PURE CYCLE CORP
Form 10QSB
April 01, 2004

Securities and Exchange Commission
Washington, D.C. 20549

Form 10-QSB

(Mark One)
X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 29, 2004

___ TRANSITION REPORT UNDER 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	84-0705083
(State of incorporation)	(I.R.S. Employer Identification Number)

8451 Delaware St., Thornton, CO	80260
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (303) 292 - 3456

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of February 29, 2004:

Common Stock, 1/3 of $.01 par Value	81,450,875
(Class)	(Number of Shares)

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

PURE CYCLE CORPORATION

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

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

PURE CYCLE CORPORATION
BALANCE SHEETS
(unaudited)

ASSETS	February 29, 2004 (unaudited)	August 31, 2003
Current assets:		
Cash and cash equivalents	$ 338,599	$ 525,780
Trade accounts receivable	33,841	67,687
Total current assets	372,440	593,467
Investment in water and systems:		
Rangeview water supply	13,777,395	13,710,773
Paradise water supply	5,498,124	5,494,323
Rangeview water system	148,441	148,441
Accumulated depreciation & depletion	(13,325)	(10,543)
Total investment in water and systems	19,410,635	19,342,994
Note receivable, including accrued interest	406,782	399,902
Other assets	64,441	77,041
	$ 20,254,298	$ 20,413,404
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,550	8,244
Accrued liabilities	21,100	43,528
Total current liabilities	44,650	51,772
Long-term debt - related parties, including accrued interest	4,976,511	4,889,545
Participating interests in Rangeview water rights	11,090,630	11,090,630
Stockholders' equity:		
Preferred stock, par value $.001 per share; authorized - 25,000,000 shares:		
Series A1 - 1,058,000 and 1,600,000 shares issued and outstanding, respectively	1,058	1,600
Series B - 432,513 shares issued and outstanding	433	433
Series D - 6,455,000 shares issued and outstanding	6,455	6,455
Series D1- 2,000,000 shares issued and outstanding	2,000	2,000
Common stock, par value 1/3 of $.01 per share; authorized - 135,000,000 shares; 81,450,875 and 78,439,763 shares issued and outstanding, respectively	271,621	261,584
Additional paid-in capital	25,267,494	25,276,989
Accumulated deficit	(21,406,554)	(21,167,604)
Total stockholders' equity	4,142,507	4,381,457
	$ 20,254,298	$ 20,413,404

See Accompanying Notes to the Financial Statements

PURE CYCLE CORPORATION
STATEMENTS OF OPERATIONS
(unaudited)

	Three months Ended February 29, 2004	Three months Ended February 28, 2003
Water service revenue		
Water usage fees	$ 18,446	$ 19,778
Wastewater usage fees	13,501	14,017
Revenue - other	2,463	--
	34,410	33,795
Water service operating expense	(2,761)	(2,506)
Wastewater service operating expense	(1,636)	(2,113)
Consulting services expense	(1,331)	--
Gross margin	28,682	29,176
General and administrative expense	(131,667)	(74,644)
Depreciation expense	(1,237)	(1,427)
Depletion expense	(100)	(88)
Other income (expense):		
Interest income	3,961	4,119
Interest expense related parties	(43,483)	(44,264)
Interest expense other	(6,300)	(6,300)
Net loss	$(150,144)	$(93,428)
Basic and diluted net loss per common share	$ --*	$ --*
Weighted average common shares outstanding	78,951,414	78,439,763

* less than $.01 per share

See Accompanying Notes to the Financial Statements

PURE CYCLE CORPORATION
STATEMENTS OF OPERATIONS
(unaudited)

	Six months Ended February 29, 2004	Six months Ended February 28, 2003
Water service revenue		
Water usage revenues	$ 55,314	$ 77,225
Wastewater usage fees	27,002	26,587
Revenues - other	3,415	--

	85,731	103,812
Water service operating expense	(5,190)	(5,719)
Wastewater service operating expense	(3,819)	(5,013)
Consulting services expense	(2,329)	--
Gross margin	74,393	93,080
General and administrative expense	(219,302)	(124,556)
Depreciation expense	(2,474)	(2,482)
Depletion expense	(308)	(826)
Other income (expense):		
Interest income	8,307	8,556
Interest expense related parties	(86,966)	(88,528)
Interest expense other	(12,600)	(12,600)
Net loss	$(238,950)	$(127,356)
Basic and diluted net loss per common share	$ --*	$ --*
Weighted average common shares outstanding	81,317,540	78,439,763

* less than $.01 per share

See Accompanying Notes to the Financial Statements

PURE CYCLE CORPORATION
STATEMENTS OF CASH FLOWS
(unaudited)

	Six months Ended	
	February 29, 2004	February 28, 2003
Cash flows from operating activities:		
Net loss	$(238,950)	$(127,356)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation on water systems	2,474	2,482
Depletion expense	308	826
Increase in accrued interest on note receivable	(6,880)	(7,166)
Increase in accrued interest on long term debt and other non-current liabilities	86,966	88,528

Changes in operating assets and liabilities:		
Trade accounts receivable	33,846	23,284
Other assets	12,600	12,600
Accounts payable and accrued liabilities	(7,122)	(2,455)
Net cash used in operating activities	(116,758)	(9,257)
Cash flows from investing activities:		
Investments in water supply	(70,423)	(95,716)
Investment in Rangeview water system	--	--
Net cash used in investing activities	(70,423)	(95,716)
Cash flows from financing activities:		
Net decrease in cash and cash equivalents	(187,181)	(104,973)
Cash and cash equivalents beginning of period	525,780	287,720
Cash and cash equivalents end of period	$ 338,599	$ 182,747

See Accompanying Notes to the Financial Statements

PURE CYCLE CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING PRINCIPLES

The balance sheet as of February 29, 2004 and the statements of operations and statements of cash flows for the three and six months periods ended February 29, 2004 and February 28, 2003 have been prepared by 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 February 29, 2004 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's fiscal year 2003 Annual Report on Form 10-KSB. The results of operations for interim periods presented are not necessarily indicative of the operating results for the full year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 - STOCKHOLDERS' EQUITY

In August 2003, the Company entered into a Plan of Recapitalization and a Stock Purchase Agreement whereby the Company issued 2,000,000 shares of Series D-1 Preferred Stock to the Company's CEO, Mr. Thomas Clark in exchange for 2,000,000 shares of Common Stock owned by

Mr. Clark. The Company sold 2,000,000 shares of the Company's Common Stock at $.25 per share to eleven accredited investors, four of whom had previously invested with the Company. Proceeds to the Company were $500,000. The Series D-1 Preferred Stock does not earn dividends and is convertible into 2,000,000 shares of common stock at such time that the Company has sufficient shares of authorized Common Stock. The shares were issued under Section 4(2) of the Securities Act of 1933.

During the six months ended February 29, 2004, the Company issued 3,011,111 shares of Common Stock in exchange for 542,000 shares of Series A-1 Preferred Stock, pursuant to the certificate of designation of the Series A-1 Preferred Stock. The holders of the 542,000 shares of Series A-1 Preferred Stock surrendered the shares to the Company for retirement.

NOTE 3 - Water Contract

On October 31, 2003, the Company entered into a long-term Water Service Agreement ("Agreement") whereby the Company will provide domestic water service to a new master planned community located in the Denver metropolitan area in Arapahoe County. The new community will be developed over several years and be composed of up to 4,000 single family residences. The Company will generate one-time revenues from the sale of water taps (currently $11,100 per tap) and annual revenues through the delivery of water. The agreement is expected to generate gross revenues of $44 million in tap fee revenues and approximately $2 million annually from water usage sales. The Company is responsible for developing the associated infrastructure, which is expected to commence in the summer of 2004 to provide water service to the development and expects the tap fee revenues will provide sufficient capital to the Company to construct facilities necessary to deliver water to the development.

NOTE 4 - RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 requires an entity to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the entity does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For small business entities, the provisions of this Interpretation must be applied at the end of the first reporting period that ends after December 15, 2004. The Company has determined it is not party to a variable interest entity.

In June 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of a nonpublic entity. The adoption of SFAS No. 150 did not have an impact on the Company's financial statements.

DESCRIPTION OF BUSINESS

Pure Cycle Corporation (the "Company") was incorporated in Delaware in 1976. The Company is engaged in providing water and wastewater services to customers located in Denver Colorado where its principal assets are located. The Company operates water and wastewater systems which include designing, constructing, operating and maintaining systems to service customers in the Denver metropolitan area. In 1996, the Company entered into a long-term agreement to provide water and wastewater services to 24,000 acres of primarily undeveloped land in the greater Denver metropolitan area owned by the State of Colorado known as the Lowry Range. This agreement with the State of Colorado Board of Land Commissioners ("State Land Board") and the Rangeview Metropolitan District ("District"), a quasi-municipal political subdivision of the State provides for the use of water supplies from the Lowry Range ("Rangeview Water Supply") to provide water services to the Company's 24,000 acre service area which is located in the greater Denver metropolitan area in Arapahoe County ("Service Area"). As part of the agreement, the Company also acquired the rights to additional water that can be "exported" from the Lowry Range to supply water to nearby communities and developers in need of additional water supplies.

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

Results of Operations

During the quarter ended February 29, 2004, the Company delivered approximately 7.2 million gallons of water to customers in the Service Area generating revenues from water sales of $18,446 compared to the delivery of 6.5 million gallon generating revenues of $19,778 during the three months ended February 28, 2003. The Company incurred water service operating costs of $2,761 during the quarter as compared to $2,506 during the quarter ended February 28, 2003. During the quarter ended February 29, 2004, the Company processed approximately 2.25 million gallons of wastewater from customers in the Service Area generating revenues from wastewater fees of $13,501, as compared to processing 2.10 million gallons of wastewater generating revenues of $14,017 during the three months ended February 28, 2003. The Company incurred wastewater operating costs of $1,636 during the quarter as compared to $2,113 for the three months ending February 28, 2003.

During the six months ended February 29, 2004, the Company delivered approximately 22.0 million gallons of water generating water service revenues of $55,314 compared to approximately 19.3 million gallons of water generating $77,225 for the six months ended February 28, 2003. The higher revenues in the six month period ended February 28, 2003 was a result of a change in estimated water revenues recorded in 2003 totaling approximately $20,000. The Company incurred water service operating costs of $5,190, during the six month period as compared to $5,719 during the six months ended February 28, 2003. During the six months ended February 29, 2004, the Company processed approximately 4.7 million gallons of wastewater from customers in the Service Area generating revenues from wastewater fees of $27,002, as compared to processing 4.5 million gallons of wastewater generating revenues of $26,587 during the three months ended February 28,

2003. The Company incurred wastewater operating costs of $3,819 during the six month period ending February 29, 2004 as compared to $5,013 for the six month period ending February 28, 2003.

General and administrative expenses for the three months ended February 29, 2004 were $57,023 higher than for the three months ended February 28, 2003, primarily due to an increase in salaries and overhead from the addition of one employee beginning in January 2003 and legal costs incurred in connection with the Company's annual meeting scheduled for April 12, 2004. Net loss for the three months ended February 29, 2004 was $150,144 compared to a net loss of $93,428 for the three months ended February 28, 2003. The increase in net loss of $56,716 is due to additional overhead costs from an additional employee as well as costs incurred with the Company's annual meeting.

General and administrative expenses for the six months ended February 29, 2004 were $94,748 higher than for the six months ended February 28, 2003, primarily due to an increase in salaries and overhead from the addition of one employee beginning in January 2003 and legal costs incurred in connection with the Company's annual meeting scheduled for April 12, 2004. Net loss for the six months ended February 29, 2004 was $238,950 compared to a net loss of $127,356 for the six months ended February 28, 2003. The increase in net loss of $111,595 is due to additional overhead costs from an additional employee as well as costs incurred with the Company's annual meeting.

Liquidity and Capital Resources

At February 29, 2004, current assets exceed current liabilities by $327,790 and, the Company had cash and cash equivalents of $338,599.

The Company believes it has sufficient working capital to fund its operations for the next year or longer. The Company believes that it has adequate funding for the construction of facilities needed, pursuant to its commitments under the water service agreement, from required tap purchases as part of the water service agreement. There can be no assurances, however, that the Company will be successful in marketing the water from its two primary water projects in the near term. In the event sales are not achieved, the Company may sell additional participating interests in its water projects, incur additional short or long-term debt or seek to sell additional shares of common or preferred stock or stock purchase warrants, as deemed necessary by the Company, to generate working capital.

Development of any of the water rights that the Company has, or is seeking to acquire, will require substantial capital investment by the Company. Any such additional capital for the development of the water rights is anticipated to be financed through the sale of water taps and water delivery charges to a city or municipality. A water tap charge refers to a charge imposed by a municipality to permit a water user to access a water delivery system (i.e. a single-family home's tap into the municipal water system), and a water delivery charge refers to a water user's monthly water bill generally based on a per 1,000 gallons of water consumed.

Item 3. - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls (as defined in Exchange Act Rule 13a-14(c)) are sufficiently effective to ensure that the information required to be disclosed by the Company in the reports it files under the Exchange Act is gathered, analyzed and disclosed with adequate timeliness, accuracy and completeness, based on an evaluation of such controls and procedures conducted within 90 days prior to the date hereof.

Changes in Internal Controls

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to above.

PURE CYCLE CORPORATION
SIGNATURES

Pursuant to 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

Date:

April 1, 2004 /S/ Thomas P. Clark
Thomas P. Clark,
CEO

Date:

April 1, 2004 /S/ Mark W. Harding
Mark W. Harding,
President

CERTIFICATIONS

I, Thomas P. Clark, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of PureCycle 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. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer's, including its consolidated subsidiaries, is made known to us 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 our 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 small business issuer's disclosure controls and procedures and presented in this report our conclusions 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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):

(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 small business issuer'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 small business issuer's internal controls over financial reporting.

Date April 1, 2004
/s/ Thomas P. Clark

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to PureCycle Corporation and will be retained by PureCycle Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATIONS

I, Mark Harding, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of PureCycle 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. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer's, including its consolidated subsidiaries, is made known to us 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 our 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 small business issuer's disclosure controls and procedures and presented in this report our conclusions 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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and

I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):

(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 small business issuer'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 small business issuer's internal controls over financial reporting.

Date April 1, 2004
/s/ Mark Harding

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to PureCycle Corporation and will be retained by PureCycle Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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 PureCycle Corporation (the "Company"), on Form 10-QSB for the period ending February 29, 3004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Clark, Chief Executive 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/ Thomas P. Clark

Chief Executive Officer

April 1, 2004

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 PureCycle Corporation (the "Company"), on Form 10-QSB for the period ending February 29, 3004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Harding, President, 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

Chief Financial Officer

April 1, 2004