 lower than for the period ended November 30, 1995, primarily because of a reduction in salaries paid to the officers of the Company. Interest expense increased for the three months ended November 30, 1996 by approximately \$3,400 compared to the period ended November 30, 1995, primarily because of a higher average outstanding balance of notes payable in the first quarter of fiscal 1996 compared to the same period in fiscal 1995. Net loss for the three months ended November 30, 1996 decreased approximately \$31,000 compared to the three months ended November 30, 1995 primarily because of a non-recurring expense relating to an option to purchase certain water rights which expired in November 1995.

Liquidity and Capital Resources  
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At November 30, 1996, current assets exceed current liabilities by \$272,454 and, the Company had cash and cash equivalents of \$327,883.

In August 1996, the Company entered into a loan agreement with six related party investors. The loan is for \$300,000, is unsecured, bears interest based on the prime rate plus 2%, and is payable in equal quarterly installments through August 30, 1997 (see Notes 2 and 3 to the financial statements). Proceeds from the note were received in September 1996.

The Company is aggressively pursuing the sale and development of its water rights. The Company cannot provide any assurances that it will be able to sell its water rights. In the event a sale of the Company's water rights is not forthcoming and the Company is not able to generate revenues from the sale or development of its technology, the Company may sell additional portions of the Company's profit interest pursuant to the CAA, incur short or long-term debt obligations or seek to sell additional shares of Common Stock, Preferred Stock or stock purchase warrants as deemed necessary by the Company to generate operating capital.

Development of any of the water rights that the Company has, or is seeking to acquire, will require substantial capital investment by the Company. Any such additional capital for the development of the water rights is anticipated to be financed through the sale of water taps and water delivery charges to a city or municipality. A water tap charge refers to a charge

imposed by a municipality to permit a water user to access a water delivery system (i.e. a single-family home's tap into the municipal water system), and a water delivery charge refers to a water user's monthly water bill generally based on a per 1,000 gallons of water consumed.

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PURE CYCLE CORPORATION  
SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PURE CYCLE CORPORATION

Date:

January 13, 1997  
-----

/S/ Thomas P. Clark  
-----

Thomas P. Clark,  
President

Date:

January 13, 1997  
-----

/S/ Mark W. Harding  
-----

Mark W. Harding,  
Chief Financial Officer

Date:

January 13, 1997  
-----

/S/ Michael S. Mehrtens  
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Michael S. Mehrtens  
Controller

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THIS DOCUMENT CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S 10-QSB DATED NOVEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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