

PURE CYCLE CORP
Form 424B2
September 29, 2010

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**Filed Pursuant to 424(b)(2)
Registration No. 333-168160**

**PROSPECTUS SUPPLEMENT
(To Prospectus dated July 28, 2010)**

**1,923,931 SHARES
PURE CYCLE CORPORATION
COMMON STOCK**

Pure Cycle Corporation is offering 1,923,931 of the shares of common stock to be sold in the offering. Pure Cycle Corporation's common stock is listed on the NASDAQ Capital Market under the symbol PCYO. On September 27, 2010, the last reported sales price of our common stock on the NASDAQ Capital Market was \$2.70 per share.

For a discussion of certain risks that should be considered by prospective investors, see Risk Factors beginning on page 4 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| | Per Share | Total |
|--|-----------|--------------|
| Public offering price | \$ 3.00 | \$ 5,771,793 |
| Proceeds, before expenses, to Pure Cycle Corporation | \$ 3.00 | \$ 5,771,793 |

Delivery of the shares will be made on or about September 30, 2010.

The date of this Prospectus Supplement is September 29, 2010.

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PROSPECTUS SUPPLEMENT

As used in this prospectus supplement, the terms Pure Cycle, we, our, ours and us refer to Pure Cycle Corporation. When we refer to shares throughout this prospectus supplement, we include all rights attaching to our shares of common stock under any stockholder rights plan then in effect.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus dated July 28, 2010 are part of a registration statement on Form S-3 (File No. 333-168160) we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf registration process, we may from time to time sell securities described in the accompanying prospectus in one or more offerings. This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of our common stock offering. The second part is the accompanying prospectus, which provides more general information. This prospectus supplement and the accompanying prospectus include important information about us, our common stock and other information you should know before investing. This prospectus supplement also adds, updates and changes information in the accompanying prospectus.

You should rely only on the information in this prospectus supplement, the accompanying prospectus, documents we incorporate by reference, and any free writing prospectus prepared by or on behalf of us. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. If the information in this prospectus supplement or any free writing prospectus we may authorize to be delivered to you differs in any way from the information contained in the accompanying prospectus, you should rely on the information in this prospectus supplement or the free writing prospectus. Before purchasing our common stock, you should carefully read this prospectus supplement and the accompanying prospectus together with the additional information about us described under **Where You Can Find More Information** in the accompanying prospectus.

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| | |
|---|----------------------|
| Common stock offered | 1,923,931 shares |
| Common stock outstanding after the offering | 22,130,499 shares |

- (1) Excludes
262,500 shares
of common
stock reserved
for issuance
upon the
exercise of
outstanding
stock options
and warrants at
exercise prices
ranging from
\$2.88 to \$13.33
per share.

The Sky Ranch Note Acquisition

Effective July 30, 2010, we entered into a Loan Sale and Assignment Agreement (the Agreement) with the Bank of America, N.A. to acquire from Bank of America loan instruments secured by approximately 931 acres of land known as Sky Ranch. We are acquiring the promissory note payable by Sky Ranch, LLC (a wholly owned subsidiary of Neumann Homes, Inc.) and the deed of trust granted by Sky Ranch, LLC to secure the promissory note from Bank of America for a cash payment of \$7.0 million. Concurrent with the signing of the Agreement, we made an escrow payment totaling \$700,000 to Bank of America. The balance of the acquisition price, or \$6.3 million, is due and payable upon closing, which is expected to be September 30, 2010. Effective September 28, 2010, we issued a convertible negotiable promissory note (the Note) to PAR Investment Partners, L.P. (PAR) an approximately 15% shareholder of Pure Cycle, in exchange for \$5.2 million. The proceeds of the Note will be used to pay a portion of the purchase price due on the Sky Ranch Note acquisition. The remaining balance due is being raised in this offering.

Use of Proceeds

The proceeds of this offering from the sale of common stock by us, before expenses, will be approximately \$5,771,800. The net proceeds will be used to pay a portion of the purchase price due on the Sky Ranch note acquisition and for working capital and other general corporate purposes, including acquisitions.

Risk Factors

An investment in the shares involves a high degree of risk. Please refer to Risk Factors beginning on page 4 of the accompanying prospectus for factors you should consider.

NASDAQ Capital Market Symbol

PCYO

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RECENT EVENTS

Effective September 28, 2010, we issued a convertible negotiable promissory note (the Note) to PAR Investment Partners, L.P. (PAR). 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 our shareholders, will automatically be converted to unregistered common stock of Pure Cycle at a conversion price of the lower of (i) \$2.70 per share and (ii) ninety percent (90%) of the price per share paid in this offering. The amount due pursuant to this Note agreement including interest would total approximately \$5.4 million. We intend to seek shareholder approval to convert the Note to common stock at our 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.

PAR currently owns approximately 15% of our outstanding common stock. PAR also intends to purchase shares of common stock in this offering. Upon completion of this offering and assuming the Note is converted into common stock, PAR will own approximately 29.6% of our common stock. Arthur G. Epker, III, an officer of a company controlling PAR currently serves on our board of directors. Mr. Epker abstained from voting on the approval by the board of both the Note and this offering.

Table of Contents**CAPITALIZATION**

The following table sets out our capitalization as of May 31, 2010 on an actual basis and as adjusted to give effect to the receipt of net proceeds of this offering. This table should be read in conjunction with our audited financial statements contained in our annual report on Form 10-K, as amended, for the year ended August 31, 2009, and our unaudited financial statements contained in our quarterly reports on Form 10-Q, as amended, for the quarters ended November 30, 2009, February 28, 2010, and May 31, 2010.

| | As of May 31, 2010 | |
|--|---------------------------|-----------------------|
| | Actual | As Adjusted(1) |
| Cash, cash equivalents, and marketable securities | \$ 2,549,923 | \$ 8,321,716 |
| 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 shares outstanding and 22,130,499 shares outstanding | 67,360 | 73,773 |
| Additional paid-in capital | 92,309,783 | 98,075,163 |
| Accumulated comprehensive income | 171 | 171 |
| Accumulated deficit | (48,682,870) | (48,682,870) |
| Total stockholders' equity | 43,694,877 | 49,466,670 |
| Total liabilities and stockholders' equity | \$ 106,696,967 | \$ 112,468,760 |

(1) Amounts shown reflect the issuance of 1,923,931 shares at an offering price of \$3.00 per share. Amounts shown are before expenses.

USE OF PROCEEDS

Effective July 30, 2010, we entered into a Loan Sale and Assignment Agreement (the "Agreement") with the Bank of America, N.A. (the "Seller") to acquire from the Seller loan instruments secured by approximately 931 acres of land known as Sky Ranch. We are acquiring the promissory note payable by Sky Ranch, LLC (a wholly owned subsidiary of Neumann Homes, Inc.) and the deed of trust granted by Sky Ranch, LLC to secure the promissory note from the Seller for a cash payment of \$7.0 million. Concurrent with the signing of the Agreement we made an escrow payment totaling \$700,000 to the Seller. The balance of the acquisition price, or \$6.3 million, will be due and payable upon closing, which is expected to be September 30, 2010. The net proceeds will be used to pay a portion of the purchase price due on the Sky Ranch note acquisition and for working capital and other general corporate purposes, including acquisitions.

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Our common stock is traded on the NASDAQ Capital Market. The following table shows, for the fiscal periods indicated, the high and low reported sales prices per share for our common stock as reported by NASDAQ.

| | High | Low |
|--|-------------|------------|
| Fiscal 2011 | | |
| First Quarter (through September 27, 2010) | \$ 3.08 | \$ 2.70 |
| Fiscal 2010 | | |
| First Quarter | \$ 3.68 | \$ 2.13 |
| Second Quarter | 3.24 | 2.00 |
| Third Quarter | 3.27 | 2.30 |
| Fourth Quarter | 3.15 | 2.22 |
| Fiscal 2009 | | |
| First Quarter | \$ 6.09 | \$ 2.09 |
| Second Quarter | 3.96 | 1.75 |
| Third Quarter | 3.25 | 2.16 |
| Fourth Quarter | 3.70 | 2.41 |
| Fiscal 2008 | | |
| First Quarter | \$ 9.37 | \$ 7.35 |
| Second Quarter | 8.99 | 6.49 |
| Third Quarter | 6.80 | 5.04 |
| Fourth Quarter | 6.75 | 5.11 |

PLAN OF DISTRIBUTION

The shares are being sold to a limited number of investors. The price was negotiated between such investors and us. We are not paying any placement fees, commissions or discounts in connection with the offering.

We have agreed to pay Janney Montgomery Scott LLC (the Financial Advisor) a financial advisory fee of \$50,000 in connection with services provided in this offering, pursuant to a financial advisory agreement between us and the Financial Advisor. We have agreed to reimburse the Financial Advisor for up to \$25,000 of expenses on an accountable basis. We have also agreed to indemnify the Financial Advisor against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Financial Advisor may be required to make in respect of those liabilities.

One of the purchasers in this offering is Tealwood Asset Management, a registered investment advisor. Tealwood is purchasing 392,775 shares in this offering on behalf of a number of its clients. We have entered into a subscription agreement with Tealwood regarding its purchase of such shares, which agreement may not be terminated. We are not paying any placement fees, commissions or discounts to Tealwood.

TRANSFER AGENT

Our transfer agent is Computershare Trust Company, Inc., 350 Indiana Street, Suite 300, Golden, Colorado 80401, telephone (303) 262-0600.