

PURE CYCLE CORP  
Form DEF 14A  
December 12, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**PURE CYCLE CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- o Fee paid previously with preliminary materials.
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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PURE CYCLE CORPORATION  
8451 Delaware Street  
Thornton, Colorado 80260  
(303) 292-3456

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To be held on January 13, 2009

TO OUR SHAREHOLDERS:

You are cordially invited to attend the annual meeting of the shareholders of Pure Cycle Corporation. The meeting will be held at 1550 Seventeenth Street, Suite 500, Denver, Colorado 80202, at the offices of Davis Graham & Stubbs LLP, on January 13, 2009 at 2 p.m. Mountain Time for the following purposes:

1. To elect a board of seven directors to serve until the next annual meeting of shareholders, or until their successors have been duly elected and qualified;
2. To ratify the appointment of GHP Horwath, P.C. as our independent registered public accounting firm for the 2009 fiscal year; and
3. To transact such other business as may properly come before the meeting or any adjournment(s) thereof.

Only shareholders of record as of 5:00 p.m. Mountain Time on December 5, 2008 will be entitled to notice of or to vote at this meeting or any adjournment(s) thereof.

**WHETHER OR NOT YOU PLAN TO ATTEND, PLEASE DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE. SHAREHOLDERS WHO ATTEND THE MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON IF THEY SO DESIRE.**

BY ORDER OF THE BOARD OF  
DIRECTORS

/s/ Scott E. Lehman

Scott E. Lehman, Secretary

December 12, 2008

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**PURE CYCLE CORPORATION**  
**8451 Delaware Street**  
**Thornton, Colorado 80260**  
**(303) 292-3456**  
**PROXY STATEMENT FOR THE**  
**ANNUAL MEETING OF SHAREHOLDERS**  
**To be held on January 13, 2009**  
**ABOUT THE MEETING**

This proxy statement is furnished to shareholders in connection with the solicitation of proxies by the board of directors of PURE CYCLE CORPORATION (the Company) for use at the annual meeting of shareholders of the Company (the Meeting) to be held at 1550 Seventeenth Street, Suite 500, Denver, Colorado 80202, at the offices of Davis Graham & Stubbs LLP on January 13, 2009 at 2 p.m. Mountain Time or at any adjournment thereof.

Proxies were first mailed to shareholders on or about December 12, 2008, and will be solicited primarily by mail. The cost of soliciting proxies is being paid by the Company. In addition to the mailings, the Company's officers, directors and other regular employees may, without additional compensation, solicit proxies personally or by other appropriate means.

***What is the purpose of the Meeting?***

At the Meeting, shareholders are asked to act upon the matters outlined above in the Notice of Annual Meeting of Shareholders and as described in this proxy statement. The matters to be considered are (i) the election of directors, (ii) the ratification of the appointment of the Company's independent auditors for the fiscal year ending August 31, 2009, and (iii) such other matters as may properly come before the Meeting. Additionally, management will be available to respond to appropriate questions.

***Who is entitled to vote?***

Only shareholders of record as of 5 p.m. Mountain Time on December 5, 2008 (the Record Date), are entitled to vote on matters presented at the Meeting. On December 5, 2008, there were 20,206,566 shares of the Company's 1/3 of \$.01 par value common stock (common stock) issued and outstanding.

***What are my voting rights?***

If you were a shareholder on the Record Date, you will be entitled to vote all of the shares you held on the Record Date at the Meeting or any postponements or adjournments thereof. Whether you hold shares directly as the shareholder of record or beneficially in street name, you may direct how your shares are voted without attending the Meeting.

Each outstanding share of the Company's common stock will be entitled to one vote on each matter acted upon. There is no cumulative voting.

***How do I vote?***

If you are the shareholder of record, you may vote your shares by completing, signing and dating the enclosed proxy card and then mailing it to the Company's transfer agent in the pre-addressed envelope provided. You may also vote your shares by phone by calling the Company's transfer agent at the number listed on the proxy card. If your shares are held beneficially in street name, you may vote your shares by following the instructions provided by your broker.

***Can I change or revoke my vote?***

A proxy may be revoked by a shareholder any time prior to the exercise thereof by written notice to the Secretary of the Company, by submission of another proxy bearing a later date or by attending the Meeting and voting in person.

***Is my vote confidential?***

Proxy instructions, ballots and voting tabulations that identify individual shareholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed within the Company or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote, and (3) to facilitate a successful proxy solicitation. Occasionally shareholders provide written comments on their proxy cards, which are forwarded to management of the Company.

***What is a quorum?***

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of common stock constitutes a quorum at the Meeting for the election of directors and for the other proposals. Abstentions and broker non-votes are counted for the purposes of determining whether a quorum is present at Meeting.

A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

***How many votes are required to approve the proposals?***

*Election of Directors* The election of directors requires the affirmative vote of a plurality of the votes cast by shares represented in person or by proxy and entitled to vote for the election of directors. This means that the nominees receiving the most votes from those eligible to vote will be elected. You may vote FOR all of the nominees or your vote may be WITHHELD with respect to one or more of the nominees; however, a withheld vote or a broker non-vote (defined above) will have no effect on the outcome of the election.

*Ratification of Auditors and Other Matters* The number of votes cast in favor of the proposal at the annual meeting must exceed the number of votes cast against the proposal for the approval of proposal 2, the ratification of the appointment of independent auditors, and other matters. For proposal 2 and any other business matters to be voted on, you may vote FOR, AGAINST, or you may ABSTAIN. Abstentions and broker non-votes will not be counted as votes for or against a proposal and, therefore, will have no effect on the vote.

If no specification is made, then the shares will be voted FOR the directors nominated by the board of directors and FOR proposal 2 and otherwise, in accordance with the recommendations of the board of directors.

***Does the Company expect there to be any additional matters presented at the Meeting?***

Other than the two items of business described in this proxy, the Company is not aware of any other business to be acted upon at the Meeting. If you grant a proxy, the persons named as proxy-holders, Mark W. Harding and Harrison H. Augur, have the discretion to vote your shares on any additional matter properly presented for a vote at the Meeting. If for any unforeseen reason any of our director nominees are not available for election at the date of the Meeting, the named proxy-holders will vote your shares for such other candidates as may be nominated by the board.

***What if multiple shareholders are at the same address?***

The Company adopted a procedure approved by the Securities and Exchange Commission (the SEC), called householding, which reduces printing and postage costs. Under this procedure, shareholders of record who have the same address and last name will receive one copy of the proxy statement unless one or more of these shareholders notify the Company that they wish to continue receiving individual copies. Shareholders who do not participate in householding will continue to receive separate copies of the proxy statement.

If a shareholder of record residing at such an address wishes to receive a separate document in the future, he or she may contact our transfer agent at Computershare Trust Company, Inc., 350 Indiana St., Suite #800, Golden, CO 80401, telephone (303) 262-0600, or write to the Company's Secretary at the Company's address set forth above. You also may request a copy of the Company's Form 10-K and proxy materials by notifying us at the same address or phone number, and we will undertake to deliver such documents promptly. Shareholders of record receiving multiple copies of the annual report and proxy statement can request householding by contacting us in the same manner. If shares are owned through a bank, broker or other nominee, the holder may request householding by contacting the nominee.

***When will the results of the voting being announced?***

The Company intends to announce preliminary results at the Meeting and will publish final results in the Form 10-Q for the quarter ending February 28, 2009.

**VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

The following table presents the beneficial ownership of the Company's issued and outstanding common stock at December 1, 2008 for (i) each person who owns of record (or is known by the Company to own beneficially) 5% or more of the common stock, (ii) each director of the Company and each nominee for director, (iii) each executive officer and (iv) all directors and executive officers as a group. Except as otherwise indicated, the Company believes that each of the beneficial owners of the stock listed has sole investment and voting power with respect to such shares, based on information filed by such person with the Securities and Exchange Commission or based on information provided by such shareholders to the Company.

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Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Mark W. Harding 8451 Delaware St. Thornton, CO 80260	727,243 <sup>1</sup>	3.6%
Harrison H. Augur 8451 Delaware St. Thornton, CO 80260	104,051 <sup>2</sup>	*
Mark D. Campbell 7600 E. Orchard Road, Suite 370 S Greenwood Village, CO 80111	820,000 <sup>3</sup>	4.1%
Arthur G. Epker III One International Place, Suite 2401 Boston, MA 02110	5,000 <sup>4</sup>	*
Richard L. Guido 8451 Delaware St. Thornton, CO 80260	15,000 <sup>5</sup>	*
Peter C. Howell 8451 Delaware St. Thornton, CO 80260	13,000 <sup>6</sup>	*
George M. Middlemas 225 W. Washington, #1500 Chicago, IL 60606	29,750 <sup>7</sup>	*
<i>All officers and directors as a group (7 persons)</i>	1,714,044 <sup>8</sup>	8.5%
High Plains A&M, LLC 7600 E. Orchard Road, Suite 370 S Greenwood Village, CO 80111	3,000,000 <sup>9</sup>	14.8%
Par Capital Management, Inc. Par Investment Partners, L.P. Par Group, L.P. One International Place, Suite 2401 Boston, MA 02110	3,070,238	15.2%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	2,441,566 <sup>10</sup>	12.1%

Trigran Investments, Inc.  
630 Dundee Road, Suite 230  
Northbrook, IL 60062

1,162,231<sup>11</sup>

5.8%

\* Less than 1%

1. Includes 210,000 shares of common stock held by SMA Investments, LLLP, a limited liability limited partnership controlled by Mr. Harding.
  
2. Includes 15,000 shares purchasable by Mr. Augur under exercisable options. Includes 10,000 shares of common stock held by Patience Partners, L.P., a limited partnership in which a foundation controlled by Mr. Augur is a 60% limited partner and Patience Partners LLC is a 40% general partner. Patience Partners LLC is a limited liability company in which Mr. Augur owns a 50% membership interest. Includes 46,111 shares of

common stock held by Auginco, a Colorado partnership, which is owned 50% by Mr. Augur and 50% by his wife.

3. Includes 10,000 shares purchasable by Mr. Campbell under exercisable options. Excludes 2,190,000 shares owned by High Plains A&M, LLC ( HP A&M ). By reason of his status as a member and manager of HP A&M, Mr. Campbell has voting authority over the 3,000,000 shares issued to HP A&M, but does not have investment control. Mr. Campbell disclaims beneficial ownership of the shares held by HP A&M except to the extent of his pecuniary interest therein, which is 27% or 810,000 shares of common

stock.

4. Includes 5,000 shares purchasable by Mr. Epker under exercisable options. Excludes 3,070,238 shares of common stock held directly by PAR Investment Partners, L.P. ( PIP ). PAR Capital Management, Inc. ( PCM ), as the general partner of PAR Group, L.P., which is the general partner of PIP, has investment discretion and voting control over shares held by PIP. No shareholder, director, officer or employee of PCM has beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of any shares held by PIP. The shares held by PIP are part of a portfolio managed by Mr. Epker. As an employee of PCM,

Mr. Epker has the authority to trade the securities held by PIP, however, Mr. Epker disclaims beneficial ownership of the shares held by PIP.

5. Includes 15,000 shares purchasable by Mr. Guido under exercisable options.
6. Includes 12,500 shares purchasable by Mr. Howell under exercisable options.
7. Includes 15,000 shares purchasable by Mr. Middlemas under exercisable options.
8. Includes the following shares:
  - a. 210,000 shares held by SMA Investments, LLLP as described in number 1 above,
  - b. 72,500 shares purchasable by directors and officers under exercisable options, and
  - c. 10,000 shares of common stock held by Patience Partners, L.P., and 46,111 shares of common stock held by Auginco, as described in number 2 above.
9. By reason of the status of each of H. Hunter White, Mark D.

Campbell and M. Walker Baus as a member and manager of High Plains A&M, LLC, each of them is deemed a beneficial owner of these shares. Each of them disclaims beneficial ownership of the shares held by High Plains A&M, LLC, except to the extent of his pecuniary interest in the limited liability company.

10. This disclosure is based on a Schedule 13G/A filed by Wellington Management Company, LLP on February 13, 2008.

11. This disclosure is based on a Schedule 13G/A filed by Trigran Investments, Inc., Douglas Granat, Lawrence A. Oberman and Steven G. Simon on February 4, 2008. By reason of their role as controlling shareholders and sole directors of Trigran Investments,

Inc., each of  
Douglas Granat,  
Lawrence A.  
Oberman and  
Steven G. Simon  
may be  
considered the  
beneficial  
owners of shares  
beneficially  
owned by  
Trigran  
Investments Inc.  
Each of the  
parties names  
above disclaims  
beneficial  
ownership of  
such shares.

**DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth the names, ages and titles of the persons who are currently our directors and executive officers, along with other positions they hold with us.

Name	Age	Position
Mark W. Harding	45	Director, President, CEO and CFO Chairman of
Harrison H. Augur (1)(2)(3)	66	the Board
Mark D. Campbell	53	Director
Arthur G. Epker III (2)(3)	46	Director
Richard L. Guido (1)(3)	64	Director
Peter C. Howell (1)(3)	59	Director
George M. Middlemas (1)(2)	62	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Corporate Governance Committee

**Code of Ethics**

The Company has a code of business conduct and ethics for its directors, officers and employees, which can be viewed on our website at [www.purecyclewate.com](http://www.purecyclewate.com).

**THE BOARD AND ITS COMMITTEES****Committees and Meetings**

**Audit Committee** The Company has a separately designated-standing Audit Committee, which consists of four non-employee directors, Mr. Howell (Chair) and Messrs. Augur, Guido and Middlemas. The board of directors has determined that the Audit Committee members meet the independence standards of NASDAQ established for audit committee members. In addition, the board has determined that Mr. Howell meets the SEC criteria of an Audit Committee financial expert by reason of his understanding of Accounting Principles Generally Accepted in the United States of America ( GAAP ) and the application of GAAP, his education and his experiences in acquisitions and understanding of financial statements. See Mr. Howell s biography under *Election of Directors (Proposal No. 1)* for additional information.

The functions to be performed by the Audit Committee include the appointment, retention, compensation and oversight of the Company s independent auditors, including pre-approval of all audit and non-audit services to be performed by such auditors. The Audit Committee Charter is available on our website at [www.purecyclewate.com](http://www.purecyclewate.com). The Audit Committee met six (6) times during the fiscal year ended August 31, 2008.

**Compensation Committee** Mr. Middlemas is the Chairman of the Compensation Committee and Messrs. Augur and Epker are members of the Compensation Committee. The functions to be performed by the Compensation Committee

include establishing the compensation of officers, evaluating the performance of officers and key employees, and administering employee incentive compensation plans. The Compensation Committee typically meets with the Chief Executive Officer to obtain information about employee performance and compensation recommendations. It also has the authority to engage outside advisors to assist the committee with its functions. The Compensation Committee has the power to delegate authority to the CEO or a subcommittee to make certain determinations with respect to compensation for employees who are not executive officers. The Compensation Committee held two (2) meetings during the year ended August 31, 2008. The Company's Compensation Committee Charter can be viewed at our website at [www.purecyclewater.com](http://www.purecyclewater.com).

***Nominating and Corporate Governance Committee*** The Nominating and Corporate Governance Committee (the Nominating Committee ) consists of Messrs. Guido (Chairman), Epker, Howell and Augur. The board of directors has determined that the members of the Nominating Committee meet the independence standards of NASDAQ. The principal responsibilities of the Nominating Committee are to identify and nominate qualified individuals to serve as members of the board and to make recommendations to the board with respect to director compensation. In addition, the Nominating Committee is responsible for establishing our Corporate Governance Guidelines and evaluating the board and its processes. In selecting nominees for the board, the Nominating Committee is seeking a board with a variety of experience and expertise, and in selecting nominees it will consider business experience in the industry in which the Company operates, financial expertise, independence from the Company, experience with publicly traded companies, experience with relevant regulatory matters in which the Company is involved, and a reputation for integrity and professionalism. Nominees must be at least 21 years of age and less than 70. Identification of prospective board members is done by a combination of methods, including word-of-mouth in industry circles, inquiries of outside professionals and recommendations made to us. The Nominating Committee will consider nominations for director made by shareholders of record entitled to vote. In order to make a nomination for election at the 2010 annual meeting, a shareholder must provide notice, along with supporting information regarding such nominee, to the Company's Secretary by August 15, 2009, in accordance with our bylaws. The Nominating Committee evaluates nominees recommended by shareholders utilizing the same criteria it uses for other nominees. The Nominating Committee Charter is available on our website at [www.purecyclewater.com](http://www.purecyclewater.com). The Nominating Committee held three (3) meetings during the fiscal year ended August 31, 2008.

***Director Attendance at Annual Meeting*** All of our board members are expected to attend the annual meetings. All of our board members attended the 2008 Annual Meeting.

***Board meetings held*** - During the fiscal year ended August 31, 2008, the board of directors held six (6) meetings. All board members were present at, at least 75% of the meetings except Mr. Campbell.

***Compensation Committee Interlocks and Insider Participation*** No interlocking relationship exists between any member of the board of directors or the Compensation Committee and any other company's board of directors or compensation committee.

#### **Shareholder Communications with the Board**

The board of directors has adopted a policy for shareholders to send communications to the board. The policy is available on the Company's website at [www.purecyclewater.com](http://www.purecyclewater.com). Shareholders wishing to send communications to the board may contact Mark W. Harding, President of Pure Cycle, at the Company's principal place of business. All such communications shall be shared with the members of the board, or if applicable, a specified committee or director.

#### **Relationship of Directors and Officers**

None of the current directors or officers, or nominees for director, is related to any other officer or director of the Company or to any nominee for director.

#### **Terms of Directors and Officers**

All directors are elected for one-year terms which expire at the annual meeting of shareholders or until their successors are elected and qualified. The Company's officers are elected annually by the board of directors and hold office until their successors are elected and qualified.

#### **Director Independence**

At least a majority of the members of the board and all members of the board's Audit, Compensation, and Nominating Committees must be independent in accordance with the NASDAQ Stock Market Rules. The board has determined that Messrs. Augur, Epker, Guido, Howell, and Middlemas are independent pursuant to the NASDAQ Stock Market Rules.

#### **Director Compensation**

Directors who are employees of the Company receive no fees for board service. Currently, Mr. Harding is the only director who is also an employee. Each non-employee director receives a payment of \$10,000 for each full year in which he or she serves as a director, with an additional payment of \$1,000 for each committee on which he or she serves, and \$1,000 for serving as chairman of the board. Directors receive \$500 for attendance at each board meeting and, if committee meetings are held separate from board meetings, each director receives \$500 for attendance at such

committee meetings.

-7-

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The following table sets forth summary information concerning the compensation paid to our non-employee directors in fiscal 2008 for services to the Company:

*Summary Director Compensation Table*

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified		Total (\$)
					Deferred Compensation Earnings	All other Compensation (\$)	
(a)	(b)	(c)	(e)	(d)	(f)	(g)	(h)
Harrison H. Augur Chair (2)	\$ 18,000	\$	\$ 15,614	\$	\$	\$	\$ 33,614
Mark D. Campbell (3)	\$ 11,500	\$	\$ 15,614	\$	\$	\$	\$ 27,114
Arthur G. Epker III (4)	\$ 14,500	\$	\$ 15,614	\$	\$	\$	\$ 30,114
Richard L. Guido (5)	\$ 16,000	\$	\$ 15,614	\$	\$	\$	\$ 31,614
Peter C. Howell (6)	\$ 15,500	\$	\$ 15,614	\$	\$	\$	\$ 31,114
George M. Middlemas (7)	\$ 14,000	\$	\$ 15,614	\$	\$	\$	\$ 29,614

(1) In addition to cash compensation, as part of the 2004 Incentive Plan approved by shareholders at the 2004 annual meeting of shareholders, each non-employee director receives an option to purchase 5,000 shares of common stock upon initial election or appointment to the board (which vest one half at each of the first and second anniversary dates of the

grant), and an option to purchase 2,500 shares for each subsequent full year in which he or she serves as a director, which options vest one year from the date of grant. The amounts in this column represent the dollar amount recognized as expense for financial reporting purposes with respect to the fiscal year ended August 31, 2008. The expense was calculated in accordance with Statement of Financial Accounting Standards No. 123 (revised) *Share Based Payment (as amended)* ( SFAS 123(R) ). These amounts reflect options granted in fiscal 2008 as well as years prior to fiscal 2008. For more information about how we account for stock based compensation see *Note 8*

*Shareholders*  
*Equity* in our  
August 31, 2008  
Form 10-K.

- (2) The \$18,000 earned by Mr. Augur is comprised of: \$10,000 for serving on the board, \$1,000 for being the chairman of the board, \$3,000 for serving on three committees, \$4,000 for attendance at board and committee meetings (\$500 per meeting). Mr. Augur had 15,000 options outstanding as of August 31, 2008, all of which are exercisable within 60 days of the filing of this Proxy Statement.
- (3) The \$11,500 earned by Mr. Campbell is comprised of: \$10,000 for serving on the board and \$1,500 for attendance at board meetings (\$500 per meeting). Mr. Campbell had 10,000 options

outstanding as of August 31, 2008, all of which are exercisable within 60 days of the filing of this Proxy Statement.

(4) The \$14,500 earned by Mr. Epker is comprised of: \$10,000 for serving on the board, \$2,000 for serving on two committees and \$2,500 for attendance at board and committee meetings (\$500 per meeting). Mr. Epker had 7,500 options outstanding as of August 31, 2008, of which 5,000 are exercisable within 60 days of the filing of this Proxy Statement.

(5) The \$16,000 earned by Mr. Guido is comprised of: \$10,000 for serving on the board, \$2,000 for serving on two committees and \$4,000 for attendance at board and committee meetings (\$500

per meeting).  
Mr. Guido had  
15,000 options  
outstanding as  
of August 31,  
2008, all of  
which are  
exercisable  
within 60 days  
of the filing of  
this Proxy  
Statement.

- (6) The \$15,500 earned by Mr. Howell is comprised of: \$10,000 for serving on the board, \$2,000 for serving on two committees and \$3,500 for attendance at board and committee meetings (\$500 per meeting). Mr. Howell had 12,500 options outstanding as of August 31, 2008, all of which are exercisable within 60 days of the filing of this Proxy Statement.
- (7) The \$14,000 earned by Mr. Middlemas is comprised of: \$10,000 for serving on the board, \$2,000 for serving on two committees and \$2,000 for attendance at board and committee meetings (\$500 per meeting). Mr. Middlemas had 15,000 options outstanding as of August 31, 2008, all of

which are  
exercisable  
within 60 days  
of the filing of  
this Proxy  
Statement.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### *Compensation Philosophy*

The Company's executive compensation program is administered by the Compensation Committee of the board of directors. The Compensation Committee is composed of Messrs. Middlemas, Augur and Epker, three non-employee directors. The Compensation Committee reviews the performance and compensation levels for the executive officers and determines equity grants under the 2004 Incentive Plan. The executive officers may provide information to the committee regarding their compensation; however, the Compensation Committee makes the final determination on executive compensation. Final compensation determinations, including equity awards, are generally made in August at the end of the Company's fiscal year end. The following outlines the philosophy and objectives of the Company's compensation plans.

*Q. What are the objectives of the Company's Compensation Committee?*

A. The objectives of the Compensation Committee are to correlate executive compensation with the Company's objectives and overall performance and to enable the Company to attract, retain and reward executive officers who contribute to its long-term growth and success.

*Q. What is the Company's compensation plan designed to do?*

A. The Company's compensation plan is designed to attract, retain and motivate quality executive talent critical to the Company's growth and success. The compensation plan is designed to reward the executive officers of the Company with competitive total pay opportunities through a compensation mix that emphasizes cash and non-cash incentives and merit-based salary increases, while de-emphasizing entitlements and perquisites. The compensation plan is designed to create a mutuality of interest between executives and shareholders through equity ownership programs and to focus the executive's attention on overall corporate objectives, in addition to the executive's personal objectives.

*Q. What are the goals of the Compensation Committee?*

A. The goal of the Compensation Committee is to provide a compensation package that is competitive with compensation practices of companies with which the Company competes, provides variable compensation that is linked to achievement of financial and individual performance goals, and aligns the interests of the executive officers and employees with those of the shareholders of the Company by providing them with equity ownership in the Company. Additionally, the Compensation Committee's goal is to design compensation packages which fall within the mid-range of the packages provided to executives of similarly sized corporations in like industries.

*Q. What are the basic elements of the executive officers' pay and how do those fit into the Company's compensation plan?*

A. Generally each executive officer receives a base cash salary, cash bonus (if the compensation committee elects one), and long-term equity incentives. The mixture of these cash and non-cash compensation items is designed to provide the executive with a competitive total compensation package while not using an excessive amount of the Company's cash or overly diluting the equity positions of its shareholders. The compensation plan for the President is described below.



*Q. Does the Company offer any benefit plans to its executive officers?*

A. Each executive officer is eligible for the same benefits available to all Company employees. Currently, this includes participation in a tax-qualified 401(k) plan, health and dental plans.

*Q. Does the Company offer any perquisites to its executive officers?*

A. The Company's executive officers do not receive any perquisites or personal benefits.

***Compensation of the Company's President***

The current compensation program for the Company's President consists of the following:

***Base Salary*** The Compensation Committee reviewed and approved a salary for the President during the year ending August 31, 2008. His base salary was established by the Compensation Committee based upon competitive compensation data for similarly sized public companies, job responsibilities, level of experience, individual performance and contribution to the business throughout his career with the Company. In making the base salary decision, the committee exercised its discretion and judgment based upon these factors. No specific formula was applied to determine the weight of each factor. While the committee reviewed competitive compensation data, it did not benchmark Mr. Harding's compensation to that of any other company. Mr. Harding's base salary was increased by \$50,000 effective September 1, 2007.

***Incentive Bonus*** The Compensation Committee's goal in granting incentive bonuses is to tie a portion of the President's compensation to the performance of the Company and to the President's individual contribution to the Company. Due to the difficult market for real estate developments, the primary market for the Company's water rights, and the lack of significant transactions in fiscal 2008, no incentive bonuses were granted to employees, including the President, during the year ended August 31, 2008.

***Long-Term Stock Incentives*** The Compensation Committee has previously provided the Company's President with long-term equity incentive compensation through grants of stock options and restricted stock. The goal of the long-term stock incentives has been to align the interests of the President with those of the Company's shareholders and to provide the President with a long-term incentive to manage the Company from the perspective of an owner with an equity stake in the business. It is the belief of the Compensation Committee that stock options and restricted stock grants directly motivate an executive to maximize long-term shareholder value. The philosophy of administering the long-term stock incentive plan is to tie the number of stock options and restricted stock awarded to each employee in the plan to the performance of the Company and to the individual contribution of each employee in the plan. No long-term stock incentives were granted during the fiscal year ended August 31, 2008. In making this decision, the Compensation Committee considered the fact that the President currently has a significant equity ownership in the Company, which it believes adequately aligns his interests with those of the Company's shareholders.

***Discussion with Respect to Qualifying Compensation for Deductibility***

Section 162(m) of the Internal Revenue Code imposes a limit on tax deductions for annual compensation (other than performance-based compensation) in excess of one million dollars paid by a corporation to its chief executive officer and its other four most highly compensated executive officers. The Company has not established a policy with regard to Section 162(m) of the Code, because the Company does not currently anticipate paying cash compensation in excess of one million dollars per annum to any employee. The Compensation Committee will continue to assess the impact of Section 162(m) on its compensation practices and determine what further action, if any, is appropriate.

**Compensation Tables**

The following tables set forth information required by Item 402 of Regulation S-K. The Company's President, Mr. Harding, is the Principal Executive Officer and the Principal Financial Officer of the Company. Therefore, all tables contained in this section relate solely to Mr. Harding.

*Summary Compensation Table*

Name and principal position	Fiscal Year	Base Salary (\$)	Bonus (\$)	Stock Awards (1)	Option Awards (\$)	Non-Equity Incentive Compensation (\$)	Deferred Compensation (\$)	Change in Pension Value and Non-Qualified Deferred Compensation (\$)	All Other Compensation (\$)	Total (\$)
Mark W. Harding	2008	250,000								250,000
Principal Executive and Financial Officer	2007	200,000	300,000	259,495						759,495
	2006	200,000	250,000							450,000

(1) This represents the fair value of the 34,189 shares of restricted stock granted to the named executive officer on August 27, 2007. The restricted stock is subject to forfeiture if Mr. Harding ceases to be an employee of the Company. The forfeiture restriction lapsed with respect to one half of the shares on August 27, 2008, the first

anniversary date. The forfeiture restriction will lapse with respect to the remaining one half on the second anniversary date of the grant. 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, which is the period during which the forfeiture provisions lapse.

**Grants of Plan Based Awards** The Company did not grant any plan based awards to Mr. Harding during the year ended August 31, 2008. Therefore, the Company omitted the Grants of Plan Based Awards Table.

***Outstanding Equity Awards at Fiscal Year-End***

Option Awards		Stock Awards	
Equity			Equity
Plan		Equity	Incentive
Incentive	Market		Plan Awards:

Name	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercised Options (#)	Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Value of Shares or Units of Stock That Have Not Vested (\$)	Incentive Plan	Market or Payout
								Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Mark W. Harding				\$				17,095	\$ 87,355

(1) Forfeiture restrictions will lapse with respect to these restricted shares on August 27, 2009, the second anniversary date of the grant.

(2) Based on the closing market price of the Company's common stock on August 31, 2008.

**Option Exercises and Stock Vested**

Name	Option Awards		Stock Awards	
	Number of shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
(a)	(b)	(c)	(d)	(e)
Mark W. Harding		\$	17,094	\$ 94,017

(1) Based on the closing market price of the Company's common stock on August 27, 2008, the vesting date.

**Pension Benefits** The Company does not offer pension benefits. Therefore, the Company omitted the Pension Benefits Table.

**Non-Qualified Deferred Compensation** The Company does not have any non-qualified deferred compensation plans. Therefore, the Company has omitted the Non-Qualified Deferred Compensation Table.

**Termination or Change-in-Control Plans** The Company does not have any Termination of Change in Control Plans. Therefore, the Company has omitted the Termination of Change in Control Plans Table.

**Compensation Committee Report<sup>1</sup>**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on the Committee's review and discussion with management, has recommended to the full board of directors that the Compensation Discussion and Analysis be included in the Company's Proxy Statement for the Annual Meeting.

Respectfully submitted by the Compensation Committee of the Board of Directors

/s/ George M. Middlemas (Chairman)

/s/ Harry H. Augur

/s/ Arthur G. Epker III

**REPORT OF THE AUDIT COMMITTEE<sup>1</sup>**

The Audit Committee of the board of directors is comprised of four directors and operates under a written charter adopted by the board of directors, which is available on the Company's website at [www.purecyclewater.com](http://www.purecyclewater.com). The charter is reassessed and updated as needed in accordance with applicable rules of the Securities and Exchange Commission and NASDAQ. Each of the members of the Audit Committee is a non-employee director and is independent as defined by NASDAQ standards for independence.

Management is responsible for the Company's internal controls over financial reporting. The independent auditors are responsible for performing an independent audit of the Company's financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and issuing a report thereon. The Audit Committee's primary responsibility is to monitor and oversee these processes and recommend to the board of directors the selection of the Company's independent auditors. In fulfilling