

PURE CYCLE CORP
Form 10-Q
April 08, 2019

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

Form 10-Q

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

For the quarterly period ended February 28, 2019

or

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

For the transition period from _____ to _____

Commission file number 0-8814

PURE CYCLE CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

84-0705083

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

34501 E. Quincy Avenue, Bldg. 34, Watkins, CO 80137
(Address of principal executive offices) (Zip Code)

(303) 292 – 3456

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 5, 2019:

Common stock, 1/3 of \$.01 par value	23,801,598
(Class)	(Number of Shares)

PURE CYCLE CORPORATION
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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

PURE CYCLE CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS:	February 28, 2019 (unaudited)	August 31, 2018
Current assets:		
Cash and cash equivalents	\$ 3,977,307	\$ 11,565,038
Short-term investments	7,136,735	8,717,967
Trade accounts receivable, net	229,932	1,067,268
Prepaid expenses and other current assets	1,506,631	1,372,886
Inventories	12,144,114	5,195,059
Total current assets	24,994,719	27,918,218
Long-term investments	—	190,370
Investments in water and water systems, net	41,993,268	36,721,884
Land and mineral interests	4,795,845	4,659,569
Notes receivable - related parties, including accrued interest	944,062	906,199
Other assets	885,398	777,734
Long-term land investment	450,641	450,641
Deferred tax asset	282,000	282,000
Total assets	\$ 74,345,933	\$ 71,906,615
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 189,767	\$ 787,662
Accrued liabilities	2,065,431	849,538
Deferred revenues, current	1,455,241	361,050
Deferred oil and gas lease payment, current	55,733	55,733
Total current liabilities	3,766,172	2,053,983
Deferred revenues, less current portion	32,511	60,378
Participating Interests in Export Water Supply	333,275	339,035
Total liabilities	4,131,958	2,453,396
SHAREHOLDERS' EQUITY:		
Preferred stock:		
Series B - par value \$.001 per share, 25 million shares authorized; 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; 23,801,598 and 23,764,098 shares outstanding, respectively	79,344	79,218
Additional paid-in capital	172,107,735	171,831,293
Accumulated other comprehensive income	12,687	66,446
Accumulated deficit	(101,986,224)	(102,524,171)
Total shareholders' equity	70,213,975	69,453,219
Total liabilities and shareholders' equity	\$ 74,345,933	\$ 71,906,615

See accompanying Notes to Consolidated Financial Statements

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PURE CYCLE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(unaudited)

	Three Months Ended February		Six Months Ended February 28,	
	28, 2019	2018	2019	2018
Revenues:				
Metered water usage	\$ 159,018	\$ 803,771	\$ 1,526,869	\$ 1,726,344
Wastewater treatment fees	7,509	9,293	16,402	20,482
Water tap fees recognized	467,076	—	721,902	49,948
Lot sales	1,946,381	—	3,327,577	—
Other	50,435	31,597	110,218	58,019
Total revenues	2,630,419	844,661	5,702,968	1,854,793
Expenses:				
Water service operations	(229,620)	(136,804)	(564,784)	(488,619)
Wastewater service operations	(4,655)	(8,684)	(7,377)	(14,671)
Lot fee construction costs	(1,829,598)	—	(3,127,922)	—
Other	(31,140)	(24,127)	(70,273)	(40,579)
Depletion and depreciation	(161,114)	(110,122)	(312,375)	(230,720)
Total cost of revenues	(2,256,127)	(279,737)	(4,082,731)	(774,589)
Gross profit	374,292	564,924	1,620,237	1,080,204
General and administrative expenses	(559,608)	(519,626)	(1,198,441)	(1,180,608)
Depreciation	(90,392)	(59,611)	(178,405)	(113,999)
Operating (loss) income	(275,708)	(14,313)	243,391	(214,403)
Other income (expense):				
Oil and gas lease income, net	13,934	13,933	27,867	23,222
Oil and gas royalty income, net	44,416	49,778	75,841	91,540
Interest income	121,661	52,512	192,823	106,974
Other	(328)	(1,748)	(1,975)	(3,782)
Income (loss) from operations before income taxes	(96,025)	100,162	537,947	3,551
Net income (loss)	\$ (96,025)	\$ 100,162	\$ 537,947	\$ 3,551
Unrealized holding gains (losses)	(65,555)	11,096	(53,759)	30,718
Total comprehensive income (loss)	\$ (161,580)	\$ 111,258	\$ 484,188	\$ 34,269
Basic net income (loss) per common share	\$ *	\$ *	\$ 0.02	\$ *
Diluted net income (loss) per common share	\$ *	*	\$ 0.02	*
Weighted average common shares				
outstanding—basic	23,799,931	23,760,765	23,786,181	23,757,431
Weighted average common shares				
outstanding—diluted	23,799,931	23,915,194	23,995,760	23,893,272

* Amount is less than \$0.01 per share

See accompanying Notes to Consolidated Financial Statements

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PURE CYCLE CORPORATION
 CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
 Three Months ended February 28, 2019 and 2018
 (unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
November 30, 2018 balance:	432,513	\$ 433	23,789,098	\$ 79,302	\$ 172,012,936	\$ 78,242	\$(101,890,199)	\$ 70,280,714
Stock option exercises			12,500	\$ 42	\$ 36,558	—	—	36,600
Share-based compensation	—	—	—	—	58,241	—	—	58,241
Net loss	—	—	—	—	—	—	(96,025)	(96,025)
Unrealized holding gain on investments	—	—	—	—	—	(65,555)	—	(65,555)
February 28, 2019 balance:	432,513	\$ 433	23,801,598	\$ 79,344	\$ 172,107,735	\$ 12,687	\$(101,986,224)	\$ 70,213,975
November 30, 2017 balance:	432,513	\$ 433	23,754,098	\$ 79,185	\$ 171,511,679	\$ 8,517	\$(103,035,462)	\$ 68,564,352
Stock option exercises			10,000	\$ 33	\$ 74,967	—	—	75,000
Share-based compensation	—	—	—	—	77,385	—	—	77,385
Net income	—	—	—	—	—	—	100,162	100,162
Unrealized holding gain on investments	—	—	—	—	—	11,096	—	11,096
February 28, 2018 balance:	432,513	\$ 433	23,764,098	\$ 79,218	\$ 171,664,031	\$ 19,613	\$(102,935,300)	\$ 68,827,995

See accompanying Notes to Consolidated Financial Statements

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PURE CYCLE CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Six Months Ended February 28, 2019 and 2018
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Capital	(Loss)		
August 31, 2018 balance:	432,513	\$ 433	23,764,098	\$79,218	\$171,831,293	\$ 66,446	\$(102,524,171)	\$69,453,219
Stock option exercises			37,500	\$126	\$114,725	—	—	114,851
Share-based compensation	—	—	—	—	161,717	—	—	161,717
Net income	—	—	—	—	—	—	537,947	537,947
Unrealized holding gain on investments	—	—	—	—	—	(53,759)	—	(53,759)
February 28, 2019 balance:	432,513	\$ 433	23,801,598	\$79,344	\$172,107,735	\$ 12,687	\$(101,986,224)	\$70,213,975

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Capital	(Loss)		
August 31, 2017 balance:	432,513	\$ 433	23,754,098	\$79,185	\$171,431,486	\$(11,105)	\$(103,993,900)	\$67,506,099
Stock option exercises			10,000	\$33	\$74,967	—	—	75,000
Share-based compensation	—	—	—	—	157,578	—	—	157,578
Adoption of accounting standards	—	—	—	—	—	—	1,055,049	1,055,049
Net income	—	—	—	—	—	—	3,551	3,551
Unrealized holding gain on investments	—	—	—	—	—	30,718	—	30,718
February 28, 2018 balance:	432,513	\$ 433	23,764,098	\$79,218	\$171,664,031	\$ 19,613	\$(102,935,300)	\$68,827,995

See accompanying Notes to Consolidated Financial Statements

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PURE CYCLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended February 28,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 537,947	\$ 3,551
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and depletion	490,780	344,719
Recovery of bad debt expense	(31,233) —
Equity loss in Well Enhancement Recovery Systems, LLC	5,203	5,204
Share-based compensation expense	161,717	157,578
Interest income and other non-cash items	(210	) 30,508
Interest added to receivable from related parties	(19,885	) (15,057)
Changes in operating assets and liabilities:		
Trade accounts receivable	868,570	(226,092)
Prepaid expenses	(133,745	) (1,091,882)
Inventories	(5,016,918) —
Notes receivable - related parties	(17,978	) (60,244)
Other assets	(90,097) —
Accounts payable and accrued liabilities	(1,314,140	) (332,008)
Deferred revenues	1,094,191	—
Deferred oil and gas lease payment	(27,867	) 143,978
Net cash used in operating activities	(3,493,665	) (1,039,745)
Cash flows from investing activities:		
Sale and maturities of short-term investments	22,555,619	2,928,145
Purchase of short-term investments	(20,837,776	) (1,244,889)
Investments in water, water systems, and land	(5,788,964	) (1,769,695)
Investments in Sky Ranch development	—	(1,490,000)
Purchase of property and equipment	(132,034	) (160,699)
Net cash used in investing activities	(4,203,155	) (1,737,138)
Cash flows from financing activities:		
Proceeds from note receivable - related parties	—	215,504
Proceeds from the issuance of stock	114,851	75,000
Payments to contingent liability holders		