
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

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

For the quarterly period ended: **November 30, 2007**

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

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

(State of incorporation)

84-0705083

(I.R.S. Employer
Identification Number)

8451 Delaware St., Thornton, CO

(Address of principal executive offices)

80260

(Zip Code)

(303) 292 — 3456

Registrant's telephone number

N/A

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

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 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-accelerated filer

Indicate by check mark whether the registrant is a shell company filer (as defined in rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of January 4, 2008:

Common stock, 1/3 of \$.01 par value

(Class)

20,206,566

(Number of Shares)

PURE CYCLE CORPORATION
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PURE CYCLE CORPORATION
BALANCE SHEETS

ASSETS:	November 30, 2007 <u>(unaudited)</u>	August 31, 2007 <u></u>
Current assets:		
Cash and cash equivalents	\$ 6,288,271	\$ 6,095,075
Marketable securities	300,188	799,802
Trade accounts receivable	52,605	70,217
Interest receivable	20,907	11,585
Prepaid expenses	176,721	246,968
Current portion of construction proceeds receivable	<u>64,783</u>	<u>64,783</u>
Total current assets	6,903,475	7,288,430
Investments in water and water systems, net	103,199,205	103,248,427
Construction proceeds receivable, less current portion, including \$240,075 expected to be paid with water rights	744,618	792,719
Note receivable — Rangeview Metropolitan District, including accrued interest	481,403	475,734
Assets held for sale	77,940	77,940
Investment in Well Enhancement and Recovery Systems, LLC	3,812	4,431
Property and equipment, net	10,583	4,210
Total assets	<u>\$ 111,421,036</u>	<u>\$ 111,891,891</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 62,524	\$ 15,056
Accrued liabilities	97,201	85,919
Deferred revenues	55,800	55,800
Current debt — related party	<u>—</u>	<u>26,542</u>
Total current liabilities	215,525	183,317
Deferred revenues, less current portion	1,543,760	1,557,711
Participating Interests in Export Water Supply	1,219,131	2,851,037
Tap Participation Fee payable to HP A&M, net of discount of \$57.9 million and \$55.1 million	<u>50,506,000</u>	<u>49,455,000</u>
Total liabilities	<u>53,484,416</u>	<u>54,047,065</u>
Commitments and Contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock:		
Par value \$.001 per share, 25 million shares authorized; Series B — 432,513 shares issued and outstanding (liquidation preference of \$432,513)	433	433
Common stock:		
Par value 1/3 of \$.01 per share, 40 million shares authorized; 20,206,566 and 19,995,338 shares outstanding	68,216	67,512
Additional paid-in capital	93,636,752	91,650,897
Treasury stock, at cost, 256,800 and 256,800 shares of common stock	(1,979,447)	(1,979,447)
Accumulated comprehensive income (loss)	7,400	7,168
Accumulated deficit	<u>(33,796,734)</u>	<u>(31,901,737)</u>
Total stockholders' equity	<u>57,936,620</u>	<u>57,844,826</u>
Total liabilities and stockholders' equity	<u>\$ 111,421,036</u>	<u>\$ 111,891,891</u>

See Accompanying Notes to Financial Statements

PURE CYCLE CORPORATION
STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended November 30,	
	2007	2006
Revenues:		
Metered water usage	\$ 39,023	\$ 35,005
Wastewater treatment fees	16,744	14,752
Special facility funding	10,377	10,377
Water tap fees	3,574	3,574
Total revenues	<u>69,718</u>	<u>63,708</u>
Expenses:		
Cost of revenues:		
Water delivery costs	(15,195)	(13,689)
Wastewater treatment costs	(4,181)	(5,909)
Depletion and depreciation	(22,031)	(21,829)
Total cost of revenues	<u>(41,407)</u>	<u>(41,427)</u>
Gross margin	28,311	22,281
General and administrative expenses	(651,556)	(443,536)
Depreciation	(73,526)	(68,624)
Operating loss	(696,771)	(489,879)
Other income (expense):		
Interest income	126,960	44,603
Gain on sale of marketable securities	156	1,064
Share of losses of Well Enhancement and Recovery Systems, LLC	(619)	—
Loss on extinguishment of contingent obligations	(273,723)	—
Interest expense imputed on the Tap Participation Fees payable to HP A&M	<u>(1,051,000)</u>	<u>(1,141,000)</u>
Net loss	<u>\$ (1,894,997)</u>	<u>\$ (1,585,212)</u>
Net loss per common share — basic and diluted	<u>\$ (.09)</u>	<u>\$ (.09)</u>
Weighted average common shares outstanding — basic and diluted	<u>20,136,157</u>	<u>18,353,443</u>

See Accompanying Notes to Financial Statements

PURE CYCLE CORPORATION
 STATEMENTS OF CASH FLOWS
 (unaudited)

	Three Months Ended November 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (1,894,997)	\$ (1,585,212)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock compensation expense	81,282	78,236
Depreciation, depletion and other non-cash items	96,447	91,158
Imputed interest expensed on Tap Participation Fees payable to HP A&M	1,051,000	1,141,000
Interest added to construction proceeds receivable	(6,697)	(12,831)
Interest added to note receivable — Rangeview Metropolitan District	(5,669)	(5,860)
Gain on sale of marketable securities	(156)	(1,064)
Share of losses of Well Enhancement and Recovery Systems, LLC	619	—
Loss on extinguishment of contingent obligations	273,723	—
Changes in operating assets and liabilities:		
Trade accounts receivable	17,612	19,633
Construction proceeds receivable	54,798	28,665
Interest receivable and prepaid expenses	60,925	(38,987)
Accounts payable and accrued liabilities	58,750	(134,495)
Deferred revenues	(13,951)	(13,951)
Net cash used by operating activities	<u>(226,314)</u>	<u>(433,708)</u>
Cash flows from investing activities:		
Investments in water and water systems	(45,161)	(4,000)
Capitalized acquisition costs	—	(35,800)
Sales and maturities of marketable securities	499,770	199,960
Purchase of marketable securities	—	—
Purchase of property and equipment	(7,547)	—
Net cash provided by investing activities	<u>447,062</u>	<u>160,160</u>
Cash flows from financing activities:		
Payments to Participating Interests in Export Water Supply holders	(1,010)	(1,083)
Payments on debt	(26,542)	—
Net cash used by financing activities	<u>(27,552)</u>	<u>(1,083)</u>
Net change in cash and cash equivalents	193,196	(274,631)
Cash and cash equivalents — beginning of period	6,095,075	374,069
Cash and cash equivalents — end of period	<u>\$ 6,288,271</u>	<u>\$ 99,438</u>

See Accompanying Notes to Financial Statements

NOTE 1 — PRESENTATION OF INTERIM INFORMATION

The balance sheet as of November 30, 2007, and the statements of operations and cash flows for the three months ended November 30, 2007 and 2006, respectively, have been prepared by Pure Cycle Corporation (the “Company”) and have not been audited. 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, 2007 and for all periods presented have been appropriately made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s 2007 Annual Report on Form 10-K. The results of operations for interim periods presented are not necessarily indicative of the operating results for the full year.

The August 31, 2007 balance sheet was derived from the Company’s audited financial statements.

Cash and Cash Equivalents. Cash and cash equivalents include all highly liquid debt and equity instruments with original maturities of three months or less. The Company’s cash equivalents are comprised of money market funds and investments in commercial paper. As of November 30, 2007, the Company has no investments in equity instruments.

Tap Participation Fee payable to HP A&M. The Tap Participation Fee payable to High Plains A&M (“HP A&M”), arose as a result of the Company’s acquisition of its Arkansas River Water rights and is described in greater detail in the Company’s 2007 Annual Report on Form 10-K. The \$50.5 million estimated fair value of the Tap Participation Fee payable at November 30, 2007 (which includes imputed interest of approximately \$5.7 million) was determined using a discounted cash flow analysis of the projected future payments to HP A&M. The Company determined this value by estimating new home development in the Company’s service area over an estimated development period. This was done by utilizing third party historical and projected housing and population growth data for the Denver, Colorado metropolitan area applied to an estimated development pattern supported by historical development patterns of certain master planned communities in the Denver, Colorado metropolitan area. This development pattern was then applied to future water tap fees that were calculated using historical water tap fees. Based on the housing market in the Denver metropolitan area, the Company updated its estimated tap sales schedule as it relates to the Tap Participation Fee estimate as of November 30, 2007. The effect of this change was an increase in the overall future estimated Tap Participation Fee of approximately \$3.9 million (from approximately \$104.6 million to approximately \$108.5 million), a decrease in the imputed effective interest rate from 10% to approximately 8.6% and a decrease in the imputed interest expense for the three months ended November 30, 2007 of approximately \$183,400 (approximately \$702,000 for the fiscal year). Actual development may differ substantially from the estimated new home development in the Company’s service area, which may have a material effect on the estimated fair value of the Tap Participation Fee payable to HP A&M and such differences may have a material impact on the financial statements. The valuation of the Tap Participation Fee payable to HP A&M is a significant estimate based on available historic market information and estimated future market information. Many factors are necessary to estimate future market conditions, including but not limited to, supply and demand for new homes, population growth along the Front Range, cash flows, tap fee increases at the Company’s rate-based districts, and other market forces beyond the Company’s control.

The Company imputes interest expense on the unpaid Tap Participation Fee using an effective interest method over the estimated development period utilized in the valuation of the liability. The Company imputed interest of approximately \$1.1 million related to the Tap Participation Fee during both the three month periods ended November 30, 2007 and 2006, respectively.

Royalty and other obligations. Revenues from the sale of Export Water are shown net of royalties payable to the State of Colorado Board of Land Commissioners (the “Land Board”). Revenues from the sale of water on the Lowry Range Property are shown net of the royalties to the Land Board and the fees retained by the Rangeview Metropolitan District.

Depletion and depreciation of water assets. Water supplies that are being utilized are depleted on the basis of units produced divided by the total volume of water adjudicated in the water decrees. Water systems are depreciated on a straight line basis over their estimated useful lives.

Recently Adopted Accounting Pronouncements. On September 1, 2007, the Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 prescribes a “more-likely-than-not” threshold for the recognition and de-recognition of tax positions, providing guidance on the accounting for interest and penalties relating to tax positions and requires that the cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance sheet of retained earnings or other appropriate components of equity or net assets in the statement of financial position. The Company did not have any significant unrecognized tax benefits and there was no material effect on its financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and the State of Colorado. The tax years that remain subject to examination are fiscal 2005 through fiscal 2007. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

The Company’s policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the quarter.

Recently Issued Accounting Pronouncements. In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141 (R), *Business Combinations* (“SFAS 141 (R)”), which becomes effective for fiscal periods beginning after December 15, 2008 (September 1, 2009 for the Company). SFAS No. 141 (R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition date fair values of the identifiable assets acquired, liabilities assumed, and any non-controlling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. The Company does not expect the adoption of this statement to have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51* (“SFAS 160”) which becomes effective for fiscal periods beginning after December 15, 2008 (September 1, 2009 for the Company). This statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. In addition this statement establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The Company does not expect the adoption of this statement to have a material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 allows companies the choice to measure many financial instruments and certain other items at fair value. This gives a company the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 (September 1, 2008 for the Company). The Company is currently evaluating the impact of this standard on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*, (“FAS 157”), which establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years, and the interim periods within those fiscal years, beginning after November 15, 2007 (September 1, 2008 for the Company). The Company is currently evaluating the impact of this standard on its financial statements.

NOTE 2 — MARKETABLE SECURITIES

Marketable Securities. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations each reporting period. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. The Company had no investments classified as held-to-maturity at November 30, 2007 or August 31, 2007.

Debt securities for which the Company does not have the positive intent or ability to hold to maturity are classified as available-for-sale, along with any investments in equity securities. Securities classified as available-for-sale are marked-to-market at each reporting period. Changes in value on such securities are recorded as a component of *Accumulated comprehensive income*. The cost of securities sold is based on the specific identification method.

The following is a summary of marketable securities at November 30, 2007:

	<u>Cost Basis</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Commercial paper	\$ 607,546	\$ —	\$ —	\$ 607,546
U.S. government debt securities with unrealized gains	99,523	665	—	100,188
U.S. corporate debt securities with unrealized gains	193,265	6,735	—	200,000
Total investments	900,334	7,400	—	907,734
Less cash equivalents	607,546	—	—	607,546
Total marketable securities	<u>\$ 292,788</u>	<u>\$ 7,400</u>	<u>\$ —</u>	<u>\$ 300,188</u>

The Company's marketable securities mature at various dates through January 2008. However, these securities represent the temporary investment of capital and it is not management's intent to hold these securities until maturity.

NOTE 3 — INVESTMENTS IN WATER AND WATER SYSTEMS

The Company's investments in water and water systems consist of the following:

	<u>November 30, 2007</u>		<u>August 31, 2007</u>	
	<u>Costs</u>	<u>Accumulated Depreciation and Depletion</u>	<u>Costs</u>	<u>Accumulated Depreciation and Depletion</u>
Arkansas River Valley assets	\$ 81,234,547	\$ (335,259)	\$ 81,234,547	\$ (265,466)
Rangeview water supply	13,966,462	(4,561)	13,949,036	(4,408)
Rangeview water system	167,720	(40,324)	167,720	(38,032)
Paradise water supply	5,528,818	—	5,525,017	—
Fairgrounds water and water system	2,693,858	(116,203)	2,669,924	(94,325)
Sky Ranch water supply	100,000	—	100,000	—
Water supply — other	5,307	(1,160)	5,307	(893)
Totals	<u>\$103,696,712</u>	<u>\$ (497,507)</u>	<u>\$103,651,551</u>	<u>\$ (403,124)</u>
Net investments in water and water systems	<u>\$103,199,205</u>		<u>\$103,248,427</u>	

The Company's water rights and current water and wastewater service agreements are more fully described in Note 3 to the Company's 2007 Annual Report on Form 10-K.

NOTE 4 — HP A&M PROMISSORY NOTES

Certain of the properties the Company acquired from HP A&M are subject to outstanding promissory notes with principal and accrued interest totaling approximately \$13.8 million at November 30, 2007. Additional information regarding these promissory notes, the circumstances under which the Company would be required to make payments pursuant to these notes and the accounting treatment of these notes is more fully described in Note 3 to the Company's 2007 Annual Report on Form 10-K.

NOTE 5 — CONSTRUCTION PROCEEDS RECEIVABLE

Pursuant to the Water Service Agreement (the “County Agreement”) with Arapahoe County (the “County”), as more fully described in Note 3 to the 2007 Annual Report on Form 10-K, the County is required to make monthly payments to the Company for the construction of the “Special Facilities” constructed at the County Fairgrounds. The monthly payments payable by the County were originally \$6,850. This was calculated based on an original payable balance of approximately \$607,900, which is the total capital expended by the Company for the Special Facilities of approximately \$1.245 million less approximately \$397,000 paid by the County up front and less approximately \$240,000 for the value of the water rights to be transferred to the Company. However, pursuant to the County Agreement, because the County had not transferred the 336 acre-feet of water to the Company upon the completion of construction, the balance owed the Company was not reduced by the value of the water rights and is therefore still included in the construction proceeds receivable account. As a result, the monthly payments being charged to the County was increased to \$9,555 upon completion of the facilities. The County made six payments of \$9,555 each through December 2006, but then ceased making payments because the County disagreed with the increase. As a result, in October 2007, the Company and the County amended the County Agreement, whereby the County would (i) make the principal and interest payments on the original \$607,900 balance owed to the Company (or approximately \$6,850 per month for ten years), (ii) pay half of the interest (at 6% per annum) calculated on the value of the water rights that have not been transferred to the Company as of yet, and (iii) transfer the water rights valued at approximately \$240,000 as soon as practical. The transfer of the water rights to the Company is currently being processed in the Colorado Water Court and the Company expects to receive the rights during its fiscal 2008. In addition, in October 2007 the County made a one-time payment of approximately \$54,800, which represents the amounts past due under the amendment to the County Agreement.

NOTE 6 — INVESTMENT IN WELL ENHANCEMENT AND RECOVERY SYSTEMS, LLC

Effective January 30, 2007, the Company entered into an Operating Agreement with Mr. R. Clark (who is deemed the indirect beneficial owner of 8.7% of the Company’s common stock by means of his role as manager of TPC Ventures, LLC) and Hydro Resources, Inc. (collectively the Company, Mr. Clark and Hydro Resources, Inc. are referred to as the “LLC Owners”) to form Well Enhancement and Recovery Systems, LLC (“Well Enhancement LLC”). Well Enhancement LLC was established to develop a new deep water well enhancement tool which the LLC Owners believe will increase the efficiency of deep water wells in the Denver metropolitan area. Each of the LLC Owners holds a 1/3 interest in Well Enhancement LLC. The president of the Company acts as the manager of Well Enhancement LLC.

The Company accounts for its investment in Well Enhancement LLC under the equity method pursuant to Accounting Principles Board Opinion No. 18 *The Equity Method of Accounting for Investments in Common Stock (as amended)* and Emerging Issues Task Force Issue No. 03-16 *Accounting for Investments in Limited Liability Companies*. As of November 30, 2007, the Company’s *Investment in Well Enhancement and Recovery Systems, LLC* account on its balance sheet includes \$40,000 of capital contributions made to date by the Company (total initial capital contribution will be approximately \$70,000 per LLC Owner) and its 1/3rd share of the approximately \$108,600 of net losses of Well Enhancement LLC from its inception through November 30, 2007. As of November 30, 2007, Well Enhancement LLC’s balance sheet consisted entirely of approximately \$11,400 of cash and for the three and ten months ended November 30, 2007, Well Enhancement LLC posted net losses of approximately \$1,900 and \$108,600, respectively. The net losses are primarily a result of research and developments costs associated with the design of the well enhancement tool.

NOTE 7 — PARTICIPATING INTERESTS IN EXPORT WATER

The Company acquired its Rangeview Water Supply through various amended agreements entered into in the early 1990’s. The acquisition was consummated with the signing of the Comprehensive Amendment Agreement No. 1 (the “CAA”) in 1996. Upon entering into the CAA, the Company recorded an initial liability of approximately \$11.1 million, which represents the cash the Company received and used to purchase its Export Water Supply. In return, the Company agreed to remit a total of \$31.8 million of proceeds received from the sale of Export Water to the Participating Interest holders. In accordance with EITF Issue No 88-18 *Sales of Future Revenues*, the obligation for the \$11.1 million was recorded as debt, and the remaining \$20.7 million contingent liability is not reflected on the Company’s balance sheet because the obligation to pay this is contingent on sales of Export Water, the amounts and timing of which are not reasonably determinable.

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As the proceeds from the sale of Export Water are received, and the amounts are remitted to the external CAA holders, the Company allocates a ratable percentage of this payment to the principal portion (the *Participating Interests in Export Water supply* liability account) with the balance of the payment being charged to the contingent obligation portion. The amount allocated to the liability is approximately 35%, which is the percentage the \$11.1 million represented of the original total \$31.8 million obligation. The remaining portion, or approximately 65%, is allocated to the contingent obligation. The portion allocated to principal will be recorded as a reduction in the *Participating Interests in Export Water* liability account while the amounts applied to the contingency are recorded on a net revenue basis when funds are received.

In recent years the Company has repurchased various portions of the CAA obligations in priority. The table below summarizes the transactions impacting the CAA obligations since its signing, which are explained in greater detail below the table:

	Export Water Proceeds Received	Export Water Proceeds to Pure Cycle	Total Potential Obligation	Participating Interests Liability	Contingency
Original balances	\$ —	\$ 218,500	\$ 31,807,732	\$ 11,090,630	\$ 20,717,102
<i>Activity from inception through August 31, 2007:</i>					
Sky Ranch option payments	110,400	(42,280)	(68,120)	(23,754)	(44,366)
Acquisitions	—	23,398,234	(23,398,234)	(8,158,430)	(15,239,804)
Arapahoe County tap fees *	532,968	(373,078)	(159,890)	(55,754)	(104,136)
Export Water Sale payments	15,810	(11,067)	(4,743)	(1,655)	(3,088)
Balance at August 31, 2007	659,178	23,190,309	8,176,745	2,851,037	5,325,708
<i>Activity during the three months ended November 30, 2007:</i>					
Export Water Sale payments	3,366	(2,356)	(1,010)	(353)	(657)
Acquisitions	—	4,679,266	(4,679,266)	(1,631,553)	(3,047,713)
Balance at November 30, 2007	\$ 662,544	\$ 27,867,219	\$ 3,496,469	\$ 1,219,131	\$ 2,277,338

* The Arapahoe County tap fees are less a \$34,522 royalty payment to the Land Board.

In October 2007, the Company acquired the rights to approximately \$4.7 million of CAA interests in exchange for 211,228 shares of the Company's restricted common stock valued at approximately \$1.9 million. As a result, the Company now has the right to retain an additional \$4.7 million of the initial \$31.8 million of proceeds from the sale of Export Water. When combined with the CAA acquisitions and the payments made as a result of the sale of Export Water through August 31, 2007, as described in the Company's 2007 Annual Report on Form 10-K, the total remaining potential third party obligation as of November 30, 2007 is approximately \$3.5 million. The Company recorded a loss on the acquisition of the CAA interests in October 2007 of approximately \$273,700.

The acquisition of these CAA obligations and debt reduction, reduces the long term impact of the CAA and provides the Company with additional cash flows to fund operations and pursue other business opportunities that may arise.

The CAA includes contractually established priorities. Following the CAA acquisition made by the Company, the Company's priority levels include \$5.1 million of remaining amounts payable at the highest priority level, \$2.5 million in the third priority level, and the remaining \$20.3 million at various other priority levels.

The CAA obligation is non-interest bearing, and if the Export Water is not sold, the parties to the CAA have no recourse against the Company. If the Company does not sell the Export Water, the holders of the Series B Preferred Stock are also not entitled to payment of any dividend and have no contractual recourse against the Company.

NOTE 8 — STOCKHOLDERS' EQUITY

Preferred and Common Stock. The Company's non-voting Series B Preferred Stock has a preference in liquidation of \$1.00 per share less any dividends previously paid. Additionally, the Series B Preferred Stock is redeemable at the discretion of the Company for \$1.00 per share less any dividends previously paid. In the event that the Company's proceeds from sale or disposition of Export Water rights exceeds \$36,026,232, the Series B Preferred Stock holders will receive the next \$433,513 of proceeds in the form of a dividend.

Equity Compensation Plan. The Company maintains the 2004 Incentive Plan (the "Equity Plan") which was approved by stockholders in April 2004. Executives, eligible employees and non-employee directors are eligible to receive option and restricted stock grants pursuant to the Equity Plan. Under the Equity Plan, options to purchase shares of stock, and restricted stock awards, can be granted with exercise prices and vesting periods determined by the Compensation Committee of the Board. The Company initially reserved 1.6 million shares of common stock for issuance under the Equity Plan. As of November 30, 2007, the Company has 1,425,800 shares that can be granted to eligible participants pursuant to the Equity Plan.

Because there were no options exercised or granted and no options vested during the three months ended November 30, 2007, the Company has omitted the stock option activity tables as there were no significant changes from the tables presented in Note 8 to the Company's 2007 Annual Report on Form 10-K. The intrinsic value of options fully vested and expected to vest, as well as the weighted average remaining contractual terms of the fully vested options and options expected to vest as of November 30, 2007, did not change significantly from August 31, 2007. The Company has not recorded any excess tax benefits to additional paid in capital.

At November 30, 2007, the Company has unrecognized SFAS 123(R) expenses relating to non-vested options that are expected to vest totaling approximately \$210,500. The weighted-average period over which these options are expected to vest is approximately one year.

On August 27, 2007, the Company granted 34,189 shares of restricted common stock to the President of the Company pursuant to the Equity Plan. Pursuant to SFAS 123(R), the Company will recognize compensation expense on this grant based on the grant date fair value of the stock. The grant date fair value of the restricted stock was based upon the market price of the Company's common stock on the date of the grant. The grant date fair value will be amortized to compensation expense over the vesting term of two years. Because there has been no change in the status of the restricted stock, the Company omitted the status table, which is disclosed in Note 8 to the Company's 2007 Annual Report on Form 10-K.

As of November 30, 2007, there was approximately \$227,000 of unrecognized compensation expense related to restricted stock awarded under the Equity Plan. This expense is expected to be recognized over a period of approximately 2 years.

Warrants. As of November 30, 2007, the Company had outstanding warrants to purchase 92 shares of common stock at an exercise price of \$1.80 per share, which are more fully described in Note 8 to the Company's 2007 Annual Report on Form 10-K.

Loss per common share. Loss per common share is computed by dividing net loss by the weighted average number of shares outstanding during each period. Common stock options and warrants aggregating 140,092 and 663,663 common share equivalents as of November 30, 2007 and 2006, respectively, have been excluded from the calculation of loss per common share as their effect is anti-dilutive.

Comprehensive Loss. In addition to net loss, comprehensive loss includes the unrecognized changes in the fair value of marketable securities that are classified as available-for-sale as noted in the following table:

	<u>Three Months Ended November 30,</u>	
	<u>2007</u>	<u>2006</u>
Net loss	\$ (1,894,997)	\$ (1,585,212)
Unrealized gain on marketable securities	232	7,237
Comprehensive loss	<u>\$ (1,894,765)</u>	<u>\$ (1,577,975)</u>

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NOTE 9 — RELATED PARTY TRANSACTIONS

In October 2007, the Company repaid approximately \$26,500 to a party related to Mr. Clark. This represented the only remaining note payable with a scheduled maturity.

The Company leases office space from Mr. Clark, who is also the sole manager of TPC Ventures, LLC which is a greater than 5% holder of the Company's common stock. The Company leases the office space on a month-to-month basis for \$1,000 per month.

NOTE 10 — SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES

	Three Months Ended	
	November 30,	
	2007	2006
Common stock issued to acquire contingent obligations	<u>\$ 1,905,276</u>	<u>\$ —</u>
Treasury stock accepted upon exercise of stock options with mature shares used as consideration	<u>\$ —</u>	<u>\$ 44,415</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the accompanying unaudited financial statements and related notes thereto and the financial statements and the notes thereto contained in our 2007 Annual Report on Form 10-K.

Disclosure Regarding Forward-Looking Statements

Certain statements in this Quarterly Report, other than purely historical information, including estimates, projections, forecasts, and assumptions are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "anticipate," "believe," "estimate," "expect," "plan," "intend," "would" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. We cannot assure you that any of our expectations will be realized. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, without limitation, the timing of development of the areas where we may sell our water, including uncertainties related to the development of projects the Company currently has under contract, the market price of water, changes in applicable statutory and regulatory requirements, uncertainties in the estimation of water available under decrees, costs of delivery of water and treatment of wastewater, uncertainties in the estimation of costs of construction projects, the strength and financial resources of our competitors, our ability to find and retain skilled personnel, climatic and weather conditions, labor relations, availability and cost of material and equipment, delays in anticipated permit and construction dates, environmental risks, the results of financing efforts and the ability to meet capital requirements, and general economic conditions. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

General

Pure Cycle Corporation is an investor owned water and wastewater service provider engaged in the design, construction, operation and maintenance of water and wastewater systems. Our business premise is that water is a precious commodity that is often undervalued and therefore used inefficiently. We primarily operate in the Denver, Colorado metropolitan area and have assets located in the Denver area, in southeastern Colorado in the Arkansas River, and on the western slope of Colorado. Our business practices are centered on efficient and environmentally responsible water management programs to ensure we have water to meet the long-term needs of our customers. Utilizing our water assets, we withdraw, treat, store and deliver water to our customers. We then collect wastewater from our customers which is treated and reused through dual distribution systems. A dual distribution system is one in which domestic water demands and irrigation water demands are provided through separate independent infrastructure. Our dual distribution systems promote efficient water resource management and reduce the amount of water that is "wasted" by traditional water systems which enable us to maximize the use of our valuable water supplies and allow us the ability to provide long-term water solutions on a regional basis.

Our water assets are comprised of the following annual entitlements which are described in greater detail in our 2007 Annual Report on Form 10-K:

- Approximately 60,000 acre-feet of senior 1883 water rights in the Arkansas River and its tributaries represented by over 21,600 shares of the Fort Lyon Canal Company ("FLCC");
- Approximately 11,650 acre-feet of water located in Arapahoe County, Colorado at property known as the Lowry Range (an approximately 27,000 acre property located in Arapahoe County, Colorado, owned by the State Board of Land Commissioners), which we can "export" from the Lowry Range to supply water to nearby communities and developers in need of additional water supplies (this water asset is referred to as our "Export Water");
- Approximately 363 acre-feet of groundwater pursuant to an Agreement for Water Service (the "County Agreement") with Arapahoe County (the "County"), which will be added to our overall Denver metropolitan water supply portfolio (we are awaiting the delivery of a water rights deed for approximately 336 acre-feet of this water valued at approximately \$240,000, the value of which is included in the *construction proceeds receivable* account on our balance sheet as of November 30, 2007, until the water rights deed is received, which we expect to be in our fiscal 2008); and
- Approximately 89 acre-feet of water located beneath Sky Ranch together with the right to purchase an additional 671 acre-feet of water (for a total of 760 acre-feet) pursuant to the Sky Ranch Agreements.

In addition to the water we own, we also control the following water assets in Colorado, which are described in greater detail below:

- We have the exclusive rights to use, through 2081, approximately 15,050 acre-feet of water located at the Lowry Range. This water is required to be used specifically on the Lowry Range (collectively we refer to the 15,050 acre-feet of water designated for use on the Lowry Range and the 11,650 acre-feet of Export Water as our “Rangeview Water Supply”);
- We own conditional water rights in western Colorado that entitle us to build a 70,000 acre-foot reservoir to store Colorado River tributary water and a right-of-way permit from the U.S. Bureau of Land Management for property at the dam and reservoir site (collectively known as the “Paradise Water Supply”).

Our water marketing activities target our water and wastewater services to developers and homebuilders developing new communities along the Front Range, including the greater Denver and Colorado Springs metropolitan areas. Our groundwater supplies are largely undeveloped and are located in the southeastern portion of the greater Denver area in Arapahoe County. The majority of our surface water is located in the Arkansas River Valley, and we are proposing to use it in our target service market and throughout the Front Range of Colorado. We work with area developers to investigate water supply constraints, water and wastewater utility issues, market demand, treatment and transportation concerns, employment centers and other issues in order to identify suitable areas for development. Construction of water and wastewater systems and the providing of water and wastewater services are subject to individual water and wastewater service agreements. We negotiate individual agreements with developers and/or homebuilders to design, construct and operate water and wastewater systems. Our service contracts outline our obligations to design, construct and operate certain facilities necessary to develop and treat water and treat and reuse wastewater. These service agreements include the timing of installation of the facilities, required capacities of the systems, and locations for the services to be provided. Service agreements address all aspects of the development of the water and wastewater systems. For details on our current service agreements please refer to our 2007 Annual Report on Form 10-K.

Results of Operations

Executive Summary

The approximate results of our operations for the three months ended November 30, 2007 and 2006 are:

	<i>Executive Summary</i>	
	Three Months Ended November 30,	
	2007	2006
Millions of gallons of water delivered	10.6	10.7
Water revenues generated	\$ 39,000	\$ 35,000
Water delivery operating costs incurred	\$ 15,200	\$ 13,700
Water delivery gross margin %	61%	61%
Wastewater treatment revenues	\$ 16,700	\$ 14,800
Wastewater treatment operating costs incurred	\$ 4,200	\$ 5,900
Wastewater treatment gross margin %	75%	60%
General and administrative expenses	\$ 651,600	\$ 443,500
Net losses	\$ 1,895,000	\$ 1,585,200

Water Usage and Wastewater Treatment Revenues

Water deliveries for the three months ended November 30, 2007 remained comparable with the three months ended November 30, 2006. Water usage revenues for the three months ended November 30, 2007 increased 11% over the three months ended November 30, 2006, mainly due to the July 2007 water rates increase.

Our water service charges are based on a tiered pricing structure that provides for higher prices as customers use greater amounts of water. Our rates and charges are established based on the average of three surrounding communities, referred to as our rate-based districts. Our rate-based districts have continued to raise their rates over the past several years.

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Our wastewater customers are charged flat monthly fees based on the number of tap connections they have. Wastewater usage fees have not changed since July 2005.

Gross margin for water operations for the three months ended November 30, 2007 remained comparable with the three months ended November 30, 2006. Gross margin for wastewater operations for the three months ended November 30, 2007 was approximately 15% higher than the three months ended November 30, 2006, due to certain maintenance expenses incurred in fiscal 2007 which were not incurred in 2008.

General and Administrative and Other Expenses

General and administrative ("G&A") expenses for the three months ended November 30, 2007 and 2006 were impacted by the adoption of SFAS No. 123 (revised 2004) *Share Based Payment* ("SFAS 123(R)"), as follows:

	Three Months Ended November 30,		Increase
	2007	2006	
G&A expenses as reported	\$ (651,600)	\$ (443,500)	\$ (208,100)
SFAS 123(R) expenses	81,300	78,200	3,100
G&A expenses less SFAS 123(R) expenses	<u>\$ (570,300)</u>	<u>\$ (365,300)</u>	<u>\$ (205,000)</u>

Without the effects of stock-based compensation expenses, the increase in G&A expenses for the periods presented is mainly attributable to the following:

- During the three months ended November 30, 2007, we incurred approximately \$112,900 of consulting fees related to negotiations and water marketing activities associated with the proposed development of the Lowry Range, which were not incurred during the three months ended November 30, 2006.
- During the three months ended November 30, 2007 and 2006 we expensed approximately \$89,300 and \$75,000, respectively, related to water assessment charges payable to the FLCC. This represents our share (based on the number of FLCC shares we own) of FLCC's annual operating and maintenance expenditures. The increase is attributable to higher assessments levied by the FLCC
- Professional fees accounted for approximately \$35,700 of the increase, mainly attributable to the Lowry Range negotiations and other general corporate legal services.
- Franchise fees payable to the State of Delaware and other public company expenses accounted for approximately \$32,200 of the increase, which is mainly due to more shares being outstanding as a result of the July 2007 equity offering.

Depreciation and depletion charges for the three months ended November 30, 2007 were approximately \$95,600, which is comparable to the approximately \$90,500 of expense recorded for the three months ended November 30, 2006.

Interest income totaled approximately \$127,000 and \$44,600 for the three months ended November 30, 2007 and 2006, respectively. This represents interest earned on the temporary investment of capital in available-for-sale securities, interest accrued on the note receivable from the District and interest accrued on the construction proceeds receivable from Arapahoe County. The increase is due mainly to the temporary investment of over \$5.0 million raised in the equity offering in July 2007.

Imputed interest expense related to the Tap Participation Fees payable to HP A&M totaled approximately \$1.1 million and \$1.1 million for the three months ended November 30, 2007 and 2006, respectively. This represents the expensed portion of the difference between the relative fair value of the liability and the net present value of the liability recognized under the effective interest method. See also Note 1 to the accompanying financial statements for discussion on the revaluation of the Tap Participation Fee and the impact to the November 30, 2007 financial statements.

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Our net losses, as reported in our statements of operations for the three months ended November 30, 2007 and 2006, were approximately \$1.9 million and \$1.6 million, respectively. Our reported net losses have been materially impacted by the imputed interest on the Tap Participation Fee and stock-based compensation expense recognized pursuant to SFAS 123(R). In the table below, we have presented a non-GAAP financial disclosure to provide a quantitative analysis of the impact of the imputed interest and stock-based compensation expenses on our reported net losses and loss per share. Because these items do not require the use of current assets, management does not include these items in its analysis of our financial results or how we allocate our resources. Because of this, we deemed it meaningful to provide this non-GAAP disclosure of the impact of these significant items on our financial results.

	Three Months Ended november 30,		Change
	2007	2006	
Net loss as reported	\$ (1,885,000)	\$ (1,585,200)	\$ (299,800)
Interest imputed on Tap Participation Fees payable to HP A&M	1,041,000	1,141,000	(100,000)
SFAS 123(R) expenses	81,300	78,200	3,100
Net loss less imputed interest and SFAS 123(R) expenses	<u>\$ (762,700)</u>	<u>\$ (366,000)</u>	<u>\$ (396,700)</u>
Net loss per common share as reported	\$ (0.09)	\$ (0.09)	\$ 0.00
Interest imputed on Tap Participation Fees payable to HP A&M	0.05	0.06	\$ (0.01)
SFAS 123(R) expenses	0.00	0.01	\$ (0.01)
Net loss per common share less non-cash interest and SFAS 123(R) expenses	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	
Weighted average common shares outstanding	<u>20,136,157</u>	<u>18,353,443</u>	

Liquidity and Capital Resources

Our working capital, defined as current assets less current liabilities, at November 30, 2007 was approximately \$6.7 million, and we had cash and cash equivalents and marketable securities on hand totaling approximately \$6.6 million at November 30, 2007. We believe that at November 30, 2007, we have sufficient working capital to fund our operations for the next year. However, there can be no assurance that we will be successful in marketing the water from our primary water projects in the near term. In order to generate working capital to support our operations, we may incur additional short or long-term debt or seek to sell additional equity securities. We have an effective shelf registration statement pursuant to which we may elect to sell up to another \$5.7 million of stock at any time and from time to time.

Development of the water that we own, have rights to use, or may seek to acquire, will require substantial capital investments. We anticipate that capital required for the development of the water and wastewater systems will be financed through the sale of water taps to developers and water delivery charges to users. A water tap charge refers to a charge we impose to fund construction of "Wholesale Facilities" ("Wholesale Facilities" are further defined in our 2007 Annual Report on Form 10-K) and permit access to our water delivery system (e.g., a single-family home's tap into our water system), and a water service charge refers to a water customer's monthly water bill, generally charged per 1,000 gallons of water delivered to the customer. We anticipate tap fees will be sufficient to generate funds with which we can design and construct the necessary Wholesale Facilities. However, once we receive tap fees from a developer, we are contractually obligated to construct the Wholesale Facilities for the taps paid for, even if our costs are not covered by the fees we receive. We can not assure you that these sources of cash will be sufficient to cover all our capital costs.

As further described in our 2007 Annual Report on Form 10-K, pursuant to the Arkansas River Agreement we agreed to pay HP A&M 10% of our water tap fees received on the sale of the next 40,000 water taps. As of November 30, 2007, we have estimated the value of the Tap Participation Fee payable to HP A&M at approximately \$50.5 million based on a discounted cash flow valuation analysis, which was originally prepared at August 31, 2006, and was updated as of November 30, 2007. See Note 3 in the accompanying financial statements for the impact of the revaluation. The actual amount to be paid could exceed our estimates. Tap participation payments are not payable to HP A&M until we receive water tap fee payments. We did not sell any taps or make any Tap Participation Fee payments during the three months ended November 30, 2007. As of November 30, 2007, 38,965 taps remain subject to the Tap Participation Fee.

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We are obligated to pay the FLCC annual water assessment charges which are the charges assessed to the FLCC shareholders for the upkeep and maintenance of the Fort Lyon Canal. The payments are due to the FLCC each calendar year. In December 2007, the FLCC approved an increase in the calendar 2008 assessments from \$12.50 per share to \$15.00 per share, which equates to an increase in our water assessments from approximately \$265,000 per year to approximately \$325,000 per year.

On August 3, 2005, we entered into the County Agreement to provide water service to the Arapahoe County Fairgrounds. In accordance with SAB 104, upon completion of construction of the Arapahoe County Fairgrounds facilities and the initiation of water service to the Arapahoe County Fairgrounds in July 2006, we began ratably recognizing deferred tap fee revenues as income. The tap fees received from the County are being recognized in income over the estimated useful life of the constructed assets, or 30 years. For the three months ended November 30, 2007, we recognized water tap revenues of approximately \$3,600. In addition, we started recognizing deferred "Special Facilities" (the Special Facilities funding is more fully described in Note 3 to the 2007 Annual Report on Form 10-K) funding as revenues per SAB 104 in fiscal 2006, which will also be recognized over the useful life of the constructed assets. For the three months ended November 30, 2007, we recognized Special Facility funding revenues of approximately \$10,400. See also Note 5 to the accompanying financial statements for information regarding the amendment to the County Agreement in regards to the Special Facilities funding.

In October 2007, we repaid our sole outstanding note to a related party. Therefore, at November 30, 2007, we had no outstanding related party debt.

Operating Activities

Operating activities include revenues we receive from the sale of water and wastewater services to our customers, costs incurred in the delivery of those services, general and administrative expenses, and depletion/depreciation expenses.

Cash used by operating activities was approximately \$226,300 and \$433,700 for the three months ended November 30, 2007 and 2006, respectively. The change is mainly due to changes in operating assets and liabilities.

As a result of the Arkansas River Agreement signed on August 31, 2006, we imputed approximately \$1.1 million of interest on the Tap Participation Fee Payable to HP A&M for both the three month periods ended November 30, 2007 and 2006.

During the three months ended November 30, 2007 and 2006, we accrued interest on the note receivable from the District of approximately \$5,700 and \$5,900, respectively. We also accrued approximately \$6,700 and \$12,800 of interest on the construction proceeds receivable during the three months ended November 30, 2007 and 2006, respectively. The decrease is due to the amendment to the agreement as further described in the accompanying financial statements. We incurred approximately \$96,400 and \$91,200 of depreciation, depletion and other non-cash charges during the three months ended November 30, 2007 and 2006, respectively. We will continue to provide domestic water and wastewater service to customers in our service area and we will continue to operate and maintain our water and wastewater systems with our own employees.

Investing Activities

On October 31, 2003 we entered into the Denver Groundwater Purchase Agreement (the "DGPA") with the developer of Sky Ranch. The DGPA provides us the right to purchase a total of 223 acre-feet of adjudicated decreed water rights owned by the developer. Under the DGPA, we can acquire 44.6 acre-feet of water per year (or 20% of the total 223 acre-feet) for a payment of \$50,000 (acquiring the entire 223 acre-feet will require payments totaling \$250,000). On March 26, 2004 and May 26, 2005, we exercised our rights and purchased a total of 89.2 acre-feet of Denver aquifer groundwater for payments totaling \$100,000. During our fiscal 2006 and in the first quarter of fiscal 2007, respectively, we made the required \$50,000 payments pursuant to the DGPA, for which we have not received the water rights deeds from the developer. As of the date of this filing, we are continuing to work with the developer on finalizing these acquisitions. Since we have not received the water rights deed as of November 30, 2007, and Sky Ranch has not cashed either of our checks, we have not recorded these acquisitions of groundwater as investments in water. Instead they are reflected as a pre-paid assets in the accompanying financial statements. We anticipate purchasing the remaining 20% of the Sky Ranch groundwater pursuant to the DGPA in our fiscal 2008, by exercising our rights. This will require a payment totaling \$50,000.

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We continue to invest in legal and engineering fees associated with certain water rights, and we continue to invest in the right-of-way permit fees to the Department of Interior Bureau of Land Management and legal and engineering costs for our Paradise Water Supply.

Cash provided by investing activities for the three months ended November 30, 2007 and 2006, was approximately \$447,100 million and \$160,200 million, respectively. Increase in cash provided by investing activities is a result of the sale or maturity of approximately \$500,000 of temporary investments.

Financing Activities

Cash used by financing activities during the three months ended November 30, 2007 and 2006, was approximately \$27,600 and \$1,100, respectively. The difference is mainly due to the repayment of approximately \$26,500 of debt to a related party in October 2007.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist entirely of the CAA, which is more fully described in our 2007 Annual Report on Form 10-K, and in Note 7 to the accompanying financial statements.

Recently Adopted and Issued Accounting Pronouncements

See Note 1 to the accompanying financial statements regarding recently adopted and issued accounting pronouncements.

Critical Accounting Policies

Our financial statements are prepared in accordance with Accounting Principles Generally Accepted in the United States of America (“GAAP”), which requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. With the exception of the items described below, since August 31, 2007, there have been no significant changes to our critical accounting policies, therefore, for further discussion of our significant accounting policies, refer to Note 2 and Item 7 — Critical Accounting Policies in our 2007 Annual Report on Form 10-K.

Tap Participation Fee

As described in Note 1 to the accompanying financial statements, we assess the value of the “Tap Participation Fee payable to HP A&M” whenever events or circumstances indicate the assumptions used to estimate the value of the liability have changed materially. Based on changes in the housing market in Colorado and other similar factors, we revalued the Tap Participation Fee at November 30, 2007. See Note 3 to the accompanying financial statements for impact of this revaluation as of November 30, 2007.

Obligations Payable by HP A&M

Certain of the properties we acquired pursuant to the Arkansas River Agreement are subject to outstanding promissory notes, as further described in the accompanying financial statements. These notes are secured by deeds of trust on the properties. We did not assume any of these promissory notes and are not responsible for making any of the required payments under these notes. This responsibility remains solely with HP A&M. In the event of default by HP A&M, we may make payments on any or all of the notes and cure any or all of the defaults. If we do not cure the defaults, we will lose the properties securing the defaulted notes. If HP A&M defaults on the promissory notes, we can foreclose on a defined amount of Pure Cycle stock issued to HP A&M being held in escrow and reduce the Tap Participation Fee by two times the amount of notes defaulted on by HP A&M. Although the likelihood of HP A&M defaulting on the notes is deemed remote, we will continue to monitor the status of the notes for any indications of default. We are not aware of any defaults by HP A&M as of November 30, 2007.

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Income taxes

There is no provision for income taxes because we continue to incur operating losses. See Note 1 to the accompanying financial statements for information regarding our adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

General. Pure Cycle has limited exposure to market risks from instruments that may impact the *Balance Sheets*, *Statements of Operations*, and *Statements of Cash Flows*, such exposure is due primarily to changing interest rates.

Interest Rates. The primary objective for our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing in diversified short-term investments, consisting primarily of United States Treasury Obligations and other investment grade debt securities. As of November 30, 2007, the fair value of our marketable securities was approximately \$300,000 with maturity dates through January 2008. A hypothetical 50 basis point change in interest rates would not result in a material decrease or increase in the fair value of our marketable securities. We have no investments denominated in foreign country currencies and therefore our investments are not subject to foreign currency exchange risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedure

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 November 30, 2007 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 concluded that our disclosure controls and procedures have been designed and are being operated in a manner that provides reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting and Management's Remediation Initiatives

None

Part II

Item 6. Exhibits

Exhibits

10.2	2004 Incentive Plan, effective April 12, 2004, as amended November 12, 2007.*
31	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.*
32	Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.

SIGNATURES

In accordance with the requirements of the Securities 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

/s/ Mark W. Harding
Mark W. Harding
President and Chief Financial Officer

January 9, 2008

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
10.2	2004 Incentive Plan, effective April 12, 2004, as amended November 12, 2007.
31	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

PURE CYCLE CORPORATION
2004 INCENTIVE PLAN
Effective as of April 12, 2004
As amended November 12, 2007
(Reflects reverse stock split effective April 26, 2004)

SECTION 1
INTRODUCTION

1.1 *Establishment.* Pure Cycle Corporation hereby establishes the Pure Cycle Corporation 2004 Incentive Plan (the “Plan”) for certain officers, employees, consultants, and directors of the Company.

1.2 *Purposes.* The purposes of the Plan are to provide the officers, employees, consultants, and directors of the Company selected for participation in the Plan with added incentives to continue in the long-term service of the Company and to create in such persons a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in stockholder value, so that the income of such persons is more closely aligned with the income of the Company’s stockholders. The Plan is also designed to enhance the ability of the Company to attract, retain and motivate officers, employees, consultants, and directors by providing an opportunity for investment in the Company.

SECTION 2
DEFINITIONS

2.1 *Definitions.* The following terms shall have the meanings set forth below:

(a) “*Administrator*” means (i) the Board, or (ii) one or more committees of the Board to whom the Board has delegated all or part of its authority under this Plan. Any committee under clause (ii) hereof which makes grants to “officers” of the Company (as that term is defined in Rule 16a-1(f) promulgated under the Exchange Act) shall be composed of not less than the minimum number of persons from time to time required by Rule 16b-3, each of whom, to the extent necessary to comply with Rule 16b-3 only, shall be a Nonemployee Director. Further, if the Administrator consists of less than the entire Board, then to the extent necessary for any Award to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Internal Revenue Code, each member of the Administrator will be an Outside Director. For purposes of the preceding provisions, if one or more members of the Administrator is not a Nonemployee or not an Outside Director, but recuses himself or herself or abstains from voting with respect to a particular action taken by the Administrator, then the Administrator, with respect to the action, will be deemed to consist only of the members of the Administrator who have not recused themselves or abstained from voting.

(b) “*Affiliated Corporation*” means (i) any corporation or other entity (including but not limited to a partnership) that directly, or through one or more intermediaries controls, is controlled by, or is under common control with, Pure Cycle Corporation, or (ii) any entity in which the Company has a significant equity interest, as determined by the Administrator.

(c) "*Award*" means a grant made under this Plan in the form of Stock, Options, Restricted Stock, Performance Shares, or Performance Units.

(d) "*Board*" means the board of directors of the Company.

(e) "*Company*" means Pure Cycle Corporation, a Delaware corporation, together with its Affiliated Corporations except where the context otherwise requires.

(f) "*Consultant*" means any person, including an advisor, engaged by the Company to render consulting or advisory services and who is compensated for such services and such person is eligible to receive shares registered on Form S-8 under the Securities Act. Mere service as a Director or payment of a director's fee by the Company or an Affiliated Corporation shall not be sufficient to constitute "consulting or advisory services" rendered to the Company or an Affiliated Corporation.

(g) "*Director*" means a member of the Board.

(h) "*Effective Date*" means the date on which the Plan is initially approved by a vote of the stockholders of the Company.

(i) "*Employee*" means any person who is a full or part-time employee (including, without limitation, an officer or director who is also an employee) of the Company or any Affiliated Corporation or any division thereof. The term also includes future employees who have received a formal offer of employment.

(j) "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended.

(k) "*Executive Officer*" shall mean an officer as defined in Exchange Act Rule 16a-1(f) and any person deemed to be an "executive officer" within the scope of Section 13(k) of the Exchange Act.

(l) "*Fair Market Value*" means, as of any date, the value of the Stock determined as follows:

(i) If the Stock is listed on any established stock exchange or a national market system, its Fair Market Value shall be the closing sales price for such Stock as quoted on such exchange or system for the last market trading day prior to the time of determination (or, if there are no actual sales of such Stock on such date, the latest sales price of such Stock preceding such date);

(ii) If the Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share shall be the mean between the high bid and low asked prices for the Stock on the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(iii) In the absence of an established market for the Stock, the Fair Market Value shall be determined in good faith by the Administrator by the reasonable application of a reasonable valuation method in accordance with Section 409A of the Internal Revenue Code and the regulations thereunder.

(m) "*Incentive Stock Option*" means any Option designated as such and granted in accordance with the requirements of Section 422 of the Internal Revenue Code.

(n) "*Internal Revenue Code*" means the Internal Revenue Code of 1986, as it may be amended from time to time, and the rules and regulations promulgated thereunder.

(o) "*Nonemployee Director*" means a Director who is a "nonemployee director" within the meaning of Rule 16b-3 promulgated under the Exchange Act.

(p) "*Non-Statutory Option*" means any Option other than an Incentive Stock Option.

(q) "*Option*" means a right to purchase Stock at a stated price for a specified period of time.

(r) "*Option Price*" means the price at which shares of Stock subject to an Option may be purchased, determined in accordance with Section 7.2(b).

(s) "*Outside Director*" means a Director who is an "outside director" within the meaning of Internal Revenue Code Section 162(m).

(t) "*Participant*" means an Employee or Director of, or Consultant to, the Company designated by the Administrator from time to time during the term of the Plan to receive one or more Awards under the Plan.

(u) "*Performance Cycle*" means the period of time as specified by the Administrator over which Performance Share or Performance Units are to be earned.

(v) "*Performance Shares*" means an Award made pursuant to Section 9 which entitles a Participant to receive Shares, their cash equivalent or a combination thereof based on the achievement of performance targets during a Performance Cycle.

(w) "*Performance Units*" means an Award made pursuant to Section 9 which entitles a Participant to receive cash, Stock or a combination thereof based on the achievement of performance targets during a Performance Cycle.

(x) "*Plan Year*" means each 12-month period beginning September 1 and ending the following August 31, except that for the first year of the Plan it shall begin on the Effective Date and extend to August 31 of that year.

(y) "*Restricted Stock*" means Stock granted under Section 8 that is subject to restrictions imposed pursuant to such Section.

(z) “*Service Provider*” means an Employee or Director of, or Consultant to, the Company or an Affiliated Corporation.

(aa) “*Share*” means a share of Stock.

(bb) “*Stock*” means the common stock, \$.01 par value, of the Company.

(cc) “*Stock Option Agreement*” means a written document delivered by the Company to the recipient of an Option specifying the terms of such Option. Such document must specify, at a minimum, the number of Shares subject to the Option, the exercise price, any vesting schedule, and any terms which vary from the default provisions provided in the Plan. Such document need not be signed by the Option recipient.

2.2 *Gender and Number.* Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural

SECTION 3 PLAN ADMINISTRATION

3.1 *Authority of Administrator.* The Plan shall be administered by the Administrator. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Administrator by the Plan, the Administrator shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to eligible Participants; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, shares, other securities, other Awards, other property, and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Administrator; (vii) determine whether, to what extent, and under what circumstances to accelerate the exercisability of any Award or the end of a Performance Cycle or the termination of the restriction period for any Restricted Stock Award; (viii) correct any defect, supply any omission, reconcile any inconsistency and otherwise interpret and administer the Plan and any instrument or agreement relating to the Plan or any Award hereunder; (ix) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (x) make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of the Plan. To the extent necessary or appropriate, the Administrator may adopt sub-plans consistent with the Plan to conform to applicable state or foreign securities or tax laws.

3.2 *Determinations Under the Plan.* Unless otherwise expressly provided in the Plan all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Administrator, may be made at any time and shall be final, conclusive, and binding upon all persons, including the Company, any Affiliated Corporation, any Participant, any holder or beneficiary of any Award, and any stockholder. No member of the Administrator shall be liable, in the absence of bad faith, for any act or omission with respect to his or her services as an Administrator. Service on a committee acting as the Administrator shall constitute service as a director of the Company entitling members to any indemnification of liability benefits applicable to directors with respect to their services as Administrator.

3.3 *Delegation of Certain Responsibilities.* The Administrator may, in its sole discretion, delegate to appropriate officers of the Company the administration of the Plan under this Section 3; provided, however, that no such delegation by the Administrator shall be made (i) if such delegation would not be permitted under applicable law or (ii) with respect to the administration of the Plan as it affects Executive Officers or Directors of the Company, and provided further that the Administrator may not delegate its authority to correct errors, omissions or inconsistencies in the Plan. Subject to the above limitations, the Administrator may delegate to the Chief Executive Officer of the Company its authority under this Section 3 to grant Awards to employees who are not Executive Officers or Directors of the Company. All authority delegated by the Administrator under this Section 3.3 shall be exercised in accordance with the provisions of the Plan and any guidelines for, conditions on, or limitations to the exercise of such authority that may from time to time be established by the Administrator.

SECTION 4
STOCK SUBJECT TO THE PLAN

4.1 *Number of Shares.* Subject to adjustment as provided in Section 4.3, one million six hundred thousand (1,600,000) Shares are initially authorized for issuance under the Plan in accordance with the provisions of the Plan and subject to such restrictions or other provisions as the Administrator may from time to time deem necessary. Subject to adjustment as provided in Section 4.3, no Participant may be granted Awards in any twelve-month period with respect to more than three hundred thousand (300,000) Shares. The Shares may be divided among the various Plan components as the Administrator shall determine, except that no more than one million five hundred thousand (1,500,000) Shares as calculated pursuant to Section 4.2 shall be cumulatively available for the grant of Incentive Stock Options under the Plan. Shares which may be issued upon the exercise of Options shall be applied to reduce the maximum number of Shares remaining available for use under the Plan. The Company shall at all times during the term of the Plan and while any Options are outstanding retain as authorized and unissued Stock, or as treasury Stock, at least the number of Shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

4.2 *Unused and Forfeited Stock.* Any Shares that are subject to an Award under this Plan which are not used because the terms and conditions of the Award are not met, including any Shares that are subject to an Option which expires or is terminated for any reason, any Shares which are used for full or partial payment of the purchase price of Shares with respect to which an Option is exercised and any Shares retained by the Company pursuant to Section 16.2 shall automatically become available for use under the Plan. Notwithstanding the foregoing, any Shares used for full or partial payment of the purchase price of the Shares with respect to which an Option is exercised and any Shares retained by the Company pursuant to Section 16.2 that were originally Incentive Stock Option Shares shall still be considered as having been granted for purposes of determining whether the Share limitation provided for in Section 4.1 has been reached for purposes of Incentive Stock Option grants.

4.3 *Adjustments for Stock Split, Stock Dividend, etc.* If the Company shall at any time increase or decrease the number of its outstanding Shares of Stock or change in any way the rights and privileges of such Shares by means of the payment of a stock dividend or any other distribution upon such Shares payable in Stock, or through a stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock, then in relation to the Stock that is affected by one or more of the above events, the numbers, rights and privileges of (i) the shares of Stock as to which Awards may be granted under the Plan, and (ii) the Shares of Stock then included in each outstanding Option, Performance Share or Performance Unit granted hereunder, shall be increased, decreased or changed in like manner as if they had been issued and outstanding, fully paid and nonassessable at the time of such occurrence.

4.4 *Dividend Payable in Stock of Another Corporation, etc.* Except as set forth in Section 4.5 below, if the Company shall at any time pay or make any dividend or other distribution upon the Stock payable in securities of another corporation or other property (except money or Stock), a proportionate part of such securities or other property shall be set aside and delivered to any Participant then holding an Award for the particular type of Stock for which the dividend or other distribution was made, upon exercise thereof in the case of Options, and the vesting thereof in the case of other Awards. Prior to the time that any such securities or other property are delivered to a Participant in accordance with the foregoing, the Company shall be the owner of such securities or other property and shall have the right to vote the securities, receive any dividends payable on such securities, and in all other respects shall be treated as the owner. If securities or other property which have been set aside by the Company in accordance with this Section are not delivered to a Participant because an Award is not exercised or otherwise vested, then such securities or other property shall remain the property of the Company and shall be dealt with by the Company as it shall determine in its sole discretion.

4.5 *Spin-offs.* If the Company shall at any time pay or make any dividend or other distribution upon the Stock in the nature of a spin-off, for example a dividend payable in securities of an Affiliated Corporation, the Administrator shall in its discretion determine what changes are equitably required to outstanding Awards to effect the spin-off, including but not limited to treating Awards of Employees remaining with the Company differently from Awards to Employees of the newly spun-off entity, substituting Awards for Company Stock for Awards of stock in the spun-off entity, and allowing either the Company, the spun-off entity or both to hold the securities or property set aside for Award participants.

4.6 *Other Changes in Stock.* In the event there shall be any change, other than as specified in Sections 4.3, 4.4 and 4.5, in the number or kind of outstanding shares of Stock or of any stock or other securities into which the Stock shall be changed or for which it shall have been exchanged, and if the Administrator shall in its discretion determine that such change equitably requires an adjustment in the number or kind of Shares subject to outstanding Awards or which have been reserved for issuance pursuant to the Plan but are not then subject to an Award, then such adjustments shall be made by the Administrator and shall be effective for all purposes of the Plan and on each outstanding Award that involves the particular type of stock for which a change was effected.

4.7 *General Adjustment Rules.* If any adjustment or substitution provided for in this Section 4 shall result in the creation of a fractional Share under any Award, the Company shall, in lieu of selling or otherwise issuing such fractional Share, pay to the Participant a cash sum in an amount equal to the product of such fraction multiplied by the Fair Market Value of a Share on the date the fractional Share would otherwise have been issued. In the case of any such substitution or adjustment affecting an Option, the total Option Price for the shares of Stock then subject to an Option shall remain unchanged but the Option Price per share under each such Option shall be equitably adjusted by the Administrator to reflect the greater or lesser number of shares of Stock or other securities into which the Stock subject to the Option may have been changed.

4.8 *Determination by Administrator.* Adjustments under this Section 4 shall be made by the Administrator, whose determinations with regard thereto shall be final and binding upon all persons.

SECTION 5 REORGANIZATION OR LIQUIDATION

In the event that the Company is merged or consolidated with another corporation (other than a merger or consolidation in which the Company is the continuing corporation and which does not result in any reclassification or change of outstanding Shares), or if all or substantially all of the assets or more than 50% of the outstanding voting stock of the Company is acquired by any other corporation, business entity or person (other than a sale or conveyance in which the Company continues as a holding company of an entity or entities that conduct the business or businesses formerly conducted by the Company), or in case of a reorganization (other than a reorganization under the United States Bankruptcy Code) or liquidation of the Company, and if the provisions of Section 11 do not apply, the Administrator, or the board of directors of any corporation assuming the obligations of the Company, shall, have the power and discretion to prescribe the terms and conditions for the exercise, or modification, of any outstanding Awards granted hereunder. By way of illustration, and not by way of limitation, the Administrator may provide for the complete or partial acceleration of the dates of exercise of the Options, or may provide that such Options will be exchanged or converted into options to acquire securities of the surviving or acquiring corporation, or may provide for a payment or distribution in respect of outstanding Options (or the portion thereof that is currently exercisable) in cancellation thereof. The Administrator may remove restrictions on Restricted Stock and may modify the performance requirements for any other Awards. The Administrator may provide that Stock or other Awards granted hereunder must be exercised in connection with the closing of such transaction, and that if not so exercised such Awards will expire. Any such determinations by the Administrator may be made generally with respect to all Participants, or may be made on a case-by-case basis with respect to particular Participants. The provisions of this Section 5 shall not apply to any transaction undertaken for the purpose of reincorporating the Company under the laws of another jurisdiction, if such transaction does not materially affect the beneficial ownership of the Company's capital stock.

**SECTION 6
PARTICIPATION**

Participants in the Plan shall be those Employees, Directors, or Consultants who, in the judgment of the Administrator, are performing, or during the term of their incentive arrangement will perform, important services in the management, operation and development of the Company, and significantly contribute, or are expected to significantly contribute, to the achievement of long-term corporate economic objectives. Participants may be granted from time to time one or more Awards; provided, however, that the grant of each such Award shall be separately approved by the Administrator, receipt of one such Award shall not result in automatic receipt of any other Award, and written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto; and further provided that Incentive Stock Options shall not be granted to (i) Consultants, (ii) part-time employees, (iii) Nonemployee Directors, or (iv) Employees of any partnership or other entity which is included within the definition of an Affiliated Corporation but whose employees are not permitted to receive Incentive Stock Options under the Internal Revenue Code. Each Participant shall enter into an agreement with the Company, in such form as the Administrator shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights and duties. Awards shall be deemed to be granted as of the date specified in the grant resolution of the Administrator, which date shall be the date of any related agreement with the Participant. In the event of any inconsistency between the provisions of the Plan and any such agreement entered into hereunder, the provisions of the Plan shall govern.

**SECTION 7
STOCK OPTIONS TO EMPLOYEES AND CONSULTANTS**

7.1 *Grant of Options to Employees and Consultants.* Coincident with or following designation for participation in the Plan, a Participant (other than a Nonemployee Director) may be granted one or more Options. The Administrator in its sole discretion shall designate whether an Option is to be considered an Incentive Stock Option or a Non-Statutory Option. The Administrator may grant both an Incentive Stock Option and a Non-Statutory Option to the same Participant at the same time or at different times. Incentive Stock Options and Non-Statutory Options, whether granted at the same or different times, shall be deemed to have been awarded in separate grants, shall be clearly identified, and in no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of Shares for which any other Option may be exercised.

7.2 *Option Agreements.* Each Option granted under the Plan shall be evidenced by a Stock Option Agreement which shall be delivered by the Company to the Participant to whom the Option is granted (the "Option Holder"). Except as otherwise set forth in a Stock Option Agreement delivered to the Participant, each Option shall be governed by the following terms and conditions, as well as such other terms and conditions not inconsistent therewith as the Administrator may consider appropriate in each case.

(a) *Number of Shares.* Each Stock Option Agreement shall state that it covers a specified number of Shares, as determined by the Administrator. To the extent that the aggregate Fair Market Value of Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Participant during any year (under all plans of the Company and any Affiliated Corporation) exceeds \$100,000, such Options shall be treated as not being Incentive Stock Options. The foregoing shall be applied by taking Options into account in the order in which they were granted. For the purposes of the foregoing, the Fair Market Value of any Share shall be determined as of the time the Option with respect to such Share is granted. In the event the foregoing results in a portion of an Option designated as an Incentive Stock Option exceeding the \$100,000 limitation, only such excess shall be treated as not being an Incentive Stock Option.

(b) *Price.* Except for the limitations on Incentive Stock Options set forth below, the price at which each Share covered by an Option may be purchased shall be determined in each case by the Administrator and set forth in the Stock Option Agreement. In no event shall the Option Price for each Share covered by an Option be less than the Fair Market Value of the Stock on the date the Option is granted. Further, the Option Price for each Share covered by an Incentive Stock Option granted to an Employee who then owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company must be at least 110% of the Fair Market Value of the Stock subject to the Incentive Stock Option on the date the Option is granted.

(c) *Duration of Options.* The Administrator shall determine the period of time within which the Option may be exercised by the Option Holder (the "Option Period"). The Option Period must expire, in all cases, not more than ten years from the date an Option is granted; provided, however, that the Option Period of an Incentive Stock Option granted to an Employee who then owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company must expire not more than five years from the date such Option is granted. Any Option Period determined by the Administrator to be shorter than the ten or five-year term set forth above, must be set forth in a Stock Option Agreement. Each Stock Option Agreement shall also state the periods of time, if any, as determined by the Administrator, when incremental portions of each Option shall vest. If any Option is not exercised during its Option Period, it shall be deemed to have been forfeited and of no further force or effect.

(d) *Termination of Service, Retirement, Death or Disability.* Except as otherwise determined by the Administrator, each Option shall be governed by the following terms with respect to the exercise of the Option if an Option Holder ceases to be a Service Provider:

(i) If the Option Holder ceases to be a Service Provider within the Option Period for cause, as determined by the Company, the Option shall thereafter be void for all purposes. As used in this Section 7.2(d), "cause" shall mean (A) if applicable, "cause" as defined on a written contract between the Option Holder and the Company, or (B) in any other case, a gross violation, as determined by the Company, of the Company's established policies and procedures. The effect of this Section 7.2(d)(i) shall be limited to determining the consequences of a termination, and nothing in this Section 7.2(d)(i) shall restrict or otherwise interfere with the Company's discretion with respect to the termination of any Service Provider.

(ii) If the Option Holder ceases to be a Service Provider with the Company in a manner determined by the Board, in its sole discretion, to constitute retirement (which determination shall be communicated to the Option Holder within 10 days of such termination), the Option may be exercised by the Option Holder, or in the case of death, by the persons specified in clause (iii) of this Section 7.2(d), within three months following his or her retirement if the Option is an Incentive Stock Option or within twelve months following his or her retirement if the Option is a Non-Statutory Stock Option (provided in each case that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date the Option Holder ceases to be a Service Provider.

(iii) If the Option Holder dies (A) while he or she is a Service Provider, (B) within the three-month period referred to in clause (v) below, or (C) within the three or twelve-month period referred to in clause (ii) above, the Option may be exercised by those entitled to do so under the Option Holder's will or by the laws of descent and distribution within twelve months following the Option Holder's death (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date the Option Holder ceased to be a Service Provider.

(iv) If the Option Holder becomes disabled (within the meaning of Section 22(e) of the Internal Revenue Code) while a Service Provider, Incentive Stock Options held by the Option Holder may be exercised by the Option Holder within twelve months following the date the Option Holder ceases to be a Service Provider (provided that such exercise must occur within the Option Period), but not thereafter. If the Option Holder becomes disabled (within the meaning of Section 22(e) of the Internal Revenue Code) while a Service Provider or within three-month period referred to in clause (v) below or within the twelve-month period following his or her retirement as provided in clause (ii) above, Non-Statutory Options held by the Option Holder may be exercised by the Option Holder within twelve months following the date of the Option Holder's disability (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date the Option Holder ceased to be a Service Provider.

(v) If the Option Holder ceases to be a Service Provider within the Option Period for any reason other than cause, retirement as provided in clause (ii) above, disability as provided in clause (iv) above or the Option Holder's death, the Option may be exercised by the Option Holder within three months following the date of such cessation (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date that the Option Holder ceases to be a Service Provider

(e) *Exercise, Payments, etc.*

(i) The method for exercising each Option granted under the Plan shall be by delivery to the Corporate Secretary of the Company or an agent designated pursuant to Section 18 of a notice specifying the number of Shares with respect to which such Option is exercised and payment of the Option Price. Such notice shall be in a form satisfactory to the Administrator and shall specify the particular Option (or portion thereof) which is being exercised and the number of Shares with respect to which the Option is being exercised. The exercise of the Option shall be deemed effective upon receipt of such notice by the Corporate Secretary or a designated agent and payment to the Company. The purchase of such Stock shall be deemed to take place at the principal office of the Company upon delivery of such notice, at which time the purchase price of the Stock shall be paid in full by any of the methods or any combination of the methods set forth in (ii) below. A properly executed certificate or certificates representing the Stock shall be issued by the Company and delivered to the Option Holder. If certificates representing Stock are used to pay all or part of the Option Price, separate certificates for the same number of shares of Stock shall be issued by the Company and delivered to the Option Holder representing each certificate used to pay the Option Price, and an additional certificate shall be issued by the Company and delivered to the Option Holder representing the additional shares, in excess of the Option Price, to which the Option Holder is entitled as a result of the exercise of the Option.

(ii) The exercise price shall be paid by any of the following methods or any combination of the following methods:

(A) in cash;

(B) by cashier's check payable to the order of the Company;

(C) if authorized by the Administrator, in its sole discretion, by delivery to the Company of certificates representing the number of Shares then owned by the Option Holder, the Fair Market Value of which equals the purchase price of the Stock purchased pursuant to the Option, properly endorsed for transfer to the Company; provided however, that Shares used for this purpose must have been held by the Option Holder for more than six months; and provided further that the Fair Market Value of any Shares delivered in payment of the purchase price upon exercise of the Option shall be the Fair Market Value as of the exercise date, which shall be the date of delivery of the certificates for the Stock used as payment of the Option Price;

(D) if authorized by the Administrator, in its sole discretion, and subject to applicable law, including Section 402 of the Sarbanes-Oxley Act, by delivery by a Participant (other than an Executive Officer or Director) to the Company of a properly executed notice of exercise together with irrevocable instructions to a broker to deliver to the Company promptly the amount of the proceeds of the sale of all or a portion of the Stock or of a loan from the broker to the Option Holder necessary to pay the exercise price; or

(E) if authorized by the Administrator, in its sole discretion, any combination of these methods.

(iii) In the sole discretion of the Administrator, the Company may, subject to applicable law, including Section 402 of the Sarbanes-Oxley Act, guaranty a third-party loan obtained by a Participant (other than an Executive Officer or Director) to pay part or all of the Option Price of the Shares provided that such loan or the Company's guaranty is secured by the Shares and the loan bears interest at a market rate. The Company may not make or guaranty loans to Executive Officers or Directors.

(f) *Date of Grant.* An option shall be considered as having been granted on the date specified in the grant resolution of the Administrator.

(g) *Adjustment of Options.* Subject to the limitations contained in Sections 7 and 15, the Administrator may make any adjustment in the Option Price, the number of shares subject to, or the terms of, an outstanding Option and a subsequent granting of an Option by amendment or by substitution of an outstanding Option. Such amendment, substitution, or re-grant may result in terms and conditions (including Option Price, number of shares covered, vesting schedule or exercise period) that differ from the terms and conditions of the original Option. This provision specifically authorizes the Administrator to reprice outstanding Options. The Administrator may not, however, adversely affect the rights of any Participant to previously granted Options without the consent of such Participant. If such action is affected by amendment, the effective date of such amendment shall be the date of the original grant.

SECTION 8 STOCK AWARDS

8.1 *Awards Granted by Administrator.* Coincident with or following designation for participation in the Plan, a Participant (other than a Nonemployee Director) may be granted one or more unrestricted Stock Awards or Restricted Stock Awards consisting of Shares. A Stock Award may be paid by delivery of Stock, in cash or in a combination of Stock and cash, as determined by the Administrator.

8.2 *Restrictions.* A Participant's right to retain a Restricted Stock Award granted to such Participant under Section 8.1 shall be subject to such restrictions, including but not limited to the Participant's continuing to perform as a Service Provider for a restriction period specified by the Administrator, or the attainment of specified performance goals and objectives, as may be established by the Administrator with respect to such Award. The Administrator may, in its sole discretion, require different periods of service or different performance goals and objectives with respect to (i) different Participants, (ii) different Restricted Stock Awards, or (iii) separate, designated portions of the Shares constituting a Restricted Stock Award.

8.3 *Privileges of a Stockholder; Transferability.* A Participant shall have all voting, dividend, liquidation and other rights with respect to Stock in accordance with its terms received by such Participant as a Stock Award under this Section 8 upon the Participant's becoming the holder of record of such Stock; provided, however, that the Participant's right to sell, encumber or otherwise transfer Restricted Stock shall be subject to the limitations of Section 12.2 hereof.

8.4 *Enforcement of Restrictions.* The Administrator may in its sole discretion require one or more of the following methods of enforcing the restrictions referred to in Section 8.2 and 8.3:

- (a) placing a legend on the stock certificates referring to the restrictions as follows:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FORFEITURE AND TRANSFERABILITY RESTRICTIONS AS SET FORTH IN THE RESTRICTED STOCK AGREEMENT BETWEEN THE SHAREHOLDER AND PURE CYCLE CORPORATION DATED _____. A COPY OF THE RESTRICTED STOCK AGREEMENT IS ON FILE AT THE EXECUTIVE OFFICE OF PURE CYCLE CORPORATION.

(b) requiring the Participant to keep the stock certificates, duly endorsed, in the custody of the Company while the restrictions remain in effect; or

(c) requiring that the stock certificates, duly endorsed, be held in the custody of a third party while the restrictions remain in effect.

8.5 *Termination of Service, Death or Disability.* In the event of the death or disability (within the meaning of Section 22(e) of the Internal Revenue Code) of a Participant, or the retirement of a Participant as provided in Section 7.2(d)(ii), all service period and other restrictions applicable to Restricted Stock Awards then held by him shall lapse, and such Awards shall become fully nonforfeitable. Subject to Sections 5 and 10, in the event a Participant ceases to be a Service Provider for any other reason, any Restricted Stock Awards as to which the service period or other restrictions have not been satisfied shall be forfeited.

SECTION 9 PERFORMANCE SHARES AND PERFORMANCE UNITS

9.1 *Awards Granted by Administrator.* Coincident with or following designation for participation in the Plan, a Participant (other than a Nonemployee Director) may be granted Performance Shares or Performance Units.

9.2 *Amount of Award.* The Administrator shall establish a maximum amount of a Participant's Award, which amount shall be denominated in Shares in the case of Performance Shares or in dollars in the case of Performance Units.

9.3 *Communication of Award.* Written notice of the maximum amount of a Participant's Award and the Performance Cycle determined by the Administrator shall be given to a Participant as soon as practicable after approval of the Award by the Administrator.

9.4 *Amount of Award Payable.* The Administrator shall establish maximum and minimum performance targets to be achieved during the applicable Performance Cycle. Performance targets established by the Administrator shall relate to corporate, group, unit or individual performance and may be established in terms of earnings, growth in earnings, ratios of earnings to equity or assets, or such other measures or standards determined by the Administrator. Multiple performance targets may be used and the components of multiple performance targets may be given the same or different weighting in determining the amount of an Award earned, and may relate to absolute performance or relative performance measured against other groups, units, individuals or entities. Achievement of the maximum performance target shall entitle the Participant to payment (subject to Section 9.6) at the full or maximum amount specified with respect to the Award; provided, however, that notwithstanding any other provisions of this Plan, in the case of an Award of Performance Shares the Administrator in its discretion may establish an upper limit on the amount payable (whether in cash or Stock) as a result of the achievement of the maximum performance target. The Administrator may also establish that a portion of a full or maximum amount of a Participant's Award will be paid (subject to Section 9.6) for performance which exceeds the minimum performance target but falls below the maximum performance target applicable to such Award.

9.5 *Adjustments.* At any time prior to payment of a Performance Share or Performance Unit Award, the Administrator may adjust previously established performance targets or other terms and conditions to reflect events such as changes in laws, regulations, or accounting practice, or mergers, acquisitions or divestitures.

9.6 *Payments of Awards.* Following the conclusion of each Performance Cycle, the Administrator shall determine the extent to which performance targets have been attained, and the satisfaction of any other terms and conditions with respect to an Award relating to such Performance Cycle. The Administrator shall determine what, if any, payment is due with respect to an Award and whether such payment shall be made in cash, Stock or some combination. Payment shall be made in a lump sum or installments, as determined by the Administrator, commencing as promptly as practicable following the end of the applicable Performance Cycle, subject to such terms and conditions and in such form as may be prescribed by the Administrator; provided, however, that, subject to Section 20.4, all payments shall be made no later than (i) March 15 of the year following the end of the Performance Cycle if such Performance Cycle ends on or before August 31 of a year, or (ii) November 15 of the year following the end of the Performance Cycle if such Performance Cycle ends on or after September 1 of a year.

9.7 *Termination of Employment.* If a Participant ceases to be a Service Provider before the end of a Performance Cycle by reason of his death, disability as provided in Section 7.2(d)(iv), or retirement as provided in Section 7.2(d)(ii), the Performance Cycle for such Participant for the purpose of determining the amount of the Award payable shall end at the end of the calendar quarter immediately preceding the date on which such Participant ceased to be a Service Provider. Subject to Section 20.4, the amount of an Award payable to a Participant to whom the preceding sentence is applicable shall be paid at the end of the Performance Cycle and shall be that fraction of the Award computed pursuant to the preceding sentence the numerator of which is the number of calendar quarters during the Performance Cycle during all of which said Participant was a Service Provider and the denominator of which is the number of full calendar quarters in the Performance Cycle. Upon any other termination of Participant's services as a Service Provider during a Performance Cycle, participation in the Plan shall cease and all outstanding Awards of Performance Shares or Performance Units to such Participant shall be canceled.

SECTION 10
FORMULA AWARDS TO DIRECTORS

10.1 *Administrator.* The Administrator shall have no authority, discretion or power to select the Nonemployee Directors who will receive any Award, determine the number of shares to be issued hereunder or the time at which such Awards are to be granted, establish the duration of the Awards or alter any other terms or conditions specified in the Plan, except in the sense of administering the Plan pursuant to the provisions of the Plan.

10.2 *Number of Option Shares.* Upon the initial election or appointment of a Nonemployee Director to the Company's Board, or upon the Effective Date, whichever is later, the Nonemployee Director shall be granted a Non-Statutory Option to purchase 5,000 Shares of Stock (subject to adjustment pursuant to Section 4 hereof), which option shall become exercisable at the rate of 2,500 Shares of Stock on each of the first two anniversaries of the initial date of grant. In addition, each Nonemployee Director shall be granted a Non-Statutory Option to purchase 2,500 Shares of Stock (subject to adjustment pursuant to Section 4 hereof) on the date of each annual meeting of the Company's stockholders held subsequent to such Nonemployee Director's initial election or appointment to the Board, provided the Nonemployee Director is reelected as a Director at such annual meeting, which option shall be exercisable one year from the date of grant. Options shall expire, to the extent not exercised, ten years after the date on which they were granted.

10.3 *Price of Option Shares.* The exercise price per Share for any Option granted pursuant to this Section 10 shall be 100% of the Fair Market Value of the Stock on the date on which the Nonemployee Director is granted the Option.

10.4 *Option Termination.* If the Nonemployee Director ceases to be a Director for any reason, the Option may be exercised by the Nonemployee Director at any time following the date of such cessation provided that such exercise must occur prior to the Option expiration date. In any such case, the Option may be exercised only as to the Shares as to which the Option had become exercisable on or before the date that the Nonemployee Director ceased to be a Director.

10.5 *Option Exercise.* Options granted to Nonemployee Directors pursuant to this Section 10 shall provide for exercise as set forth in Section 7.2(e).

10.6 *Other Terms.* Except for the limitations set forth in Sections 5, 10.2, 10.3, and 11, the terms and provisions of Options shall be as determined from time to time by the Administrator, and Options issued may contain terms and provisions different from other Options granted to the same or other Option recipients. Options shall be evidenced by a Stock Option Agreement containing such terms and provisions as the Administrator may determine, subject to the provisions of the Plan.

10.7 *Meeting of Board Committees.* The Board (and not a committee of the Board), in its sole discretion, may adopt one or more formulas that provide for granting a specified Award to each Nonemployee Director for attendance at each meeting of designated committees of the Board. The Board may adopt different formulas for the various committees of the Board, and it may choose to adopt formulas for some committees and not others. Further, any formula may provide for a different grant to members of the committee charged with additional responsibilities on the committee, such as the chairman.

SECTION 11 CHANGE IN CONTROL

11.1 *Options, Restricted Stock.* In the event of a change in control of the Company as defined in Section 11.3, then the Administrator may, in its sole discretion, without obtaining stockholder approval, to the extent permitted in Section 15, take any or all of the following actions: (a) accelerate the exercise dates of any outstanding Options or make all such Options fully vested and exercisable; (b) grant a cash bonus award to any Option Holder in an amount necessary to pay the Option Price of all or any portion of the Options then held by such Option Holder; (c) pay cash to any or all Option Holders in exchange for the cancellation of their outstanding Options in an amount equal to the difference between the Option Price of such Options and the greater of the tender offer price for the underlying Stock or the Fair Market Value of the Stock on the date of the cancellation of the Options; (d) make any other adjustments or amendments to the outstanding Options; and (e) eliminate all restrictions with respect to Restricted Stock and deliver Shares free of restrictive legends to any Participant; provided, however, that the Administrator shall not make any adjustment or amendment that would constitute a “modification” of an Option, as such term is used in Internal Revenue Code regulation § 1.409A-1(b)(5)(v), that would result in such Option being subject to additional tax pursuant to Section 409A of the Internal Revenue Code.

11.2 *Performance Shares and Performance Units.* Under the circumstances described in Section 11.1, the Administrator may, in its sole discretion, and without obtaining stockholder approval, to the extent permitted in Section 15, provide for payment of outstanding Performance Shares and Performance Units at the maximum award level or any percentage thereof; provided, however, that to the extent permitted by § 20.4 herein, all payments shall be made no later than (i) March 15 of the year following the end of the Performance Cycle to which the Performance Shares or Performance Units relate if such Performance Cycle ends on or before August 31 of a year, or (ii) November 15 of the year following the end of the Performance Cycle to which the Performance Shares or Performance Units relate if such Performance Cycle ends on or after September 1 of a year.

11.3 *Definition.* For purposes of the Plan, a “change in control” shall be deemed to have occurred if: (a) any “person” or “group” (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 33-1/3% of the then outstanding voting stock of the Company; or (b) at any time during any period of three consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board (and any new director whose election by the Board or whose nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority thereof; or (c) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets.

SECTION 12
CONTINUATION OF SERVICES; TRANSFERABILITY

12.1 *Continuation of Services.* Nothing contained in the Plan or in any Award granted under the Plan shall confer upon any Participant any right with respect to the continuation of his or her services as a Service Provider, or interfere in any way with the right of the Company, subject to the terms of any separate employment or consulting agreement to the contrary, at any time to terminate such services or to increase or decrease the compensation of the Participant from the rate in existence at the time of the grant of an Award. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of Participant's services as a Service Provider shall be determined by the Administrator at the time of such leave in accordance with then current laws and regulations.

12.2 *Nontransferability.* Except as provided in Section 12.3, no right or interest of any Participant in an Award granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Participant, except (if otherwise permitted under Section 12.4) pursuant to a domestic relations order, either voluntarily or involuntarily, or be subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Participant's death, a Participant's rights and interests in Options shall, if otherwise permitted under Section 12.4, be transferable by testamentary will or the laws of descent and distribution, and payment of any amounts due under the Plan shall be made to, and exercise of any Options may be made by, the Participant's legal representatives, heirs or legatees. If, in the opinion of the Administrator, a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator or other legal personal representative upon furnishing the Administrator with evidence satisfactory to the Administrator of such status. Transfers shall not be deemed to include transfers to the Company or "cashless exercise" procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of Awards consistent with applicable laws and the authorization of the Administrator.

12.3 *Permitted Transfers.* Pursuant to conditions and procedures established by the Administrator from time to time, the Administrator may permit Awards (other than Incentive Stock Options) to be transferred to, exercised by and paid to certain persons or entities related to a Participant, including but not limited to members of the Participant's immediate family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's immediate family and/or charitable institutions. In the case of initial Awards, at the request of the Participant, the Administrator may permit the naming of the related person or entity as the Award recipient. Any permitted transfer shall be subject to the condition that the Administrator receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes on a gratuitous or donative basis and without consideration (other than nominal consideration).

12.4 *Limitations on Incentive Stock Options.* Notwithstanding anything in this Agreement (or in any Stock Option Agreement evidencing the grant of an Option hereunder) to the contrary, Incentive Stock Options shall be transferable only to the extent permitted by Section 422 of the Internal Revenue Code and the treasury regulations thereunder without affecting the Option's qualification under Section 422 as an Incentive Stock Option.

SECTION 13 GENERAL RESTRICTIONS

13.1 *Investment Representations.* The Company may require any person to whom an Option or other Award is granted, as a condition of exercising such Option or receiving Stock under the Award, to give written assurances in substance and form satisfactory to the Company and its counsel to the effect that such person is acquiring the Stock subject to the Option or the Award for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws. Legends evidencing such restrictions may be placed on the certificates evidencing the Stock.

13.2 *Compliance with Securities Laws.* Each Award shall be subject to the requirement that, if at any time counsel to the Company shall determine that the listing, registration or qualification of the Shares subject to such Award upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance or purchase of Shares thereunder, such Award may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Administrator. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration or qualification.

13.3 *Stock Restriction Agreement.* The Administrator may provide that shares of Stock issuable pursuant to an Award shall, under certain conditions, be subject to restrictions whereby the Company has a right of first refusal with respect to such shares or a right or obligation to repurchase all or a portion of such shares, which restrictions may survive a Participant's cessation or termination as a Service Provider.

13.4 *Stockholder Privileges.* No Award Holder shall have any rights as a stockholder with respect to any Shares covered by an Award until the Award Holder becomes the holder of record of such Stock, and no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date such Award Holder becomes the holder of record of such Stock, except as provided in Section 4.

SECTION 14 OTHER EMPLOYEE BENEFITS

The amount of any compensation deemed to be received by a Participant as a result of the exercise of an Option or the grant or vesting of any other Award shall not constitute "earnings" with respect to which any other benefits of such Participant are determined, including without limitation benefits under any pension, profit sharing, life insurance or salary continuation plan.

SECTION 15
PLAN AMENDMENT, MODIFICATION AND TERMINATION

The Board may at any time terminate, and from time-to-time may amend or modify, the Plan; provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the stockholders if stockholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements, or if the Company, on the advice of counsel, determines that stockholder approval is otherwise necessary or desirable.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Awards theretofore granted under the Plan, without the consent of the Participant holding such Awards.

SECTION 16
WITHHOLDING

16.1 *Withholding Requirement.* The Company's obligations to deliver Shares upon the exercise of an Option, or upon the vesting of any other Award, shall be subject to the Participant's satisfaction of all applicable federal, state and local income and other tax withholding requirements. The Company may defer exercise of an Award unless indemnified by the Participants to the Administrator's satisfaction against the payment of any such amount. Further, the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind due to the Participant by the Company.

16.2 *Withholding with Stock.* At the time the Administrator grants an Award, it may, in its sole discretion, grant the Participant an election to pay all such amounts of tax withholding, or any part thereof, by electing to transfer to the Company, or to have the Company withhold from Shares otherwise issuable to the Participant, Shares having a value equal to the amount required to be withheld or such lesser amount as may be elected by the Participant. All elections shall be subject to the approval or disapproval of the Administrator. The value of Shares to be withheld shall be based on the Fair Market Value of the Stock on the date that the amount of tax to be withheld is to be determined (the "Tax Date"). Any such elections by Participants to have Shares withheld for this purpose will be subject to the following restrictions:

(a) All elections must be made prior to the Tax Date;

(b) All elections shall be irrevocable; and

(c) If the Participant is an "officer" or "director" of the Company within the meaning of Section 16 of the Exchange Act, the Participant must satisfy the requirements of such Section 16 and any applicable rules thereunder with respect to the use of Stock to satisfy such tax withholding obligation.

16.3 *Incentive Options.* In the event that an Option Holder makes a disposition (as defined in Section 424(c) of the Internal Revenue Code) of any Stock acquired pursuant to the exercise of an Incentive Stock Option prior to the later of (i) the expiration of two years from the date on which the Incentive Stock Option was granted or (ii) the expiration of one year from the date on which the Option was exercised, the Option Holder shall send written notice to the Company at its principal office (Attention: Corporate Secretary) of the date of such disposition, the number of shares disposed of, the amount of proceeds received from such disposition, and any other information relating to such disposition as the Company may reasonably request. The Option Holder shall, in the event of such a disposition, make appropriate arrangements with the Company to provide for the amount of additional withholding, if any, required by applicable federal and state income tax laws.

SECTION 17
SECTION 162(M) PROVISIONS

17.1 *Limitations.* Notwithstanding any other provision of this Plan, if the Administrator determines at the time any Stock Award or Performance Award is granted to a Participant that such Participant is, or is likely to be at the time he or she recognizes income for federal income tax purposes in connection with such Award, a “covered employee” within the meaning of 162(m)(3) of the Internal Revenue Code, then the Administrator, may provide that this Section 17 is applicable to such Award.

17.2 *Performance Goals.* If an Award is subject to this Section 17, then the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Administrator, which shall be based on the attainment of one or any combination of the following: specified levels of earnings per share from continuing operations, operating income, revenues, gross margin, return on operating assets, return on equity, economic value added, stock price appreciation, total stockholder return (measured in terms of stock price appreciation and dividend growth), or cost control, of the Company or Affiliated Corporation (or any division thereof) for or within which the Participant is primarily employed. Such performance goals also may be based upon the attaining of specified levels of Company performance under one or more of the measures described above relative to the performance of other corporations. Such performance goals shall be set by the Administrator within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Internal Revenue Code and the regulations thereunder.

17.3 *Adjustments.* Notwithstanding any provision of the Plan other than Sections 5 and 11, with respect to any Award that is subject to this Section 17, the Administrator may not adjust upwards the amount payable pursuant to such Award, nor may it waive the achievement of the applicable performance goals except in the case of the death or disability of the Participant.

17.4 *Other Restrictions.* The Administrator shall have the power to impose such other restrictions on Awards subject to this Section 17 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for “performance-based compensation” within the meaning of Section 162(m)(4)(B) of the Internal Revenue Code or any successor thereto.

**SECTION 18
BROKERAGE ARRANGEMENTS**

The Administrator, in its discretion, may enter into arrangements with one or more banks, brokers or other financial institutions to facilitate the exercise of Options or the disposition of Shares acquired upon exercise of Stock Options, including, without limitation, arrangements for the simultaneous exercise of Stock Options and sale of the Shares acquired upon such exercise.

**SECTION 19
NONEXCLUSIVITY OF THE PLAN**

Neither the adoption of the Plan by the Board nor the submission of the Plan to stockholders of the Company for approval shall be construed as creating any limitations on the power or authority of the Board to adopt such other or additional incentive or other compensation arrangements of whatever nature as the Board may deem necessary or desirable or preclude or limit the continuation of any other plan, practice or arrangement for the payment of compensation or fringe benefits to Employees or Consultants generally, or to any class or group of Employees or Consultants, which the Company or any Affiliated Corporation now has lawfully put into effect, including, without limitation, any retirement, pension, savings and stock purchase plan, insurance, death and disability benefits and executive short-term incentive plans.

**SECTION 20
REQUIREMENTS OF LAW**

20.1 *Requirements of Law.* The issuance of Stock and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules and regulations.

20.2 *Rule 16b-3.* Transactions under the Plan and within the scope of Rule 16b-3 of the Exchange Act are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan or any action by the Administrator under the Plan fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with Rule 16b-3; provided, however, that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void to the extent permitted by law and deemed advisable by the Administrator.

20.3 *Governing Law.* The Plan and all agreements hereunder shall be construed in accordance with and governed by the laws of the State of Delaware.

20.4 *Specified Employees Under Regulation 409A.* For purposes of this Plan, the term "termination of employment" shall mean, with respect to any Award that constitutes a deferral of compensation within the meaning of Section 409A of the Internal Revenue Code, "separation from service" within the meaning of Section 409A of the Internal Revenue Code. Payment of any amount due a Participant after a termination of employment with the Company shall generally be made as soon as practical after such termination. However, if a Participant is a "specified employee" on the date of his or her termination of employment, as that term is defined under Sections 409A(a)(2)(A)(i) and 409A(a)(2)(B)(i) of the Internal Revenue Code, then, to the extent necessary to avoid imposition of additional taxes and interest under Section 409A of the Internal Revenue Code, any such payment shall be made on the date that is the earliest of: (i) six (6) months after the Participant's termination of employment, (ii) the Participant's date of death, if applicable, or (iii) such other earliest date for which such payment will not be subject to the constructive receipt, interest, and additional tax provisions of Section 409A of the Internal Revenue Code.

20.5 *Regulation 409A*. The payments and benefits payable under the Plan are intended to not be subject to the additional tax imposed pursuant to Section 409A of the Internal Revenue Code, and the Plan shall be construed in accordance with such intent.

**SECTION 21
DURATION OF THE PLAN**

No Award shall be granted under the Plan after ten years from the Effective Date; provided, however, that any Award theretofore granted may, and the authority of the Board or the Administrator to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under any such Award shall, extend beyond such date.

Dated: November 12, 2007

PURE CYCLE CORPORATION

By: /s/ Mark W. Harding
Mark W. Harding
President

CERTIFICATIONS

I, Mark W. Harding, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 quarterly 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: January 9, 2008

/s/ Mark W. Harding

Mark W. Harding

Principal Executive Office and Principal Financial Officer

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 the Quarterly Report of Pure Cycle Corporation (the "Company"), on Form 10-Q for the three months ended November 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark W. Harding, President and 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

January 9, 2008