

PURE CYCLE CORP
Form PRE 14A
December 04, 2007

**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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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held on January 15, 2008

TO OUR STOCKHOLDERS:

You are cordially invited to attend the annual meeting of the stockholders 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 15, 2008 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 stockholders, or until their successors have been duly elected and qualified;
2. To approve a proposal to change the state of incorporation of Pure Cycle Corporation from the State of Delaware to the State of Colorado;
3. To ratify the appointment of GHP Horwath, P.C. as our independent registered public accounting firm for the 2008 fiscal year; and
4. To transact such other business as may properly come before the meeting or any adjournment(s) thereof.

Only stockholders of record as of 5:00 p.m. Mountain Time on December 6, 2007 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. STOCKHOLDERS 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 14, 2007

PURE CYCLE CORPORATION
8451 Delaware Street
Thornton, Colorado 80260
(303) 292-3456
PROXY STATEMENT FOR THE
ANNUAL MEETING OF STOCKHOLDERS
To be held on January 15, 2008
ABOUT THE MEETING

This proxy statement is furnished to stockholders 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 stockholders 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 15, 2008 at 2 p.m. Mountain Time or at any adjournment thereof.

Proxies were first mailed to stockholders on or about December 14, 2007, 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, stockholders are asked to act upon the matters outlined above in the Notice of Annual Meeting of Stockholders and as described in this proxy statement. The matters to be considered are (i) the election of directors, (ii) the proposal to change the state of incorporation of the Company from Delaware to Colorado (the reincorporation proposal), (iii) the ratification of the appointment of the Company's independent auditors for the fiscal year ending August 31, 2008, and (iv) 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 stockholders of record as of 5 p.m. Mountain Time on December 6, 2007 (the Record Date), are entitled to vote on matters presented at the Meeting. On December 6, 2007, there are 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 stockholder on December 6, 2007, you will be entitled to vote all of the shares that you held on that date at the Meeting or any postponements or adjournments thereof. Whether you hold shares directly as the stockholder 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 stockholder 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 stockholder 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 stockholders 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 stockholders 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.

Reincorporation of the Company in Colorado Approval of proposal 2 requires the affirmative vote of the majority of the shares of common stock issued and outstanding and entitled to vote at the Meeting. With respect to the reincorporation proposal, you may vote FOR, AGAINST, or you may ABSTAIN. If you hold your shares through a nominee such as a broker or bank (i.e., in street name), you must provide your broker with instructions on how to vote the street name shares. Under the rules of The NASDAQ Stock Market (NASDAQ), if your broker holds your shares in its name, your broker may not vote your shares on the reincorporation proposal absent instruction from you. Consequently, without your voting instruction on this proposal, a broker non-vote will occur. An abstention, a failure to vote, and a failure to instruct your broker how to vote shares held for you in your broker's name will each have the same effect as a vote against the reincorporation proposal.

Ratification of Auditors and Other Matters An affirmative vote of the majority of the shares of common stock represented and entitled to vote at the Meeting, is necessary for the approval of proposal 3, the ratification of the appointment of independent auditors, and other matters. For proposal 3 and any other business matters to be voted on, you may vote FOR, AGAINST, or you may ABSTAIN. For the purpose of determining whether such a proposal has received a majority vote, abstentions will be included in the vote totals. An abstention has the same effect as a negative vote. Broker non-votes will not be included in the vote totals 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 proposals 2 and 3 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 three 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 stockholders 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, stockholders of record who have the same address and last name will receive one copy of the annual report and proxy statement unless one or more of these stockholders notify the Company that they wish to continue receiving individual copies. Stockholders who do not participate in householding will continue to receive separate copies of the annual report and proxy statement.

If a stockholder 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 this annual report and proxy material by notifying us at the same address or phone number, and we will undertake to deliver such documents promptly. Stockholders 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, 2008.

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, 2007 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 stockholders to the Company.

COMMON STOCK

Name and Address of Beneficial Owner	Amount and nature of beneficial ownership		Percent of Shares
Mark W. Harding 8451 Delaware St. Thornton, CO 80260	727,243	1	3.6%
Harrison H. Augur PO Box 4389 Aspen, CO 81611	99,051	2	*
Mark D. Campbell 7600 E. Orchard Road, Suite 370 S Greenwood Village, CO 80111	812,500	3	4.0%
Arthur G. Epker III One International Place, Suite 2401 Boston, MA 02110		4	*
Richard L. Guido 8451 Delaware St. Thornton, CO 80260	10,000	5	*
Peter C. Howell 15289 Russell Road Chagrin Falls, OH 44022	8,000	6	*
George M. Middlemas 225 W. Washington, #1500 Chicago, IL 60606	30,000	7	*
All officers and directors as a group (6 persons)	1,686,794	8	8.3%
High Plains A&M, LLC 7600 E. Orchard Road, Suite 370 S Greenwood Village, CO 80111	3,000,000	9	14.8%
Par Capital Management, Inc. Par Investment Partners, L.P. Par Group, L.P. One International Place, Suite 2401 Boston, MA 02110	2,620,439		13.0%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	2,382,500	10	11.8%
	1,239,705	11	6.1%

TPC Ventures, LLC
8451 Delaware Street
Thornton, CO 80260
Trigran Investments, Inc.
630 Dundee Road, Suite 230
Northbrook, IL 60062
* Less than 1%

1,147,231 12 5.7%

- 1) Includes 210,000 shares of common stock held by SMA Investments, LLLP, a limited liability limited partnership controlled by Mr. Harding.
- 2) Includes 10,000 shares purchasable by Mr. Augur under currently 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, which is a corporation owned by Mr. Augur.
- 3) Includes 2,500 shares purchasable by Mr. Campbell under currently 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) Excludes 2,620,439 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 stockholder, 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 10,000 shares purchasable by Mr. Guido under currently exercisable options.
- 6) Includes 7,500 shares purchasable by Mr. Howell under currently exercisable options.
- 7) Includes 10,000 shares purchasable by Mr. Middlemas under currently exercisable options.
- 8) Includes the following shares:
 - a. 210,000 shares held by SMA Investments, LLLP as described in number 1 above,
 - b. 40,000 shares purchasable by directors and officers under currently 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 filed by Wellington Management Company, LLP on August 10, 2007.
- 11) By reason of his role as manager of TPC Ventures, LLC, Ryan T. Clark is deemed the indirect beneficial owner of these shares.
- 12) This disclosure is based on a Schedule 13G filed by Trigran Investments, Inc., Douglas Granat, Lawrence A. Oberman and Steven G. Simon on October 10, 2007. 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	44	Director, President, CEO and CFO
Harrison H. Augur (1)(2)(3)	65	Chairman of the Board
Mark D. Campbell	52	Director
Arthur G. Epker III	45	Director
Richard L. Guido (1)(2)(3)	63	Director
Peter C. Howell (1)(3)	58	Director
George M. Middlemas (2)	61	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.purecyclewater.com.

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

Audit Committee The Company has a separately designated-standing Audit Committee, which consists of three non-employee directors, Mr. Howell (Chair) and Messrs. Augur and Guido. 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.purecyclewater.com. The Audit Committee met nine (9) times during the fiscal year ended August 31, 2007.

Compensation Committee Mr. Middlemas is the Chairman of the Compensation Committee and Messrs. Augur and Guido are members of the Compensation Committee. The functions to be performed by the Compensation Committee include establishing the compensation of officers and directors and administering management incentive compensation plans. The Compensation Committee held two (2) meetings during the year ended August 31, 2007. The Company s Compensation Committee Charter can be viewed at our website at www.purecyclewater.com.

Nominating and Corporate Governance Committee The Nominating and Corporate Governance Committee (the Nominating Committee) consists of Messrs. Guido (Chairman), Howell and Augur. The board of directors has determined that the members of the Nominating Committee meet the independence standards of NASDAQ. 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. The Nominating Committee will consider nominations for director made by stockholders of record entitled to vote. In order to make a nomination for election at the 2009 annual meeting, a stockholder must provide notice, along with supporting information regarding such nominee, to the Company's Secretary by August 15, 2008. The Nominating Committee evaluates nominees recommended by stockholders utilizing the same criteria it uses for other nominees. The Nominating Committee Charter is available on our website at www.purecyclewater.com. The Nominating Committee held two (2) meetings during the fiscal year ended August 31, 2007.

Director Attendance at Annual Meeting All of our board members are expected to attend the annual meetings. All of our board members attended the 2007 Annual Meeting.

Board meetings held During the fiscal year ended August 31, 2007, 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.

Stockholder Communications with the Board

The board of directors has adopted a policy for stockholders to send communications to the board. The policy is available on the Company's website at www.purecyclewater.com. Stockholders 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 stockholders 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 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.

The following table sets forth summary information concerning the compensation paid to our non-employee directors in fiscal 2007 for services to the Company.

Summary Director Compensation Table

Name	Fees Earned or Paid in Cash (\$) (a)	Stock Awards (\$) (c)	Non-Equity Incentive		Change in Pension Value and Nonqualified		All other Compensation (\$) (g)	Total (\$) (h)
			Plan Compensation (\$) (d)	Option Awards (\$) (1) (e)	Deferred Compensation Earnings (f)			
Harrison H. Augur Chair (2)	\$ 18,500	\$	\$	\$ 24,107	\$	\$	\$ 42,607	
Mark D. Campbell (3)	\$ 1,500	\$	\$	\$ 18,119	\$	\$	\$ 19,619	
Arthur G. Epker III (4)	\$ 11,000	\$	\$	\$ 1,337	\$	\$	\$ 12,337	
Richard L. Guido (5)	\$ 18,500	\$	\$	\$ 24,107	\$	\$	\$ 42,607	
Peter C. Howell (6)	\$ 17,500	\$	\$	\$ 33,049	\$	\$	\$ 50,549	
George M. Middlemas (7)	\$ 14,000	\$	\$	\$ 24,107	\$	\$	\$ 38,107	

(1) In addition to cash compensation, as part of the 2004 Incentive Plan approved by stockholders at the 2004 Annual Meeting, 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, 2007. 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 2007 as well as years prior to fiscal 2007. See *Note 8 Stockholders Equity* in our Annual Report on Form 10-K for the year ended August 31, 2007, for more information about how we account for

stock based
compensation.

- (2) Mr. Augur received \$14,000 for serving on the board, being the chairman of the board, and serving on three committees. Mr. Augur also received \$4,500, or \$500 for each board and committee meeting he attended. Mr. Augur had 12,500 options outstanding as of August 31, 2007, of which 10,000 were exercisable.
- (3) Mr. Campbell received \$1,500, or \$500 for each board and committee meeting he attended. Mr. Campbell had 7,500 options outstanding as of August 31, 2007, of which 2,500 were exercisable.
- (4) Mr. Epker received \$11,000 for joining the board on August 2, 2007, and joining the CAA Committee.

Mr. Epker had 5,000 options outstanding as of August 31, 2007, of which none were exercisable.

- (5) Mr. Guido received \$14,000 for serving on the board and four committees (this includes the CAA Committee of the board which is not described above). Mr. Guido also received \$4,500, or \$500 for each board and committee meeting he attended. Mr. Guido had 12,500 options outstanding as of August 31, 2007, of which 10,000 were exercisable.

- (6) Mr. Howell received \$13,000 for serving on the board and three committees. Mr. Howell also received \$4,500, or \$500 for each board and committee meeting he attended. Mr. Howell had 10,000 options outstanding as

of August 31, 2007, of which 7,500 were exercisable.

- (7) Mr. Middlemas received \$11,000 for serving on the board and one committee. Mr. Middlemas also received \$3,000, or \$500 for each board and committee meeting he attended. Mr. Middlemas had 12,500 options outstanding as of August 31, 2007, of which 10,000 were exercisable.

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 Guido, 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 business objectives and performance and to enable the Company to attract, retain and reward executive officers who contribute to its long-term 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 high quality executive talent critical to the Company's 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 competitive 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 stockholders 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 goals of the Compensation Committee are to provide a total compensation package that considers the 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 officer and employees with those of the stockholders of the Company by providing them with an equity ownership in the Company. Compensation is designed to fall within the central tendency of the range of that paid to comparable executives in corporations of similar size and in like industry.

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, 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 our stockholders. 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, 2007. 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 base salary decisions, 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. Base salary for fiscal year 2007 was unchanged from fiscal 2006; however, Mr. Harding was granted a \$50,000 increase in his base salary effective September 1, 2007.

Incentive Bonus The Compensation Committee approved the President's 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. Mr. Harding's 2007 bonus was determined by the Compensation Committee based on the performance of Mr. Harding in completing the July 2007 registered equity offering, his continued commitment to the success of the Company and his efforts in marketing the Company to the investing public. Additionally, Mr. Harding's bonus in 2007 was granted to allow him to exercise his remaining stock options before they expired.

Long-Term Stock Incentives The Compensation Committee provides 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 is to align the interests of the President with those of the Company's stockholders 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 stockholder 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.

In August 2007, Mr. Harding was granted 34,189 shares of restricted common stock. The amount of restricted stock granted was based on the number of mature shares Mr. Harding utilized to exercise his remaining options. This restricted stock grant was done to maintain Mr. Harding's level of equity interest in the Company. Further details of the restricted stock are presented in the tables below.

Mr. Harding was not granted any stock options during the year ended August 31, 2007.

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	Change in Pension Value and Non-Qualified Deferred Compensation	All Other Compensation	Total
							(h)		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Mark W. Harding	2007	200,000	300,000	259,495					759,495
Principal Executive and Financial Officer	2006	200,000	250,000						450,000
	2005	200,000	150,000						350,000

(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 lapses with respect to one half of the shares on the first anniversary date of the grant and 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

Estimated Future Payouts Under Non-Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	All Other Stock Awards:	All Other Option Awards:	Grant
		Number of Shares of Stock	Exercise or Base Price of Securities Option	Date Fair Value of Stock and

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Name	Grant Date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	or		Option Awards	
								Units	Underlying Options		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Harding	August 27	\$	\$	\$	\$	\$ 34,189	\$ 34,189			\$	\$ 259,495

Outstanding Equity Awards at Fiscal Year-End

		Option Awards		Stock Awards		Equity Incentive Plan
		Equity Plan Incentive		Market Value of Shares of	Equity Incentive Plan Awards:	Equity Incentive Plan Awards:
Number of Securities	Number of Securities	Awards: Number of Securities	&n	Number of	Number of Unearned	Market or Payout Value of Unearned