

Edgar Filing: CADIZ INC - Form 10-Q

CADIZ INC  
Form 10-Q  
May 10, 2010

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United States

Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-Q  
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended March 31, 2010

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 0-12114

Cadiz Inc.

(Exact name of registrant specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

77-0313235  
(I.R.S. Employer  
Identification No.)

550 South Hope Street, Suite 2850  
Los Angeles, California  
(Address of principal executive offices)

90071  
(Zip Code)

Registrant's telephone number, including area code: (213) 271-1600

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

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Yes\_\_\_ No

As of May 3, 2010, the Registrant had 13,677,772 shares of common stock, par value \$0.01 per share, outstanding.

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Consolidated Statements of Operations (Unaudited)

| (\$ in thousands except per share data)               | For the Three Months<br>Ended March 31, |            |
|---|---|------------|
|   | 2010                                    | 2009       |
| Revenues  | \$3                                     | \$29       |
| Costs and expenses:                                   |   |            |
| Cost of sales   | -                                       | 101        |
| General and administrative                            | 4,077                                   | 2,052      |
| Depreciation  | 99                                      | 86         |
| Total costs and expenses                              | 4,176                                   | 2,239      |
| Operating loss  | (4,173 )                                | (2,210 )   |
| Other income (expense)                                |   |            |
| Interest expense, net                                 | (1,033 )                                | (1,184 )   |
| Loss before income taxes                              | (5,206 )                                | (3,394 )   |
| Income tax provision                                  | 1                                       | 1          |
| Net loss applicable to common stock                   | \$(5,207 )                              | \$(3,395 ) |
| Basic and diluted net loss per common share           | \$(0.38 )                               | \$(0.27 )  |
| Basic and diluted weighted average shares outstanding | 13,655                                  | 12,510     |

See accompanying notes to the consolidated financial statements.

## Consolidated Balance Sheets (Unaudited)

| (\$ in thousands)  | March 31,<br>2010 | December<br>31,<br>2009 |
|--|-------------------|-------------------------|
| <b>ASSETS</b>  |                   |                         |
| Current assets:  |                   |                         |
| Cash and cash equivalents  | \$6,175           | \$8,878                 |
| Accounts receivable  | 98                | 175                     |
| Inventories  | 88                | 21                      |
| Prepaid expenses   | 442               | 341                     |
| Total current assets   | 6,803             | 9,415                   |
| Property, plant, equipment and water programs, net   | 36,819            | 36,613                  |
| Goodwill   | 3,813             | 3,813                   |
| Other assets   | 436               | 478                     |
| Total Assets   | \$47,871          | \$50,319                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                         |
| Current liabilities:   |                   |                         |
| Accounts payable   | \$192             | \$499                   |
| Accrued liabilities  | 579               | 829                     |
| Current portion of long term debt  | 18                | 20                      |
| Total current liabilities  | 789               | 1,348                   |
| Long-term debt, net  | 37,685            | 36,665                  |
| Tax liability  | 338               | 321                     |
| Other long-term liabilities  | 923               | 752                     |
| Total Liabilities  | 39,735            | 39,086                  |
| Stockholders' equity:  |                   |                         |
| Common stock - \$.01 par value; 70,000,000 shares authorized; shares issued and outstanding – 13,677,772 at March 31, 2010 and 13,500,997 at December 31, 2009 | 137               | 135                     |
| Additional paid-in capital   | 278,857           | 276,749                 |
| Accumulated deficit  | (270,858 )        | (265,651 )              |
| Total stockholders' equity   | 8,136             | 11,233                  |
| Total Liabilities and Stockholders' equity   | \$47,871          | \$50,319                |

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows (Unaudited)

| (\$ in thousands except per share data)   | For the Three Months<br>Ended March 31, |             |
|---|---|-------------|
|   | 2010                                    | 2009        |
| Cash flows from operating activities:   |   |             |
| Net loss  |   |             |
| Adjustments to reconcile net loss to<br>net cash used for operating activities: | \$ (5,207                               | ) \$ (3,395 |
| Depreciation  | 99                                      | 86          |
| Amortization of debt discount & issuance costs                                  | 380                                     | 685         |
| Interest expense added to loan principal  | 655                                     | 516         |
| Compensation charge for stock awards and share options                          | 2,110                                   | 403         |
| Changes in operating assets and liabilities:                                    |   |             |
| Decrease in accounts receivable   | 77                                      | 27          |
| Increase in inventories   | (67                                     | ) (45       |
| Increase in prepaid expenses and other  | (101                                    | ) (122      |
| Decrease in other assets  | 32                                      | -           |
| Decrease in accounts payable  | (307                                    | ) (176      |
| Decrease in accrued liabilities   | (32                                     | ) (53       |
| Increase in tax liability   | 17                                      | 27          |
| Net cash used for operating activities  | (2,344                                  | ) (2,047    |
| Cash flows from investing activities:   |   |             |
| Proceeds from sale of short-term investments                                    | -                                       | 1,500       |
| Additions to property, plant and equipment                                      | (352                                    | ) (57       |
| Net cash (used in) provided by investing activities                             | (352                                    | ) 1,443     |
| Cash flows from financing activities:   |   |             |
| Proceeds from issuance of long-term debt  | -                                       | 48          |
| Principal payments on long-term debt  | (7                                      | ) (2        |
| Net cash (used in) provided by financing activities                             | (7                                      | ) 46        |
| Net decrease in cash and cash equivalents                                       | (2,703                                  | ) (558      |
| Cash and cash equivalents, beginning of period                                  | 8,878                                   | 2,014       |
| Cash and cash equivalents, end of period  | \$6,175                                 | \$1,456     |

See accompanying notes to the consolidated financial statements.

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 Consolidated Statement of Stockholders' Equity (Unaudited)

(\$ in thousands except per share data)

|                                  | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|----------------------------------|------------------------|------------------------|----------------------------------|------------------------|----------------------------------|
| Balance as of December 31, 2009  | 13,500,997             | \$135                  | \$276,749                        | \$ (265,651 )          | \$ 11,233                        |
| Stock awards                     | 176,775                | 2                      | -                                | -                      | 2                                |
| Stock based compensation expense | -                      | -                      | 2,108                            | -                      | 2,108                            |
| Net loss                         | -                      | -                      | -                                | (5,207 )               | (5,207 )                         |
| Balance as of March 31, 2010     | 13,677,772             | \$137                  | \$278,857                        | \$ (270,858 )          | \$ 8,136                         |

See accompanying notes to the consolidated financial statements.



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Notes To The Consolidated Financial Statements

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements have been prepared by Cadiz Inc., sometimes referred to as “Cadiz” or “the Company”, without audit and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company’s Form 10-K for the year ended December 31, 2009.

Basis of Presentation

The foregoing Consolidated Financial Statements include the accounts of the Company and contain all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair statement of the Company’s financial position, the results of its operations and its cash flows for the periods presented and have been prepared in accordance with generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates and such differences may be material to the financial statements. This quarterly report on Form 10-Q should be read in conjunction with the Company’s Form 10-K for the year ended December 31, 2009. The results of operations for the three months ended March 31, 2010, are not necessarily indicative of results for the entire fiscal year ending December 31, 2010.

Liquidity

The financial statements of the Company have been prepared using accounting principles applicable to a going concern, which assumes realization of assets and settlement of liabilities in the normal course of business. The Company incurred losses of \$5.2 million for the three months ended March 31, 2010, and \$3.4 million for the three months ended March 31, 2009. The Company had working capital of \$6.0 million at March 31, 2010, and used cash in operations of \$2.3 million for the three months ended March 31, 2010, and \$2.0 million for the three months ended March 31, 2009. The first quarter cash requirements are typically seasonally higher than those required for the remaining quarters. Currently, the Company's sole focus is the development of its land and water assets.

In June 2006, the Company raised \$36.4 million through the private placement of a five year zero coupon convertible term loan with Peloton Partners LLP (“Peloton”), as administrative agent, and an affiliate of Peloton and another investor, as lenders (the “Term Loan”). The proceeds of the new term loan were partially used to repay the Company’s prior term loan facility with ING Capital LLC (“ING”). On April 16, 2008, the Company was advised that Peloton’s interest in the Term Loan had been assigned to an affiliate of Lampe, Conway & Company LLC (“Lampe Conway”), and Lampe Conway subsequently replaced Peloton as administrative agent of the loan. On June 4, 2009, the Company completed arrangements to amend the Term Loan and extend its maturity to June of 2013.

In February 2007, \$5.0 million was raised when certain warrant holders chose to exercise their rights to purchase 335,440 shares of the Company's common stock for \$15.00 per share. In November and December 2008, the Company raised an additional \$5.2 million with a private placement of 165,000 Units at \$31.50 per unit. Each unit consists of three (3) shares of the Company's common stock and two (2) stock purchase warrants. The first warrant entitled the holder to purchase one (1) share of common stock at an exercise price of \$12.50 per share. On November 17, 2009, the exercise price of this Callable Warrant was temporarily reduced to \$10.50 per share. In response, holders of 162,849 warrants exercised their warrants, resulting in our issuance of 162,849 shares of common stock with net proceeds of \$1,709,915. The remaining 2,151 warrants were cancelled. The second warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$12.50 per share. This warrant has a term of three years and is not callable by us.

In October and November 2009, the Company raised \$7.1 million with a private placement of 226,200 Units at \$31.50 per Unit. This includes 20,880 Units purchased by the Lenders of the Term Loan pursuant to the Lenders' Participation Rights under the Term Loan. Each Unit consists of three (3) shares of the Company's common stock and one (1) stock purchase warrant. The warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$15.00 per share. The warrant has a term of three (3) years, but is callable by the Company at any time following November 1, 2010, if the closing market price of the Company's common stock exceeds \$22.50 for 10 consecutive trading days.

The Company's current resources do not provide the capital necessary to fund a water development project should the Company be required to do so. There is no assurance that additional financing (public or private) will be available on acceptable terms or at all. If the Company issues additional equity or equity linked securities to raise funds, the ownership percentage of the Company's existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If the Company cannot raise needed funds, it might be forced to make further substantial reductions in its operating expenses, which could adversely affect its ability to implement its current business plan and ultimately its viability as a company.

The proceeds remaining from the Company's \$8.8 million private placement in 2009, and the sale of common shares, pursuant to the exercise of certain warrants in 2009, provide it with sufficient funds to meet expected working capital needs for the next 12 months. Within the next 12 months the Company will need to identify financing for its 2011 working capital needs. If the Company is unable to generate this from its current development activities, then it will need to seek additional equity financing in the capital markets.

#### Principles of Consolidation

Effective December 2003, the Company transferred substantially all of its assets (with the exception of certain office furniture and equipment and any Sun World related assets) to Cadiz Real Estate LLC, a Delaware limited liability company ("Cadiz Real Estate"). The Company holds 100% of the equity interests of Cadiz Real Estate, and therefore continues to hold 100% beneficial ownership of the properties that it transferred to Cadiz Real Estate. Because the transfer of the Company's properties to Cadiz Real Estate has no effect on its ultimate beneficial ownership of these properties, the properties owned of record either by Cadiz Real Estate or by the Company are treated as belonging to the Company. Cadiz Real Estate is consolidated in these financial statements.

### Cash and Cash Equivalents

The Company considers all short-term deposits with an original maturity of three months or less to be cash equivalents. The Company invests its excess cash in deposits with major international banks, government agency notes and short-term commercial paper and, therefore, bears minimal risk. Such investments are stated at cost, which approximates fair value, and are considered cash equivalents for purposes of reporting cash flows.

### Short-Term Investments

The Company considers all short-term deposits with an original maturity greater than three months, but no greater than one year, to be short-term investments. The Company had no short-term investments at March 31, 2010, and no short-term investments at December 31, 2009.

### Supplemental Cash Flow Information

In March 2010, the Company recorded non-cash additions to fixed assets of \$205,780, which were accrued at quarter-end, for the development of new wells at the Cadiz Project site.

### Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board issued new guidance for interim disclosures about the fair value of financial instruments. This new guidance requires disclosures beginning in the second quarter of 2009 about the fair value of all financial instruments, for which it is practicable to estimate that fair value, for interim and annual reporting periods. Since this guidance impacts disclosure only, the adoption had no impact on the Company's consolidated results of operations, financial position or cash flows.

In June 2009, the Financial Accounting Standards Board issued an amendment to the accounting and disclosure requirements for transfers of financial assets. This amendment requires greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with them and changes the requirements for derecognizing financial assets. In addition, this amendment eliminates the concept of a qualifying special-purpose entity (QSPE). This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company adopted this account guidance on January 1, 2010. The adoption of this new accounting guidance had no impact the Company's financial position and results of operations.

In June 2009, the Financial Accounting Standards Board also issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). The elimination of the concept of a QSPE, as discussed above, removes the exception from applying the consolidation guidance within this amendment. This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise's financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company adopted this accounting guidance on January 1, 2010. The adoption of this new accounting guidance had no impact the Company's financial position and results of operations.

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (Codification). The Codification will become the single source for all authoritative GAAP recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. The Codification did not change GAAP and had no affect on our financial position, results of operations or liquidity.

NOTE 2 - PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

Property, plant, equipment and water programs consist of the following (in thousands):

|                               | March 31<br>2010 | December<br>31,<br>2009 |
|-------------------------------|------------------|-------------------------|
| Land and land improvements    | \$ 23,334        | \$ 23,050               |
| Water programs                | 14,274           | 14,274                  |
| Buildings                     | 1,161            | 1,161                   |
| Leasehold improvements        | 570              | 570                     |
| Furniture and fixtures        | 441              | 421                     |
| Machinery and equipment       | 915              | 915                     |
| Construction in progress      | 45               | 44                      |
|                               | 40,740           | 40,435                  |
| Less accumulated depreciation | (3,921 )         | (3,822 )                |
|                               | \$ 36,819        | \$ 36,613               |

Depreciation expense totaled \$99,000 for the three months ended March 31, 2010, and \$86,000 for the three months ended March 31, 2009.

NOTE 3 – LONG-TERM DEBT

The carrying value of the Company's debt, before discount, approximates fair value, based on interest rates available to the Company for debt with similar terms.

At March 31, 2010, and December 31, 2009, the carrying amount of the Company's outstanding debt is summarized as follows (in thousands):

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|   | March 31,<br>2010 | December<br>31,<br>2009 |
|---|-------------------|-------------------------|
| Zero coupon secured convertible term loan due June 29, 2013. Interest accruing at 5% per annum until June 29, 2009 and at 6% thereafter | \$ 44,285         | \$ 43,632               |
| Other loans   | 34                | 40                      |
| Debt discount, net of accumulated accretion   | (6,616 )          | (6,987 )                |
|   | 37,703            | 36,685                  |
| Less current portion  | 18                | 20                      |
|   | \$ 37,685         | \$ 36,665               |

Pursuant to the Company's loan agreements, annual maturities of long-term debt outstanding on March 31, 2010, are as follows:

| 12 Months<br>Ending March 31, | (in thousands) |
|-------------------------------|----------------|
| 2011                          | 18             |
| 2012                          | 16             |
| 2013                          | -              |
| 2014                          | 44,285         |
|                               | \$ 44,319      |

In June 2006, the Company entered into a \$36.4 million five year zero coupon convertible term loan with Peloton Partners LLP, as administrative agent for the loan, and with an affiliate of Peloton and another investor, as lenders. Certain terms of the loan were subsequently amended pursuant to Amendment #1 to the Credit Agreement, which was effective September 2006. On April 16, 2008, the Company was advised that Peloton had assigned its interest in the loan to an affiliate of Lampe Conway & Company LLC ("Lampe Conway"), and Lampe Conway subsequently replace Peloton as administrative agent of the loan (the "Lampe Conway Loan"). On June 4, 2009, the Company completed arrangements to amend the Term Loan. The significant terms of the amendment are as follows:

- Maturity date is extended from June 29, 2011, to June 29, 2013;
- Interest will continue to accrue at 6% per annum through maturity;
- The conversion feature has been modified to allow up to \$4.55 million of principal to be converted into 650,000 shares of Cadiz common stock ("Initial Conversion Portion") at a conversion price of \$7 per share, and the remaining principal and interest to be converted into shares of Cadiz common stock at a conversion price of \$35 per share. If fully converted at June 29, 2013, this would result in Cadiz common stock being issued at an average conversion price of \$26 per share; and
- The Company now has the right at any time prior to June 29, 2013 to prepay the loan's outstanding principal (other than as to the Initial Conversion Portion) plus all accrued interest in full without penalty, and may at the same time prepay the Initial Conversion Portion either in stock at a 110% conversion premium or, at the election of the lenders, in cash with an equal value (but not less than \$4.55 million).



As a result of the modification of the convertible debt arrangement, the change in conversion value between the original and modified instrument is approximately \$1.6 million which is recorded as an additional debt discount. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan as additional interest expense.

The debt covenants associated with the loan were negotiated by the parties with a view towards our operating and financial condition as it existed at the time the agreements were executed. At March 31, 2010, the Company was in compliance with its debt covenants.

#### NOTE 4 – COMMON STOCK

In October 2007, the Company agreed to the conditional issuance of up to 300,000 shares to the former sole shareholder and successor in interest to Exploration Research Associates, Inc. (“ERA”), who is now an employee of the Company. The agreement settled certain claims by ERA against the Company and provided that the 300,000 shares will be issued if and when certain significant milestones in the development of the Company’s properties are achieved.

In November 2008, the Company arranged for certain legal and advisory services including interim payments due upon completion of specified milestones with respect to the Cadiz Project, with the fee payable in cash and/or stock. The first such milestone was satisfied on June 4, 2009, resulting in an obligation by the Company to pay a fee of \$500,000, for which the parties agreed to payment in the form of 59,312 shares of the Company’s common stock valued at \$8.43 per share, reflecting the fair market value of the stock on June 4.

#### NOTE 5 – STOCK-BASED COMPENSATION PLANS AND WARRANTS

The Company has issued options and has granted stock awards pursuant to its 2003 Management Equity Incentive Plan, 2007 Management Equity Incentive Plan, and 2009 Equity Incentive Plan. The Company has also granted stock awards pursuant to its Outside Director Compensation Plan.

##### Stock Options Issued under the 2003, 2007 and 2009 Equity Incentive Plans

The 2003 Management Equity Incentive Plan provided for the granting of options for the purchase of up to 377,339 shares of common stock. Options issued under the plan were granted during 2005 and 2006. The options have a ten year term with vesting periods ranging from issuance date to 24 months. Certain of these options have strike prices that were below the fair market value of the Company’s common stock on the date of grant. 365,000 options were granted under the plan during 2005, and the remaining 12,339 options were granted in 2006. Of the total options issued under the 2003 Equity Incentive Plan, 12,339 and 40,000 were forfeited in August 2008 and February 2009, respectively, and 315,000 remained outstanding as of March 31, 2010.

Under the 2007 Equity Incentive Plan, a total of 17,661 options were granted by the Company. The options have strike prices that are at or slightly above the fair market value of the Company's common stock on the date that the grants became effective. The options have a ten year term with vesting periods ranging from issuance date to 16 months. Unexercised options to purchase 7,661 shares were forfeited in August 2008. Of the total options issued under the 2007 Equity Incentive Plan, 10,000 remained outstanding as of March 31, 2010.

Previously recognized expenses of \$66,000 related to the unvested portion of awards forfeited under both of the above plans was credited against stock based compensation expense in 2008.

Under the 2009 Equity Incentive Plan, the Company granted options to purchase 387,500 common shares at a price of \$11.50 per share on January 14, 2010, and options to purchase 15,000 common shares at a price of \$11.75 per share on February 18, 2010. The options have strike prices that are at or slightly above the fair market value of the Company's common stock on the date that the grants became effective. The options have a ten year term with vesting periods ranging from issuance date to 24 months, and all remained outstanding as of March 31, 2010.

All options that have been issued under the above plans have been issued to officers, employees and consultants of the Company. In total, options to purchase 727,500 shares were unexercised and outstanding on March 31, 2010, under the three equity incentive plans.

The Company recognized stock option related compensation costs of \$1,198,000 and \$0 in the three months ended March 31, 2010 and 2009, respectively. On March 31, 2010, there was \$1,425,000 of unamortized compensation expense relating to option awards. This unamortized compensation expense is expected to be recognized through February 2012. No options were exercised during the three months ended March 31, 2010.

#### Stock Awards to Directors, Officers, and Consultants

The Company has granted stock awards pursuant to its 2007 Management Equity Incentive Plan, 2009 Equity Incentive Plan and Outside Director Compensation Plan.

Of the total 1,050,000 shares reserved under the 2007 Management Equity Incentive Plan, a grant of 950,000 shares became effective on July 25, 2007. The grant consisted of two separate awards.

- A 150,000 share award, that vested in three equal installments on January 1, 2008, January 1, 2009, and January 1, 2010. 150,000 shares have been issued pursuant to this award as of January 2010; and
- 800,000 of the shares were designated as Milestone – Based Deferred Stock, none of which were ultimately issued. The shares were allocated for issuance subject to the satisfaction of certain milestone conditions relating to the trading price of our common stock during the period commencing March 13, 2007, and ending March 12, 2009. The milestone conditions were not satisfied by March 12, 2009, resulting in the expiration of all 800,000 shares.



Of the remaining 100,000 shares reserved under the 2007 Management Equity Incentive Plan, 10,000 were issued as options as described above and 90,000 were issued as shares that vested in May 2009.

Of the total 850,000 shares reserved under the 2009 Equity Incentive Plan, a grant of 115,000 restricted shares of common stock became effective on January 14, 2010. The recipients of these restricted shares have a contractual agreement not to sell any of these shares for a period of three years following the effective date. Of the remaining 735,000 shares reserved under the 2009 Equity Incentive Plan, 402,500 were issued as options as described above and 332,500 are available for future distribution.

Under the Outside Director Compensation Plan, 4,285 shares were awarded for service in the plan year ended June 30, 2006, and were issued on January 31, 2007. A 4,599 share grant for service during the plan year ended June 30, 2007, was awarded on that date, and the grant vested on January 31, 2008. 7,026 shares awarded for services rendered in the plan year ended June 30, 2008, vested and were issued on January 31, 2009. An 11,775 share grant for service during the plan year ended June 30, 2009, was awarded on that date, and the grant vested on January 31, 2010.

The compensation cost of stock grants without market conditions is measured at the fair market value of the Company's stock on the date of grant. The fair value of the two 2007 Management Equity Incentive Plan awards with market conditions was calculated using a lattice model with the following weighted average assumptions:

|                                 |           |
|---------------------------------|-----------|
| Risk free interest rate         | 4.74%     |
| Current stock price             | \$19.74   |
| Expected volatility             | 38.0%     |
| Expected dividend yield         | 0.0%      |
| Weighted average vesting period | 2.0 years |

The lattice model calculates a derived service period, which is equal to the median period between the grant date and the date that the relevant market conditions are satisfied. The derived service periods for the grants with \$28 and \$35 per share market conditions are 0.72 years and 1.01 years, respectively. The weighted average vesting period is based on the later of the derived service period and the scheduled vesting dates for each grant.

The accompanying consolidated financial statements include \$912,000 of stock based compensation expense related to stock based awards in the three months ended March 31, 2010, and \$402,000 in the three months ended March 31, 2009. On March 31, 2010, there was \$360,000 of unamortized compensation expense relating to stock awards.

#### Stock Purchase Warrants Issued to Non-Employees

In January 2007, the Company exercised a right to terminate certain warrants to purchase the Company's common stock for \$15.00 per share on March 2, 2007, subject to a 30-day notice period. In response, the warrant holders exercised their right to purchase 335,440 shares of the Company's common stock during the notice period, and the Company received \$5.0 million from the sale of these shares. Following this exercise, no warrants from the 2004 private placement in which these warrants were originally issued remain outstanding.

A private placement was completed by the Company in November and December of 2008 of 165,000 Units at the price of \$31.50 per unit for proceeds of \$5,197,500. Each Unit consists of three (3) shares of the Company's common stock and two (2) common stock purchase warrants. The first warrant entitled the holder to purchase one (1) share of common stock at an exercise price of \$12.50 per share. On November 17, 2009, the exercise price of this Callable Warrant was temporarily reduced to \$10.50 per share. In response, holders of 162,849 warrants exercised their warrants, resulting in our issuance of 162,849 shares of common stock with net proceeds of \$1,709,915. The remaining 2,151 warrants were cancelled. The second warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$12.50 per share. This warrant has a term of three years and is not callable by the Company. 165,000 warrants from this placement remain outstanding on March 31, 2010.

In October and November 2009, the Company raised \$7.1 million with a private placement of 226,200 Units at \$31.50 per Unit. This includes 20,880 Units purchased by the Lenders of the Term Loan pursuant to the Lenders' Participation Rights under the Term Loan. Each Unit consists of three (3) shares of the Company's common stock and one (1) stock purchase warrant. The warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$15.00 per share. The warrant has a term of three (3) years, but is callable by the Company at any time following November 1, 2010, if the closing market price of the Company's common stock exceeds \$22.50 for 10 consecutive trading days.

#### NOTE 6 – INCOME TAXES

As of March 31, 2010, the Company had net operating loss ("NOL") carryforwards of approximately \$104 million for federal income tax purposes and \$54 million for California state income tax purposes. Such carryforwards expire in varying amounts through the year 2030. Use of the carryforward amounts is subject to an annual limitation as a result of ownership changes.

In addition, on August 26, 2005, a Settlement Agreement between Cadiz, on one hand, and Sun World and three of Sun World's subsidiaries, on the other hand, was approved by the U.S. Bankruptcy Court, concurrently with the Court's confirmation of the amended Plan. The Settlement Agreement provides that following the September 6, 2005, effective date of Sun World's plan of reorganization, Cadiz will retain the right to utilize the Sun World net operating loss carryovers ("NOLs"). Sun World Federal NOLs are estimated to be approximately \$58 million. If, in any year from calendar year 2005 through calendar year 2011, the utilization of such NOLs results in a reduction of Cadiz' tax liability for such year, then Cadiz will pay to the Sun World bankruptcy estate 25% of the amount of such reduction, and shall retain the remaining 75% for its own benefit. There is no requirement that Cadiz utilize these NOLs during this reimbursement period, or provide any reimbursement to the Sun World bankruptcy estate for any NOLs used by Cadiz after this reimbursement period expires.

As of March 31, 2010, the Company possessed unrecognized tax benefits totaling approximately \$3.3 million. None of these, if recognized, would affect the Company's effective tax rate because the Company has recorded a full valuation allowance against these assets. Additionally, as of that date the Company had approximately \$315,000 that was previously accrued for state taxes, interest and penalties related to income tax positions in prior returns. Income tax penalties and interest are classified as general and administrative expenses. The Company was not subject to any income tax penalties and interest during the three months ended March 31, 2010.

The Company does not expect that the unrecognized tax benefits will significantly increase or decrease in the next 12 months.

The Company's tax years 2006 through 2009 remain subject to examination by the Internal Revenue Service, and tax years 2005 through 2009 remain subject to examination by California tax jurisdictions. In addition, the Company's loss carryforward amounts are generally subject to examination and adjustment for a period of three years for federal tax purposes and four years for California purposes, beginning when such carryovers are utilized to reduce taxes in a future tax year.

Because it is more likely than not that the Company will not realize its net deferred tax assets, it has recorded a full valuation allowance against these assets. Accordingly, no deferred tax asset has been reflected in the accompanying balance sheet.

#### NOTE 7 – NET LOSS PER COMMON SHARE

Basic earnings per share (EPS) is computed by dividing the net loss, after deduction for preferred dividends either accrued or imputed, if any, by the weighted-average common shares outstanding. Options, deferred stock units, warrants and convertible debt were not considered in the computation of diluted EPS because their inclusion would have been antidilutive. Had these instruments been included, the fully diluted weighted average shares outstanding would have increased by approximately 2,599,000 and 2,649,000 for the three months ended March 31, 2010 and 2009, respectively.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the following discussion contains trend analysis and other forward-looking statements. Forward-looking statements can be identified by the use of words such as "intends", "anticipates", "believes", "estimates", "projects", "forecasts", "expects", "plans" and "proposes". Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. These include, among others, our ability to maximize value from our Cadiz, California land and water resources; and our ability to obtain new financings as needed to meet our ongoing working capital needs. See additional discussion under the heading "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

Overview

Our operations and working capital requirements relate primarily to our water, agricultural, and renewable energy development activities.

Our primary asset consists of 45,000 acres of land in three areas of eastern San Bernardino County, California. These three properties are located in proximity to the Colorado River and the Colorado River Aqueduct, the major source of imported water for Southern California.

With virtually all of this land underlain with high-quality, naturally-recharging groundwater resources, we are engaged in projects that provide sustainable solutions, including underground water storage and supply, organic agriculture and solar energy production, that meet Southern California's growing resource needs.

The value of our land and water assets derives primarily from a combination of continued population growth and an increasing pressure on water and energy supplies in California. California is presently facing a dire water crisis. Despite an average rainfall this year, ongoing environmental and infrastructure issues with the State's water supplies continue to limit deliveries to California water providers. Water agencies throughout California have maintained mandatory rationing programs in 2010 for a second year in an effort to meet demand.

Through a series of policy initiatives, the State of California and the United States government have also issued compelling calls for increased renewable energy production in order to meet future national energy needs. This includes California's mandate to acquire 33% of the state's electricity from renewable sources by 2020.

As a result of these developments in the water and energy sectors, we believe that a competitive advantage exists for companies that can provide high-quality, reliable, and affordable water to major population centers as well as for companies that can site renewable energy facilities.

Our objective is to realize the highest and best use for our assets in an environmentally responsible way. We believe this can best be achieved through a combination of underground water storage and supply projects, the production of renewable energy, and sustainable agricultural development.

#### Water Resource Development

In 1993, we secured permits for up to 9,600 acres of agricultural development in the Cadiz Valley and the withdrawal of more than 1 million acre-feet of groundwater from the underlying aquifer system. Once the agricultural development was underway, we also established that the location, geology and hydrology of this property is uniquely suited for both agricultural development and the development of an aquifer storage and recovery project to augment the water supplies available to Southern California. The advantages of underground aquifer water storage relative to other water supply project such as surface reservoirs include minimal environmental impacts, low capital investment, and minimal loss of supplies to evaporation.

In 1997, we entered into the first of a series of agreements with the Metropolitan Water District of Southern California (“Metropolitan”) to jointly design, permit and build such a project (the “Cadiz Project” or “Project”). In general, several elements are needed to complete the development: (1) federal and state environmental permits; (2) a pipeline right of way from the Colorado River Aqueduct to the project area; (3) a storage and supply agreement with one or more public water agencies or private water utilities; and (4) construction and working capital financing.

Between 1997 and 2002, we and Metropolitan received substantially all of the state and federal approvals required for the permits necessary to construct and operate the Project, including a Record of Decision (“ROD”) from the U.S. Department of the Interior, which endorsed the Cadiz Project and offered a right-of-way for construction of project facilities. The ROD also approved a Final Environmental Impact Statement (“FEIS”) in compliance with the National Environmental Policy Act (“NEPA”).

In October 2002, Metropolitan’s staff brought the right-of-way matter before the Metropolitan Board of Directors. By a very narrow margin, the Metropolitan Board voted not to accept the right-of-way grant and not to proceed with the Project.

In April 2003, we filed a claim against Metropolitan seeking compensatory damages. When settlement negotiations failed to produce a resolution, we filed a lawsuit against Metropolitan in Los Angeles Superior Court on November 17, 2005, seeking compensatory damages for a breach of various contractual and fiduciary obligations to us, and interference with the economic advantage we would have obtained from the Cadiz Project. On February 11, 2009, we and Metropolitan agreed to settle our differences and dismissed all outstanding claims remaining against each other.

In September 2008, we secured a new right-of-way for the Project’s water conveyance pipeline by entering into a lease agreement with the Arizona & California Railroad Company. The agreement allows Cadiz to utilize a portion of the railroad’s right-of-way for the Cadiz Project water conveyance pipeline for a period up to 99 years.

In May 2009, we entered into a Memorandum of Understanding with the Natural Heritage Institute (“NHI”) a leading global environmental organization committed to protecting aquatic ecosystem, to assist with our efforts to sustainably manage the development of our Cadiz Valley property. As part of this “Green Compact” we will follow stringent plans for groundwater management and habitat conservation and create a groundwater management plan for the Project.

In June 2009, we executed Letters of Intent (“LOI”) with five Southern California water providers, including Golden State Water Company, the City of Anaheim and Western Municipal Water District. As part of the LOIs, Cadiz and the water providers will develop a cost-sharing agreement, finalize terms of pricing, design and capital allocation and work towards implementation of the Project. These providers serve more than three million customers in California’s San Bernardino, Riverside, Los Angeles, Orange and Ventura Counties. We expect to add additional participants for other aspects of the project as the environmental review proceeds.

In February 2010, we released new details of a comprehensive year-long study measuring the vast scale and recharge rate of the Cadiz aquifer system. The study was conducted by internationally recognized environmental consulting firm CH2M Hill at the Project area utilizing new models produced by the U.S. Geological Survey in 2006 and 2008. CH2M Hill and additional hydrology experts that have peer-reviewed the work confirmed the aquifer system can sustainably support the Cadiz Project.

With the hydrological studies complete, we will now proceed with the environmental review and permitting phase of the Project.

#### Agricultural Development

Within the Cadiz Valley property, 9,600 acres have been zoned for agriculture. The infrastructure includes seven wells that are interconnected within this acreage, with total annual production capacity of approximately 13,000 acre feet of water. Additionally, there are housing and kitchen facilities that support up to 300 employees. The underlying groundwater, fertile soil, and desert temperatures are well suited for a wide variety of fruits and vegetables.

Permanent crops currently in production include 160 acres of vineyards of certified-organic, dried-on-the-vine raisins and 300 acres of lemons. Both of these crops are farmed using sustainable agricultural practices. Additionally, we entered into an agreement in 2009 with a third party to develop up to another 500 acres of lemons, 40 acres of which were planted in March 2010.

#### Other Development Opportunities

In addition to the development projects described above, we believe that our landholdings are suitable for other types of development, including solar energy production. Both federal and state initiatives support alternative energy facilities to reduce greenhouse gas emissions and the consumption of imported fossil fuels. The location, topography, and proximity of our properties to existing utility corridors make them well-suited for solar energy generation. An additional advantage we can offer is the availability of the water supply needed by solar thermal power plant designs. We are presently in discussions with energy companies interested in utilizing our landholdings for various types of solar energy development.

Over the longer term, we believe that the population of Southern California, Nevada, and Arizona will continue to grow, and that, in time, the economics of commercial and residential development of our properties will become attractive.

We remain committed to the ongoing sustainable use of our land and water assets and we continue to explore all opportunities for sustainable development of these assets. We cannot predict with certainty which of these various opportunities will ultimately be utilized.

## Results of Operations

### Three Months Ended March 31, 2010, Compared to Three Months Ended March 31, 2009

We have not received significant revenues from our water resource activity to date. As a result, we have historically incurred a net loss from operations. We had revenues of \$3 thousand for the three months ended March 31, 2010, and \$29 thousand for the three months ended March 31, 2009. We incurred a net loss of \$5.2 million in the three months ended March 31, 2010, compared with a \$3.4 million net loss during the three months ended March 31, 2009. The higher 2010 loss was primarily due to higher stock and option based compensation related to shares and options issued under the 2009 Equity Incentive Plan.

Our primary expenses are our ongoing overhead costs (i.e. general and administrative expense) and our interest expense. We will continue to incur non-cash expenses in connection with our management and director equity incentive compensation plans.

**Revenues** Cadiz had revenues of \$3 thousand for the three months ended March 31, 2010, and \$29 thousand for the three months ended March 31, 2009. The decrease in revenue in 2010 was primarily due to a shorter 2009-2010 lemon harvest season in comparison to the 2008-2009 lemon harvest season.

**Cost of Sales** Cost of sales totaled \$0 during the three months ended March 31, 2010, and \$101 thousand during the three months ended March 31, 2009. The higher cost of sales for the three months ended March 31, 2009, related largely to a reduction in the carrying cost of the 2008 raisin inventory.

**General and Administrative Expenses** General and administrative expenses during the three months ended March 31, 2010, totaled \$4.1 million compared to \$2.1 million for the three months ended March 31, 2009. Non-cash compensation costs for stock and option awards are included in General and Administrative Expenses.

Compensation costs from stock and option awards for the three months ended March 31, 2010, were \$2.1 million, compared with \$402 thousand for the three months ended March 31, 2009. The expense reflects the vesting schedules of the stock and option awards under the 2007 and 2009 equity incentive plans. Of these amounts, \$120 thousand in 2010 and \$289 thousand in 2009 relate to Milestone-Based Deferred Stock, none of which were ultimately issued. Shares and options issued under the Plans vest over varying periods from the date of issue to January 2012. See Notes to the Consolidated Financial Statements: Note 5 – Stock Based Compensation Plans and Warrants.

Other General and Administrative Expenses, exclusive of stock based compensation costs, totaled \$2.0 million in the three months ended March 31, 2010, compared with \$1.7 million for the three months ended March 31, 2009. The increase in expenses is primarily due to additional technical work related to the Cadiz Project in 2010.

Depreciation Depreciation expense totaled \$99 thousand for the three months ended March 31, 2010, and \$86 thousand for the three months ended March 31, 2009.

Interest Expense, net Net interest expense totaled \$1.0 million during the three months ended March 31, 2010, compared to \$1.2 million during the same period in 2009. The following table summarizes the components of net interest expense for the two periods (in thousands):

|                                 | Three Months Ended<br>March 31, |          |
|---------------------------------|---------------------------------|----------|
|                                 | 2010                            | 2009     |
| Interest on outstanding debt    | \$ 655                          | \$ 516   |
| Amortization of financing costs | 10                              | 22       |
| Amortization of debt discount   | 370                             | 663      |
| Interest income                 | (2 )                            | (17 )    |
|                                 | \$ 1,033                        | \$ 1,184 |

The decrease in net interest expense is primarily due to the amortization of the debt discount related to the senior secured convertible term loan, and is partially offset by the increase in interest on the term loan due to the interest rate increase from 5% to 6% per annum in the prior period. 2010 interest income decreased from \$17 thousand in 2009 to \$2 thousand in 2010 due to lower short-term interest rates. See Notes to the Consolidated Financial Statements: Note 3 – Long-term Debt.

Income Taxes Income tax expense for each of the three months ended March 31, 2010 and 2009 was \$1 thousand. See Notes to the Consolidated Financial Statements: Note 6 – Income Taxes.

#### Liquidity and Capital Resources

##### Current Financing Arrangements

As we have not received significant revenues from our water resource, agricultural and renewable energy development activity to date, we have been required to obtain financing to bridge the gap between the time water resource and other development expenses are incurred and the time that revenue will commence. Historically, we have addressed these needs primarily through secured debt financing arrangements, private equity placements and the exercise of outstanding stock options and warrants.



We have worked with our secured lenders to structure our debt in a way which allows us to continue our development of the Cadiz Project and minimize the dilution of the ownership interests of common stockholders. In June 2006, we entered into a \$36.4 million five year zero coupon senior secured convertible term loan with Peloton Partners LLP (through an affiliate) and another lender (the "Term Loan"). On April 16, 2008, we were advised that Peloton had assigned its interest in the Term Loan to an affiliate of Lampe Conway & Company LLC ("Lampe Conway"), and Lampe Conway subsequently replaced Peloton as administrative agent of the loan. On June 4, 2009, we completed arrangements to amend the Term Loan. The significant terms of the amendment are as follows:

- Maturity date is extended from June 29, 2011, to June 29, 2013;
- Interest will continue to accrue at 6% per annum through maturity;
- The conversion feature has been modified to allow up to \$4.55 million of principal to be converted into 650,000 shares of Cadiz common stock ("Initial Conversion Portion") at a conversion price of \$7 per share, and the remaining principal and interest to be converted into shares of Cadiz common stock at a conversion price of \$35 per share. If fully converted at June 29, 2013, this would result in Cadiz common stock being issued at an average conversion price of \$26 per share; and
- We now have the right at any time prior to June 29, 2013 to prepay the loan's outstanding principal (other than as to the Initial Conversion Portion) plus all accrued interest in full without penalty, and may at the same time prepay the Initial Conversion Portion either in stock at a 110% conversion premium or, at the election of the lenders, in cash with an equal value (but not less than \$4.55 million).

As a result of the modification of the convertible debt arrangement, the change in conversion value between the original and modified instrument of approximately \$1.6 million was recorded as an additional debt discount. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan as additional interest expense.

The debt covenants associated with the loan were negotiated by the parties with a view towards our operating and financial condition as it existed at the time the agreements were executed. At March 31, 2010, we were in compliance with our debt covenants.

We completed a private placement in November and December of 2008 involving an issuance of 165,000 Units at the price of \$31.50 per unit for proceeds of \$5,197,500. Each Unit consists of three (3) shares of our common stock and two (2) common stock purchase warrants. The first warrant entitled the holder to purchase one (1) share of common stock at an exercise price of \$12.50 per share. On November 17, 2009, the exercise price of this Callable Warrant was temporarily reduced to \$10.50 per share. In response, holders of 162,849 warrants exercised their warrants, resulting in our issuance of 162,849 shares of common stock with net proceeds of \$1,709,915. The remaining 2,151 warrants were cancelled. The second warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$12.50 per share. This warrant has a term of three years and is not callable by us.

In October and November 2009, the Company raised \$7.1 million with a private placement of 226,200 Units at \$31.50 per Unit. This includes 20,880 Units purchased by the Lenders of the Term Loan pursuant to the Lenders' Participation Rights under the Term Loan. Each Unit consists of three (3) shares of the Company's common stock and one (1) stock purchase warrant. The warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$15.00 per share. The warrant has a term of three (3) years, but is callable by the Company at any time following November 1, 2010, if the closing market price of the Company's common stock exceeds \$22.50 for 10 consecutive trading days.

As we continue to actively pursue our business strategy, additional financing will be required. See "Outlook", below. The covenants in the Term Loan do not prohibit our use of additional equity financing and allow us to retain 100% of the proceeds of any equity financing. We do not expect the loan covenants to materially limit our ability to finance our water development activities.

At March 31, 2010, we had no outstanding credit facilities other than the Convertible Term Loan.

**Cash Used for Operating Activities.** Cash used for operating activities totaled \$2.3 million and \$2.0 million for the three months ended March 31, 2010 and 2009, respectively. The first quarter cash requirements are typically seasonally higher than those required for the remaining quarters. The cash was primarily used to fund general and administrative expenses related to the Company's resource development efforts.

**Cash Used for (Provided by) Investing Activities.** Cash used for investing activities in the three months ended March 31, 2010, was \$352 thousand, compared with \$1.4 million of cash provided by investing activities during the same period in 2009. The 2009 period included \$1.5 million of short term deposits that matured, which were not considered cash equivalents.

**Cash Used for (Provided by) Financing Activities.** Cash used for financing activities was \$7 thousand during the three months ended March 31, 2010, compared with \$46 thousand of cash provided by financing activities during the prior year period.

## Outlook

**Short Term Outlook.** The \$8.8 million of proceeds from our 2009 private placement, and the sale of common shares pursuant to the exercise of certain warrants in 2009, provide us with sufficient funds to meet our expected working capital needs through the next 12 months. Based on our current and anticipated usage of cash resources, we will continue to require additional working capital to meet our cash resource needs until such time as our asset development programs produce revenues. If we are unable to generate this from our current development activities, then we will need to seek additional debt or equity financing in the capital markets. We expect to continue our historical practice of structuring our financing arrangements to match the anticipated needs of our development activities. See "Long Term Outlook", below. No assurances can be given, however, as to the availability or terms of any new financing.

Long Term Outlook. In the longer term, we will need to raise additional capital to finance working capital needs, capital expenditures and any payments due under our senior secured convertible term loan at maturity. See “Current Financing Arrangements” above. Payments will be due under the term loan only to the extent that lenders elect not to exercise equity conversion rights prior to the loan’s final maturity date. Our future working capital needs will depend upon the specific measures we pursue in the entitlement and development of our water resources and other development. Future capital expenditures will depend primarily on the progress of the Cadiz Project. We will evaluate the amount of cash needed, and the manner in which such cash will be raised, on an ongoing basis. We may meet any future cash requirements through a variety of means, including equity or debt placements, or through the sale or other disposition of assets. Equity placements would be undertaken only to the extent necessary, so as to minimize the dilutive effect of any such placements upon our existing stockholders. Limitations on our liquidity and ability to raise capital may adversely affect us. Sufficient liquidity is critical to meet our resource development activities. However, liquidity in the currently dislocated capital markets has been severely constrained since the beginning of the credit crisis. Although we currently expect our sources of capital to be sufficient to meet our near term liquidity needs, there can be no assurance that our liquidity requirements will continue to be satisfied. If the Company cannot raise needed funds, it might be forced to make substantial reductions in its operating expenses, which could adversely affect its ability to implement its current business plan and ultimately its viability as a company.

#### Recent Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements – Description of Business and Summary of Significant Accounting Policies.

#### Certain Known Contractual Obligations

| Contractual Obligations<br>(in thousands) | Total    | Payments Due by Period |           |           |                  |
|---|----------|------------------------|-----------|-----------|------------------|
|   |          | 1 year or<br>less      | 2-3 years | 4-5 years | After 5<br>years |
| Long term debt obligations                | \$44,319 | \$18                   | \$16      | \$44,285  | \$-              |
| Interest Expense                          | 9,599    | 1                      | -         | 9,598     | -                |
| Operating leases                          | 625      | 352                    | 273       | -         | -                |
|   | \$54,543 | \$371                  | \$289     | \$53,883  | \$-              |

Not included in the table above is a potential obligation to pay an amount of up to 1% of the net present value of the Cadiz Project in consideration of certain legal and advisory services to be provided to us. This fee would be payable upon completion of binding agreements for at least 51% of the Cadiz Project’s annual capacity and receipt of all environmental approvals and permits necessary to start construction of the Cadiz Project. A portion of this fee may be payable in stock. Interim payments of up to \$1.5 million, applicable to the final total, would be made upon the achievement of certain specified milestones. \$500 thousand of these interim payments was earned in June 2009. This arrangement may be terminated by either party upon 60 days notice, with any compensation earned but unpaid prior to termination payable following termination.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

As of March 31, 2010, all of our indebtedness bore interest at fixed rates; therefore, we are not exposed to market risk from changes in interest rates on long-term debt obligations.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information related to the Company, including its consolidated entities, is accumulated and communicated to senior management, including the Chairman and Chief Executive Officer (the "Principal Executive Officer") and Chief Financial Officer (the "Principal Financial Officer") and to our Board of Directors. Based on their evaluation as of March 31, 2010, our Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and such information is accumulated and communicated to management, including the principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified in the Company's internal controls over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

There are no material pending legal proceedings to which we are a party or of which any of our property is the subject.

ITEM 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. (Removed and Reserved)

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

The following exhibits are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

31.1 Certification of Keith Brackpool, Chairman and Chief Executive Officer of Cadiz Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Timothy J. Shaheen, Chief Financial Officer and Secretary of Cadiz Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Keith Brackpool, Chairman and Chief Executive Officer of Cadiz Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Timothy J. Shaheen, Chief Financial Officer and Secretary of Cadiz Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cadiz Inc.

|   |              |
|---|--------------|
| By: /s/ Keith Brackpool   | May 10, 2010 |
| Keith Brackpool   | Date         |
| Chairman of the Board and Chief<br>Executive Officer<br>(Principal Executive Officer) |              |

|  |              |
|--|--------------|
| By: /s/ Timothy J. Shaheen   | May 10, 2010 |
| Timothy J. Shaheen   | Date         |
| Chief Financial Officer and Secretary<br>(Principal Financial Officer) |              |