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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 28, 2010

PURE CYCLE CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction
of incorporation)

0-8814

(Commission File Number)

84-0705083

(IRS Employer Identification No.)

500 E. 8th Ave, Suite 201, Denver, CO

(Address of principal executive offices)

80203

(Zip Code)

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

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

This Current Report on Form 8-K is filed by Pure Cycle Corporation (the “Registrant”), a Colorado corporation, in connection with the matters described herein.

ITEM 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION;

ITEM 3.02 UNREGISTERED SALE OF EQUITY SECURITIES

Issuance of Convertible Debt

Effective September 28, 2010, the Registrant entered into a Convertible Negotiable Promissory Note (the “Note”) with PAR Investment Partners, L.P. (“PAR”), an approximately 15% shareholder of the Registrant. The Note: (i) has a face value of \$5.2 million, (ii) accrues simple interest at 10% per annum, (iii) interest from the issuance date of the Note through April 1, 2011 is due on April 1, 2011 with monthly interest payments due the first day of each month following April 1, 2011 until the Note matures on January 15, 2012, (iv) is unsecured, and (v) upon approval by the Registrant’s shareholders, will be converted to unregistered common stock of the Registrant at a conversion price of the lower of (i) \$2.70 per share and (ii) ninety (90%) of the price per share paid by certain investors in an offering by the Registrant completed pursuant to its outstanding shelf registration statement filed on Form S-3. The amount due pursuant to this Note, including interest, would total approximately \$5.4 million. The Registrant intends to seek shareholder approval to convert the Note to Common Stock at its 2011 annual meeting of shareholders. In conjunction with the Note, we granted PAR one demand right and piggyback rights to register the shares of common stock issuable upon conversion of the Note. The foregoing description is qualified in its entirety by reference to the Note and the Registration Rights Agreement, which are filed as Exhibits 10.1 and 10.2 hereto and incorporated herein by reference.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits:

- Exhibit 10.1 — Convertible Negotiable Note Payable dated September 28, 2011, between Pure Cycle Corporation and PAR Investment Partners, L.P.
- Exhibit 10.2 — Registration Rights Agreement dated September 28, 2011, between Pure Cycle Corporation and PAR Investment Partners, L.P.

SIGNATURES

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

Dated: September 29, 2010

PURE CYCLE CORPORATION

/s/ Mark W. Harding

By: Mark W. Harding,
President and Chief Financial Officer

THIS PROMISSORY NOTE AND THE SECURITIES INTO WHICH THIS PROMISSORY NOTE IS CONVERTIBLE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD, OFFERED FOR SALE, ASSIGNED, PLEDGED, TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SHARES UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE STATE SECURITIES LAWS.

CONVERTIBLE NEGOTIABLE PROMISSORY NOTE

Pure Cycle Corporation

\$5,200,000

Denver, Colorado
September 28, 2010

FOR VALUE RECEIVED, Pure Cycle Corporation, a Colorado corporation ("Pure Cycle"), hereby promises to pay to the order of PAR Investment Partners, L.P., a Delaware limited partnership (the "Holder"), at One International Place, Suite 2401, Boston, Massachusetts 02110, or at such other place or places as Holder may designate from time to time, the principal sum of Five Million Two Hundred Thousand Dollars (\$5,200,000), together with interest on the unpaid principal balance outstanding at the rate of ten percent (10%) per annum, such interest to accrue from the date hereof until this Note is paid in full; provided, however, that in no event shall the rate of interest exceed the maximum rate, if any, allowable under applicable law. All such payments of principal and interest shall be made in lawful money of the United States of America.

1. **Maturity.** The entire principal balance, together with all accrued and unpaid interest, shall be due and payable in full on January 15, 2012 (the "Maturity Date"). All payments received hereunder shall be applied first to accrued interest and second to principal.
 2. **Conversion.** At the first annual meeting of shareholders of Pure Cycle held after the date hereof, Pure Cycle shall seek shareholder approval authorizing the Holder of this Note to convert all of the outstanding principal and, accrued and unpaid, interest under this Note into common stock of the Company as provided below. If shareholder approval is obtained, all outstanding principal and accrued and unpaid interest under this Note shall automatically be converted into shares of Pure Cycle common stock, one third (1/3) of \$.01 par value, at the initial Conversion Price per share (the "Conversion Price") of the lower of: (i) \$2.70 per share, and (ii) ninety percent (90%) of the price per share paid by certain investors in a shelf offering by Pure Cycle on or before October 31, 2011 of common stock from Pure Cycle's outstanding shelf registration filed on Form S-3, as amended (Registration No. 333-168160), but subject to adjustment as provided below in the event of either (i) or (ii). The conversion shall be deemed to have taken place at 5:01 p.m., Mountain Time, on the date the inspector of elections certifies the shareholder vote for the shareholder meeting at which approval for conversion is obtained.
-

If shareholder approval is not obtained, Pure Cycle may continue to seek shareholder approval at any special or annual meeting of shareholders held prior to the Maturity Date.

In the event of conversion, Holder shall surrender the original Note for cancellation at the principal office of Pure Cycle accompanied by a notice of conversion specifying the name or names in which the shares of common stock are to be issued and such other information reasonably requested by Pure Cycle, including, but not limited to, an opinion of counsel satisfactory to Pure Cycle that registration is not required under the Securities Act to issue shares in the name of persons other than the Holder. Holder shall be treated as the record holder of shares of common stock effective as of the date and time of conversion and shall have no remaining rights with respect to the Note so converted, and the Note shall be cancelled.

As promptly as practicable (but no more than fifteen (15) business days) after the surrender of the Note for conversion, Pure Cycle shall (subject to compliance with the applicable provisions of federal and state securities laws) deliver to Holder certificate(s) representing the number of shares of common stock into which the Note is entitled to be converted or evidence of the issuance of such shares in book-entry form.

Pure Cycle shall not be required to issue fractions of shares of common stock upon conversion of this Note. If any fraction of a share would, but for this paragraph, be issuable upon any conversion of this Note, in lieu of such fractional share, Pure Cycle shall deliver cash in the amount of the fair market value of such fractional interest.

Each certificate for shares of common stock issued upon conversion of this Note shall bear the following legend:

“THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NEITHER SUCH SHARES NOR ANY PORTION THEREOF OR INTEREST THEREIN MAY BE SOLD, OFFERED FOR SALE, ASSIGNED, PLEDGED, TRANSFERRED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SHARES UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE STATE SECURITIES LAWS.”

Pure Cycle shall reserve and keep available out of its authorized but unissued common stock such number of shares of common stock as shall from time to time be sufficient to effect the conversion of all outstanding principal and accrued and unpaid interest on this Note.

All shares of common stock which may be issued upon conversion of this Note will upon issuance, be validly issued, fully paid and nonassessable.

In the event Pure Cycle at any time or from time to time after the date of this Note effects a subdivision, combination or reclassification of its outstanding shares of common stock into a greater or lesser number of shares, then and in each such event the Conversion Price shall be adjusted (and any other appropriate actions shall be taken by Pure Cycle) so that Holder shall be entitled to receive the number of shares of common stock or other securities of Pure Cycle upon surrender of the Note that Holder would have owned or would have been entitled to receive upon or by reason of any of the events described above had the Note been converted immediately prior to the occurrence of such event.

In case of any share exchange, reorganization, consolidation with or merger of Pure Cycle with or into another corporation, or in case of any sale, lease, conveyance or disposition to another corporation of the assets of Pure Cycle as an entirety or substantially as an entirety, which is not treated as a liquidation, dissolution or winding up of Pure Cycle, this Note shall after the date of such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition be convertible into the number of shares of stock or other securities or property (including cash) to which the common stock issuable (at the time of such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition) upon conversion of this Note would have been entitled upon such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of Holder shall be appropriately adjusted (as determined by the board of directors) so as to be applicable, as nearly as may reasonably be, to any shares of stock or other securities or property thereafter deliverable on the conversion of the Note.

3. **Interest.** The first six (6) months of interest accrued, and not yet paid, on this Note shall become due and payable in cash on April 1, 2011. Additionally, all further interest shall continue to accrue and become payable on the first of each month, beginning May 1, 2011, until such time as this Note, is either: (i) paid in full, or (ii) converted to common stock of Pure Cycle.
4. **Registration Rights.** On the date hereof, the Holder and Pure Cycle shall enter into the Registration Rights Agreement attached hereto as Schedule 1.

5. **Holder Approval.** So long as this Note remains outstanding, the consent of Holder shall be necessary for Pure Cycle to do any one or more of the following:
- a. purchase, repurchase or redeem any shares of Pure Cycle's capital stock, except Pure Cycle may repurchase or redeem (i) the Series B Preferred Stock and (ii) shares issued pursuant to Pure Cycle's equity incentive plans;
 - b. declare or pay dividends or any other distributions on the common stock;
 - c. increase the authorized number of shares of common stock;
 - d. incur indebtedness in excess of \$5,000,000 (except indebtedness incurred to repay this Note in full); or
 - e. permit any subsidiary to issue stock except to Pure Cycle.
6. **Miscellaneous.** Pure Cycle shall not at any time after the date hereof issue Additional Shares of Common Stock without consideration or for a net consideration per share less than the Conversion Price in effect immediately prior to such issuance.

For purposes of the preceding paragraph, any obligation, agreement or undertaking to issue warrants, options or other subscription or purchase rights with respect to shares of common stock of Pure Cycle and the issuance of any securities convertible into or exchangeable for shares of common stock (or the issuance of any warrants, options or any rights with respect to such convertible or exchangeable securities) (collectively, "Convertible Securities") shall be deemed an issuance at the time such obligation, agreement or undertaking is made or arises. For purposes of this Note, the "net consideration per share" shall mean the amount equal to the total amount of consideration, if any, received by Pure Cycle for the issuance of such Convertible Securities plus the minimum amount of consideration, if any, payable to Pure Cycle upon exercise or conversion thereof, divided by the aggregate number of shares of Common Stock that would be issued if such Convertible Securities were exercised, exchanged or converted.

For purposes of this Note, if a part or all of the consideration received by Pure Cycle in connection with the issuance of the shares of common stock or the issuance of any Convertible Securities consists of property other than cash, such consideration shall be deemed to have the same value as shall be determined in good faith by the board of directors of Pure Cycle.

"Additional Shares of Common Stock" shall mean all shares of common stock, Convertible Securities, and rights or options to acquire common stock issued by Pure Cycle after the date hereof, other than the foregoing (i) issued to officers, employees or directors of, or consultants and advisors to, Pure Cycle or any affiliate pursuant to any stock purchase or stock option plan or other arrangement that is approved by the board of directors, including, but not limited to Pure Cycle's 2004 Incentive Plan (including shares issued upon exercise of rights or options to acquire common stock or conversion of Convertible Securities pursuant to such plans or arrangements); (ii) issued upon exercise or conversion of outstanding rights or options to acquire common stock or Convertible Securities; and (iii) up to ten million dollars (\$10,000,000) worth of shares of common stock issued pursuant to Pure Cycle's outstanding shelf registration filed on Form S-3, as amended (Registration No. 333-168160) or any subsequent registration statement that Pure Cycle may file to replace the above named registration statement.

7. **Stamp and Applicable Taxes.** Pure Cycle shall pay any and all documentary stamp and other transaction taxes attributable to the issuance or delivery of shares of common stock upon conversion of this Note; provided, however, that Pure Cycle shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue or delivery of shares of common stock in a name other than that of Holder and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to Pure Cycle the amount of any such tax or has established, to the satisfaction of Pure Cycle, that such tax has been paid.
8. **Preemptive Rights.** Holder is not entitled to any preemptive or subscription rights in respect of any securities of Pure Cycle.
9. **Notices.** Any notices or other communications required or permitted hereunder shall be in writing and if to Pure Cycle, addressed to its principal place of business and if to Holder, addressed to the address designated in the first paragraph of this Note. All notices and other communications shall be effective (i) if mailed, when received or (ii) if sent by express mail or courier, when delivered.
10. **Pre-Payment.** Pure Cycle shall have the right of prepaying all or any part of this Note without penalty. Pure Cycle waives demand, presentment for payment, notice of nonpayment, protest, notice of protest, and all other notices, filing of suit and diligence in collecting this Note.
11. **Validity of Interest.** The provisions of this Note and of all agreements now or hereafter existing between Pure Cycle and Holder are hereby expressly limited so that in no contingency or event whatever shall the amount paid or agreed to be paid to Holder for the use, forbearance or detention of the sums evidenced by this Note exceed the maximum amount permissible under applicable law. If from any circumstance whatever the performance or fulfillment of any provision of this Note, or of any other agreement between Pure Cycle and Holder, should involve or purport to require any payment in excess of the limit prescribed by law, then the obligation to be performed or fulfilled is hereby reduced to the limit of such validity, and if from any circumstance whatever Holder should ever receive as interest an amount which would exceed the highest lawful rate, then the amount which would be excessive interest shall be applied to the reduction of principal (or, at Holder's option, be paid over to Pure Cycle) and shall not be counted as interest.
12. **Severability.** If any provision of this Note or of any other instrument securing or executed in connection with this Note is, for any reason and to any extent, invalid and unenforceable, then neither the remainder of the document in which such provision is contained, nor the application of the provision to other persons, entities or circumstances, nor any other document referred to in this Note, shall be affected by such invalidity or unenforceability, and there shall be deemed substituted for the invalid or unenforceable provision the most similar provision which would be valid and enforceable under applicable law.

13. **Amendments and Waivers.** This Note may not be amended, waived or discharged except by an agreement in writing signed by the party against whom enforcement of any such amendment, waiver, or discharge is sought.
14. **Transfer.** This Note may not be sold, assigned, pledged, transferred or otherwise transferred by Holder without the prior written consent of Pure Cycle.
15. **Holidays.** If any payment of principal or interest upon this Note shall become due and payable on Saturday, Sunday or a public holiday under federal law or the laws of the State of Colorado, the due date of such payment shall be extended to the next succeeding full business day and, in the case of principal, interest thereon at the applicable rate shall be payable during such extension.
16. **Governing Law.** This Note is being made and delivered in the State of Colorado, and its provisions shall be governed by, construed and enforced in accordance with, the laws of the State of Colorado, without reference to any conflict or choice of law principal.

ATTEST:

PURE CYCLE CORPORATION

BY: /s/ Scott E. Lehman
Scott E. Lehman, Secretary

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

**Schedule 1
TO CONVERTIBLE NOTE**

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of September 28, 2010, by and among Pure Cycle Corporation, a Colorado corporation ("Pure Cycle"), and PAR Investment Partners, L.P., a Delaware limited partnership (the "Noteholder").

RECITALS

A. On the date hereof, the Noteholder has purchased a convertible note in the principal amount of \$5,200,000 (the "Note"), which is convertible into shares of Pure Cycle common stock, one third(1/3) of \$.01 par value ("Common Stock").

B. The Note has not been registered under the Securities Act and is a "restricted security," as such term is defined in Rule 144 under the Securities Act.

C. Pure Cycle has agreed that the shares of Common Stock issued to the Noteholder upon conversion of the Note will be entitled to registration under the Securities Act in accordance with the terms of this Agreement.

AGREEMENT

In consideration of the mutual covenants and agreements herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Pure Cycle and the Noteholder hereby agree as follows:

1. REGISTRATION RIGHTS.

1.1 Definitions. Capitalized terms used herein without definition shall have the meanings set forth in the Note. In addition to the terms that are defined elsewhere in this Agreement, the following terms shall have the following meanings:

(a) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and rules and regulations promulgated thereunder.

(b) "Holders" shall mean the shareholder(s) owning shares of Registrable Securities and permitted assigns.

(c) "Prospectus" shall mean the prospectus included in any registration statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A or 430B promulgated under the Securities Act), as amended or supplemented by any prospectus supplement (including, without limitation, any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such registration statement), and all other amendments and supplements to the prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference therein.

(d) “Registration” shall include the terms “register,” “registration” and “registered” and refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration of effectiveness of such registration statement.

(e) “Registrable Securities” shall mean all shares of Common Stock that have been issued upon conversion of the Note. Registrable Securities include any security issued with respect to such shares of Common Stock upon any stock dividend, split, merger or similar event. As to any particular Registrable Securities, such securities will cease to be Registrable Securities upon the earliest to occur of (i) a transfer of such securities (other than to a permitted assignee under Section 2.1) pursuant to Rule 144 (or any similar provision in force) under the Securities Act, (ii) the sale of such securities to the public pursuant to an effective registration statement, or (iii) the date as of which such securities may be transferred without volume restriction under Rule 144 under the Securities Act.

(f) “Securities Act” shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(g) “SEC” means the U.S. Securities and Exchange Commission.

1.2 Demand Registration.

(a) Request by Holders. At any time after the Note has been converted into Registrable Securities (the “Commencement Date”), the Holders of at least 67% of the Registrable Securities may request registration under the Securities Act of all or part of their Registrable Securities on Form S-3 or any similar short-form registration by delivering to the President of Pure Cycle a written request specifying the number of Registrable Securities as to which registration is requested; provided, however, that no request may be made within one hundred twenty (120) days after the effective date of a registration statement filed by Pure Cycle covering an underwritten public offering.

(b) Maximum Number of Demand Registrations. Pure Cycle is obligated to effect only one (1) demand registration during the term of this Agreement pursuant to this Section 1.2.

(c) Pending Offering. If at the time of any request for filing a registration statement pursuant to this Section 1.2, Pure Cycle is engaged or has firm plans to engage within ninety (90) days in a registered public offering, Pure Cycle may, at its option, (i) direct that such demand registration request be delayed for a period not to exceed one hundred twenty (120) days from the effective date of such offering or (ii) include the Registrable Securities subject to the demand in such registration statement pursuant to the piggyback rights granted under Section 1.3 hereof.

(d) Deferral. Notwithstanding the foregoing, if Pure Cycle shall furnish to the Holders following receipt of a request for the filing of a registration statement delivered pursuant to this Section 1.2 a certificate signed by the President of Pure Cycle stating that in the good faith judgment of the board of directors of Pure Cycle, it would be detrimental to Pure Cycle and its shareholders for such registration statement to be filed or to become effective because such action (i) would materially interfere with a significant acquisition, corporate reorganization or other similar transaction, (ii) would require premature disclosure of material information that Pure Cycle has a bona fide business purpose for preserving as confidential, or (iii) would render Pure Cycle unable to comply with the requirements under the Securities Act or the Exchange Act, then Pure Cycle’s obligation to file a registration statement, or to cause such registration statement to become effective, shall be suspended for a period not to exceed one hundred twenty (120) days; provided, however, that Pure Cycle may not utilize this right more than once in any twelve (12) month period.

(e) Expenses. All expenses incurred in connection with a registration pursuant to this Section 1.2, including without limitation all registration and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Holders, and the reasonable fees and disbursements of one counsel for Pure Cycle, shall be borne by the Holders. The Holders shall also be responsible for payment of all discounts, commissions or other amounts payable to underwriters or brokers in connection with such offering.

1.3 Piggyback Registrations. After the effective date of this Agreement, Pure Cycle shall notify each Holder holding Registrable Securities in writing at least ten (10) days prior to filing any registration statement under the Securities Act for purposes of effecting a public offering of Common Stock of Pure Cycle (including registration statements filed at the request of any holder relating to secondary offerings by such holder of Common Stock of Pure Cycle, but excluding registration statements (i) effected under Section 1.2 of this Agreement, (ii) registering Common Stock under any employee benefit plan or (iii) registering Common Stock for use in an acquisition or corporate reorganization and will afford such Holders an opportunity to include their Registrable Securities in such registration statement. If a Holder desires to include in any such registration statement all or any part of the Registrable Securities held by the Holder, the Holder shall, within five (5) days after receipt of the above-described notice from Pure Cycle, so notify Pure Cycle in writing, and in such notice shall inform Pure Cycle of the number of Registrable Securities it wishes to include in such registration statement (the "Piggyback Securities"). If a Holder decides not to include all of its Registrable Securities in any registration statement filed by Pure Cycle, it shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement as may be filed by Pure Cycle with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(a) Underwriting. If a registration statement under which Pure Cycle gives notice under this Section 1.3 is for an underwritten offering, then Pure Cycle shall include such information in its notice to the Holders. In such event, the right of a Holder to include such Holder's Piggyback Securities in such registration shall be conditioned upon the Holder's participation in such underwriting as provided herein. The Holder shall enter into an underwriting agreement in the form agreed by Pure Cycle with the managing underwriter or underwriter(s) selected for such underwriting. Notwithstanding any other provision of this Agreement, if the managing underwriter(s) determine in good faith that marketing factors require a limitation of the number of shares to be underwritten, then the managing underwriter(s) may exclude shares (including Piggyback Securities) from the registration and the underwriting, and the number of shares that may be included in the registration and the underwriting shall be allocated, first, to shareholders exercising any demand registration rights, second to Pure Cycle, and third, among the Holders and any other holder of Common Stock requesting inclusion of its shares in such registration on a pro rata basis based on the total number of Piggyback Securities and other shares requested to be included in such registration. If a Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw from the underwriting and the registration by written notice to Pure Cycle and the underwriter, delivered at least twenty (20) days prior to the effective date of the registration statement.

(b) Expenses. All expenses incurred in connection with a registration pursuant to this Section 1.3 (excluding attorneys' fees and disbursements), including, without limitation, all federal and "blue sky" registration and qualification fees, printers' and accounting fees, and underwriters' and brokers' discounts and commissions shall be borne by Pure Cycle and the Holders pro rata based on the number of shares of Common Stock offered by each party in the registration (provided that for purposes of computing the Holders' pro rata portion, all shares of persons other than the Holders which are registered shall be deemed shares offered by Pure Cycle). Each party shall be responsible for the fees and disbursements of its own attorneys.

(c) No Obligation to Complete Registration. Notwithstanding any notice given to, or the inclusion in any registration of Piggyback Securities, Pure Cycle may, in its discretion, terminate any registration filed pursuant to this Section 1.3 at any time, or elect not to file a registration statement as to which a notice has been given, without any liability or obligation to the Holders.

1.4 Obligations of Pure Cycle. Whenever required to effect the registration of any Registrable Securities under this Agreement, Pure Cycle shall, as expeditiously as reasonably possible:

(a) Upon the request of the Holders pursuant to Section 1.2, prepare and file with the SEC a registration statement with respect to the Registrable Securities as to which registration is requested, use reasonable, diligent efforts to cause such registration statement to become effective, and keep such registration statement effective for up to ninety (90) days or such earlier date when all Registrable Securities included therein have ceased to be Registrable Securities;

(b) Prepare and file with the SEC such amendments and supplements to any registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act;

(c) Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as the Holders may reasonably request in order to facilitate the disposition of the Registrable Securities owned by them that are included in such registration;

(d) Use reasonable, diligent efforts to register and qualify the securities covered by such registration statement under such other securities or "blue sky" laws of such jurisdictions as shall be reasonably requested by the Holders, provided that Pure Cycle shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions;

(e) Notify the Holders at any time when a prospectus relating to Registrable Securities is required to be delivered under the Securities Act or of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements made therein not misleading in the light of the circumstances then existing (a "Deficiency"), following which notice the Holders shall be obligated to cease sales of Common Stock until they shall be notified that the prospectus, as amended or supplemented, no longer includes such Deficiency; provided, however, that Pure Cycle will use reasonable efforts to amend or supplement such prospectus in order to cure such Deficiency; and

(f) Use reasonable efforts to cause all Registrable Securities registered pursuant to this Agreement to be listed on each securities exchange or quotation system on which the Common Stock is listed.

1.5 Furnish Information. It shall be a condition precedent to the obligations of Pure Cycle hereunder that each Holder shall furnish to Pure Cycle such information regarding such Holder, the Registrable Securities held by the Holder, and the intended method of disposition of such securities as shall be required to timely effect the registration of the Holder's Registrable Securities.

1.6 Indemnification. In the event any Registrable Securities are included in a registration statement under this Agreement:

(a) By Pure Cycle. To the extent permitted by law, Pure Cycle will indemnify and hold harmless each Holder, the partners, officers, directors and managers of each Holder, and each person, if any, who controls a Holder within the meaning of the Securities Act, against any losses, claims, damages, or liabilities (joint or several) to which such persons may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively, "Violations" and, individually, a "Violation"):

(i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;

(ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or

(iii) any violation or alleged violation by Pure Cycle of the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such registration statement.

Pure Cycle will reimburse each Holder and each such partner, officer, director, manager or controlling person for any legal or other expenses reasonably incurred by them, as incurred, in connection with investigating or defending any such loss, claim, damage, liability or action; provided however, that the indemnity agreement contained in this subsection 1.6(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of Pure Cycle (which consent shall not be unreasonably withheld), nor shall Pure Cycle be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by the Holder or such partner, officer, director, manager or controlling person.

(b) By the Holders. To the extent permitted by law, each Holder will indemnify and hold harmless Pure Cycle, each of its directors and officers, each person, if any, who controls Pure Cycle within the meaning of the Securities Act, any underwriter and any other holder selling securities under such registration statement or any of such other holder's partners, directors, officers or manager or any person who controls such holder within the meaning of the Securities Act, against any losses, claims, damages or liabilities (joint or several) to which Pure Cycle or any such director, officer, controlling person, underwriter or other such holder, partner, director, officer, manager or controlling person of such other holder may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by the Holder expressly for use in connection with such registration; and the Holder will reimburse any legal or other expenses reasonably incurred by Pure Cycle or any such director, officer, controlling person, underwriter or other holder, partner, officer, director, manager or controlling person of such other holder in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this subsection 1.6(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld.

(c) Notice. Promptly after receipt by an indemnified party under this Section 1.6 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.6, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if the indemnified party provides to the indemnifying party a letter from counsel to the indemnified party stating that, in its judgment, representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or reasonably potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 1.6, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.6.

(d) Defect Eliminated in Final Prospectus. The foregoing indemnity agreements of Pure Cycle and the Holders are subject to the condition that, insofar as they relate to any Violation made in a preliminary prospectus but eliminated or remedied in the amended prospectus on file with the SEC or filed with the SEC pursuant to SEC Rule 424(b) (the "Final Prospectus"), such indemnity agreement shall not inure to the benefit of any indemnified party if a copy of the Final Prospectus was furnished to the indemnified party, who subsequently failed to furnish such Final Prospectus as required.

(e) Contribution. If the indemnification provided for in this Section 1.6 is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand, and the indemnified party on the other, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by Pure Cycle or the Holder and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. Each party hereto agrees that it would not be just and equitable if contribution pursuant to this Section 1.6 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to above shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 1.6, in no event shall a Holder be required to contribute or indemnify for any amount in excess of the net proceeds received by such Holder from the sale of the Registrable Securities pursuant to the registration statement. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(f) Survival. The obligations of Pure Cycle and the Holders under this Section 1.6 shall survive the completion of any offering of Registrable Securities in a registration statement.

1.7 Termination of Pure Cycle's Obligations. Pure Cycle shall have no obligations pursuant to this Agreement after the earlier of (i) five (5) years after the Commencement Date or (ii) the date that all Registrable Securities cease to be Registrable Securities.

1.8 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, Pure Cycle shall not, without the prior consent of the Noteholder or, if the Note has been converted into Common Stock, Holders holding a majority of the Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of Pure Cycle which would allow such holder or prospective holder to include such securities in any registration filed under Section 1.2 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of its securities will not reduce the amount of the Registrable Securities of the Holders that are included.

2. ASSIGNMENT AND AMENDMENT

2.1 Assignment. The registration rights of the Noteholder hereunder may not be assigned to any person without the prior written consent of Pure Cycle.

2.2 Amendment of Rights. Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of Pure Cycle and the consent of the Noteholder or, if the Note has been converted into Common Stock, Holders holding a majority of the Registrable Securities. Any amendment or waiver effected in accordance with this Section 2.2 shall be binding upon the Holders and each transferee of the Registrable Securities, each future holder of all such securities, and Pure Cycle. Pure Cycle shall give prompt written notice of any amendment or waiver to any party hereto that did not consent in writing to such amendment or waiver.

3. GENERAL PROVISIONS

3.1 Consent of Holders. The consent of Holders required under Sections 1.8 and 2.2 or any other provision may be obtained either (i) in writing or (ii) by vote of the Holders holding the requisite number of shares at a meeting of the Holders.

3.2 Notices. All notices and other communications under this Agreement shall be in writing and shall be given and deemed effective as provided in the Note.

3.3 Entire Agreement. This Agreement, the Note, and a subscription agreement of even date herewith (including the exhibits and schedules to such documents) constitute the entire agreement and understanding of the parties with respect to the subject matter hereof and supersede any and all prior understandings, agreements, plans and negotiations, whether written or oral, with respect to the subject matter hereof.

3.4 Interpretation; Governing Law. This Agreement shall be construed as though prepared by all parties hereto and shall be construed without regard to any presumption or other rule requiring construction against the party causing an agreement to be drafted. This Agreement shall be construed and governed by the laws of the State of Colorado (without giving effect to its principles of conflicts of laws). Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement must be brought against the applicable party in the courts of the State of Colorado located in the City of Denver, Colorado, or, if it has or can obtain jurisdiction, in the United States District Court for such state, and each party hereby consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in this Section may be served on any party anywhere in the world, whether within or without the State of Colorado, and may also be served upon any party in the manner provided for giving notices to it in Section 3.2 above.

3.5 Severability. Should a court or other body of competent jurisdiction determine that any provision of this Agreement is excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and all other provisions of this Agreement shall be deemed valid and enforceable to the extent possible.

3.6 Third-Party Beneficiaries. Each party hereto intends that this Agreement shall not benefit nor confer any rights or remedies on any person other than the parties hereto and their respective successors and permitted assigns and those persons entitled to indemnification or contribution rights under Section 1.6.

3.7 Successors And Assigns. Subject to the provisions of Section 2.1, the provisions of this Agreement shall inure to the benefit of, and shall be binding upon, the successors and permitted assigns of the parties hereto.

3.8 Headings. The section headings herein are intended for reference and shall not themselves determine the construction or interpretation of this Agreement.

3.9 Counterparts. This Agreement may be executed in counterparts, in original or by facsimile, any of which shall be deemed an original and all of which taken together shall constitute one and the same Agreement.

3.10 Costs And Attorneys' Fees. In the event that any action, suit or other proceeding is instituted concerning or arising out of this Agreement or any transaction contemplated hereunder, the prevailing party shall recover all of such party's costs and attorneys' fees incurred in each such action, suit or other proceeding, including any and all appeals or petitions therefrom.

3.11 Adjustments for Stock Splits, Etc. Wherever in this Agreement there is a reference to a specific number of shares of Common Stock of Pure Cycle, then, upon the occurrence of any subdivision, combination or stock dividend of such class or series of stock, the specific number of shares so referenced in this Agreement shall automatically be proportionally adjusted to reflect the effect on the outstanding shares by such subdivision, combination or stock dividend.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Registration Rights Agreement as of the date first above written.

PURE CYCLE CORPORATION,
a Colorado corporation

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

NOTEHOLDER:

PAR INVESTMENT PARTNERS, L.P.

By: PAR Group, L.P., as general partner

By: PAR Capital Management, Inc.,
as general partner

By: /s/ Gina DiMento
Gina DiMento
General Counsel