

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K/A**

(Amendment No. 2)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended August 31, 2006

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-8814

**PURE CYCLE CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of incorporation)

**84-0705083**  
(I.R.S. Employer Identification No.)

**8451 Delaware Street, Thornton, CO**  
(Address of principal executive office)

**80260**  
(Zip Code)

Registrant's telephone number, including area code: **(303) 292-3456**

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock 1/3 of \$.01 par value**  
Title of Class

**The NASDAQ Stock Market, LLC**  
Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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  No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerate filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates on February 28, 2006, the last business day of the registrants most recently completed second fiscal quarter was: \$98,254,000

Number of shares of Common Stock outstanding, as of October 31, 2006: 18,348,834

Documents incorporated by reference: Portions of the Registrant's definitive Proxy Statement for the Registrant's 2007 Annual Meeting of Stockholders are incorporated by reference under Part III of this annual report on form 10K.

**Explanatory Note**

This Amendment No. 2 on Form 10-K/A (the "Amendment"), amends our Annual Report on Form 10-K for the fiscal year ended August 31, 2006, originally filed on November 21, 2006 (the "Original Filing"), and Form 10-K/A, filed on April 16, 2007. The Amendment provides additional discussion in *Item 9A. Controls and Procedures* relating to the reasons for our filing of Amendment No. 1 to the Original Filing. Except as described above, no other changes have been made to the Original Filing or

**Item 9A. Controls and Procedures.**

(a) *Evaluation of Disclosure Controls and Procedures*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the Exchange Act Rule 13a—15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The President and Chief Financial Officer assessed the effectiveness of internal control over financial reporting as of August 31, 2006 based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, the President and Chief Financial Officer has concluded that the Company's disclosure controls and procedures were not effective as of August 31, 2006 due to the material weakness in internal control over financial reporting described below (Item 9A(b)).

(b) *Management's Report on Internal Control Over Financial Reporting*

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Securities and Exchange Act of 1934 defines internal control over financial reporting in Rule 13a-15(f) as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of August 31, 2006. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based upon its assessment, management concluded that, as of August 31, 2006, the Company has inadequate controls over the process for the identification and implementation of the proper accounting for certain transactions which resulted in material errors not corrected prior to the issuance of the original Form 10-K. The correction of these errors resulted in the Company amending its original Form 10-K to restate its balance sheet and statement of stockholders' equity to (the correction of the following errors are described in greater detail in the Explanatory Note

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on page 3 as well as NOTE 1 — ORGANIZATION AND RESTATEMENT in the accompanying financial statements):

1. Remove the liability *Contingent obligations payable upon default by HP A&M* and the contra-equity account *Receivable from HP A&M in event of default* As described in the Explanatory Note, certain of the real properties the Company acquired pursuant to the Arkansas River Agreement are subject to promissory notes which are secured by deeds of trust on the properties. Due to the likelihood of HP A&M defaulting on the promissory notes being remote and therefore the likelihood of the Company losing the properties and water rights subject to the promissory notes being remote, this did not require recognition of a liability pursuant to Statement of Financial Accounting Standard ("SFAS") No. 5 *Accounting for Contingencies* under U.S. GAAP.
2. Restate the liability *Tap Participation Fees payable to HP A&M* and adjust the values assigned to the assets acquired from HP A&M accordingly. The Company should not have accounted for the Tap Participation Fees as contingent consideration pursuant to SFAS No. 141 *Business Combinations*, nor should the Company have valued the liability using a residual value method as described in the Explanatory Note. Instead, pursuant to U.S. GAAP, the Company should have valued the Tap Participation Fees using a discounted cash flow method and then allocated the total value of the consideration paid to the acquired assets. As a result of this, the Company completed a discounted cash flow model and reduced the value of the *Tap Participation Fees payable to HP A&M* and the assets acquired from HP A&M accordingly.

A material weakness represents a significant deficiency (as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 2), or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Because the Company's controls over the process for the identification and implementation of the proper accounting for certain transactions resulted in the aforementioned errors, management concluded that the Company did not maintain effective internal control over financial reporting as of August 31, 2006, which constitutes a material weakness. As a result of the material weakness, the Company restated its originally filed Form 10-K.

Anton Collins Mitchell LLP, the Company's independent registered public accounting firm, who has audited the Company's financial statements included herein, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting at August 31, 2006 which report is included herein.

(c) *Changes in Internal Controls*

There were no changes in the Company's internal controls over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

(d) *Remediation Efforts to Address Material Weaknesses in Internal Control Over Financial Reporting*

The Company is developing a formal remediation plan and intends to make progress on remediation during fiscal 2007 and to complete the remediation of this weakness by August 31, 2007. Remediation includes the verification through management testing that the revised control procedures are operating effectively, which may extend the remediation timeline if these tests indicate that the control deficiency remains.

(e) *Report of Independent Registered Public Accounting Firm*

The report of the Company's independent registered public accounting firm is included in *Item 8. Financial Statements and Supplementary Data*.

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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a) Exhibits

- 3.1 Amended and Restated Certificate of Incorporation - Incorporated by reference from Exhibit 3.1 to Amendment No. 2 to Registration Statement on Form SB-2, filed June 10, 2004, Registration No. 333-114568
- 3.2 Amended and Restated Bylaws of Registrant - Incorporated by reference from Exhibit 3.2 to Amendment No. 2 to Registration Statement on Form SB-2, filed June 10, 2004, Registration No. 333-114568.
- 4.1 Specimen Stock Certificate - Incorporated by reference to Registration Statement No. 2-62483.
- 10.1 Letter Agreement dated August 31, 1987 between Pure Cycle Corporation and Paradise Oil, Water & Land Development, Inc. Incorporated by reference from Current Report on Form 8-K filed with the SEC on August 5, 1988.
- 10.2 Right of First Refusal Agreement dated August 12, 1992 between INCO Securities Corporation and Richard F. Myers, Mark W. Harding, Thomas P. Clark, Thomas Lamm and Rowena Rogers. Incorporated by Reference from Registration Statement on Form SB-2, filed April 19, 2004, Registration No. 333-114568.
- 10.3 Equity Incentive Plan. Incorporated by reference from Proxy Statement for Annual Meeting held April 2, 1993.
- 10.4 2004 Equity Incentive Plan. Incorporated by reference from Proxy Statement for Annual Meeting held April 12, 2004
- 10.5 Service Agreement, dated April 11, 1996, by and between Pure Cycle Corporation and the Rangeview Metropolitan District. Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended May 31, 1996.
- 10.6 Wastewater Service Agreement, dated January 22, 1997, by and between Pure Cycle Corporation and the Rangeview Metropolitan District. Incorporated by reference from the Annual Report on Form 10-KSB for the fiscal year ended August 31, 1998.
- 10.7 Comprehensive Amendment Agreement No. 1, dated April 11, 1996, by and among ISC, the Company, the Bondholders, Gregory M. Morey, Newell Augur, Jr., Bill Peterson, Stuart Sundlun, Alan C. Stormo, Beverlee A. Beardslee, Bradley Kent Beardslee, Robert Douglas Beardslee, Asra Corporation, International Properties, Inc., and the Land Board. Incorporated by reference from Quarterly Report on Form 10-QSB for the period ended May 31, 1996.
- 10.8 Settlement Agreement and Mutual Release dated April 11, 1996 by and among the Land Board and the District, Pure Cycle Corporation, INCO Securities Corporation, Apex Investment Fund II, L.P., Landmark Water Partners, L.P., Landmark Water Partners II, L.P., Environmental Venture Fund, L.P., Environmental Private Equity Fund II, L.P., The Productivity Fund II, L.P., Proactive Partners, L.P., Warwick Partners, L.P., Auginco, Anders C. Brag, Amy Leeds, and D.W. Pettyjohn, and OAR, Incorporated, Willard G. Owens and H.F. Riebesell, Jr. Incorporated by reference from Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996).
- 10.9 Agreement for Sale of Export Water dated April 11, 1996 by and among the Company and the District. Incorporated by reference from Quarterly Report on Form 10-QSB for the fiscal quarter ended May 31, 1996).
- 10.10 Water Service Agreement for the Sky Ranch PUD dated October 31, 2003 by and between Airpark Metropolitan District, Icon Investors I, LLC, the Company and the District. Incorporated by reference from Registration Statement on Form SB-2, filed April 19, 2004, Registration No. 333-114568.
- 10.11 Non-Statutory Stock Option Agreement dated April 19, 2001 between the Company and Mark W. Harding. Incorporated by reference from Registration Statement on Form SB-2, filed April 19, 2004, Registration No. 333-114568.
- 10.12 Amendment to Water Service Agreement for the Sky Ranch PUD dated January 6, 2004. Incorporated by Reference from Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.
- 10.13 Amendment to Water Service Agreement for the Sky Ranch PUD dated January 30, 2004. Incorporated by Reference from Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.

- 10.14 Amendment to Water Service Agreement for the Sky Ranch PUD dated January 30, 2004 pertaining to amendment of the Option Agreement for Export Water. Incorporated by Reference from Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.
- 10.15 Corrected Amendment to Water Service Agreement for the Sky Ranch PUD dated March 5, 2004. Incorporated by Reference from original Annual Report on Form 10-K for the fiscal year ended August 31, 2006, filed November 21, 2006.
- 10.16 Amended and Restated Lease Agreement between the Land Board and the District dated April 4, 1996. Incorporated by Reference from Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.
- 10.17 Bargain and Sale Deed among the Land Board, the District and the Company dated April 11, 1996. Incorporated by Reference from Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.
- 10.18 Mortgage Deed, Security Agreement, and Financing Statement between the Land Board and the Company dated April 11, 1996. Incorporated by Reference from Amendment No. 1 to Registration Statement on Form SB-2, filed June 7, 2004, Registration No. 333-114568.
- 10.19 Water Service Agreement for the Hills at Sky Ranch Water dated May 14, 2004 among Icon Land II, LLC, a Colorado limited liability company, the Company, and the District. Incorporated by reference from the Current Report on Form 8-K filed with the SEC on May 21, 2004.
- 10.20 Purchase and Sale Agreement dated as of August 31, 2004 between Pure Cycle Corporation and Proactive Partners, L.P. incorporated by reference from Form 8-K filed on November 12, 2004.
- 10.21 Settlement Agreement dated as of August 31, 2004 among Pure Cycle Corporation, Thomas P. Clark and LCH, Inc. incorporated by reference from Form 8-K filed on November 12, 2004.
- 10.22 Purchase and Sale Agreement dated as of August 31, 2004 among Pure Cycle Corporation, OAR Incorporated and Willard G. Owens incorporated by reference from Form 8-K filed on November 12, 2004.
- 10.23 Form of Amendment to Warrant incorporated by reference from Form 8-K filed on November 12, 2004.
- 10.24 Agreement for Water Service dated August 3, 2005 among Pure Cycle Corporation, Rangeview Metropolitan District and Arapahoe County incorporated by reference from Form 8-K filed on August 4, 2005.
- 10.25 Arkansas River Agreement dated May 10, 2006 among Pure Cycle Corporation and High Plains A&M, LLC incorporated by reference from Form 8-K filed on May 16, 2006.
- 14 Code of Ethics Adopted February 13, 2004 incorporated by reference from our Proxy Statement for the Annual Meeting held April 12, 2004.
- 16.1 Letter from KPMG to the Securities and Exchange Commission, dated December 17, 2004, incorporated by reference from form 8-K filed on December 17, 2004.
- 23.1 Consent of Anton Collins Mitchell LLP \*
- 23.2 Consent of KPMG, LLP \*
- 31.1 Certification under Section 302 of the Sarbanes-Oxley Act of 2002. \*\*
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*
- \* Filed with Amendment No. 1 to the Form 10-K filed on April 16, 2007
- \*\* Filed herewith
- (b) Financial Statement Schedules
- None

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**Signature**

In accordance with Section 13 or 15(d) of the Securities Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PURE CYCLE CORPORATION

By: /s/ Mark W. Harding  
 Mark W. Harding,  
 Principal Executive Officer and Principal Financial Officer  
 July 11, 2007



## CERTIFICATIONS

I, Mark W. Harding, certify that:

1. I have reviewed this Amendment Number 2 to the Annual Report on Form 10-K/A of Pure Cycle Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 11, 2007

/s/ Mark W. Harding

Mark W. Harding

Principal Executive Officer and Principal Financial Officer

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with Amendment Number 2 to the Annual Report of Pure Cycle Corporation (the "Company"), on Form 10-K/A for the year ending August 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark W. Harding, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Mark W. Harding

Mark W. Harding

Principal Executive Officer and Principal Financial Officer

July 11, 2007

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