

CADIZ INC
Form 10-Q
May 09, 2011

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, 2011

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

Edgar Filing: CADIZ INC - Form 10-Q

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

As of May 5, 2011, the Registrant had 13,827,354 shares of common stock, par value \$0.01 per share, outstanding.

Cadiz Inc.

Index

| For the Three Months ended March 31, 2011 | Page |
|--|------|
| PART I – FINANCIAL INFORMATION | |
| ITEM 1. Financial Statements | |
| Cadiz Inc. Consolidated Financial Statements | |
| <u>Unaudited Statements of Operations for the three months ended March 31, 2011 and 2010</u> | 1 |
| <u>Unaudited Balance Sheets as of March 31, 2011 and December 31, 2010</u> | 2 |
| <u>Unaudited Statements of Cash Flows for the three months ended March 31, 2011 and 2010</u> | 3 |
| <u>Unaudited Statement of Stockholders' Equity for the three months ended March 31, 2011</u> | 4 |
| <u>Unaudited Notes to the Consolidated Financial Statements</u> | 5 |
| <u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 15 |
| <u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 24 |
| <u>ITEM 4. Controls and Procedures</u> | 24 |
| <u>PART II – OTHER INFORMATION</u> | 26 |

Cadiz Inc.

Consolidated Statements of Operations (Unaudited)

| (\$ in thousands except per share data) | For the Three Months Ended March 31, | |
|---|---|------------|
| | 2011 | 2010 |
| Revenues | \$457 | \$3 |
| Costs and expenses: | | |
| Cost of sales | 432 | - |
| General and administrative | 2,965 | 4,077 |
| Depreciation | 89 | 99 |
| Total costs and expenses | 3,486 | 4,176 |
| Operating loss | (3,029) | (4,173) |
| Interest expense, net | (1,343) | (1,033) |
| Other income, net | 121 | - |
| Loss before income taxes | (4,251) | (5,206) |
| Income tax provision | 2 | 1 |
| Net loss applicable to common stock | \$(4,253) | \$(5,207) |
| Basic and diluted net loss per common share | \$(0.31) | \$(0.38) |
| Basic and diluted weighted average shares outstanding | 13,808 | 13,655 |

See accompanying notes to the consolidated financial statements.

1

Cadiz Inc.

Consolidated Balance Sheets (Unaudited)

| (\$ in thousands) | March 31, 2011 | December 31, 2010 |
|--|-------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$2,811 | \$5,911 |
| Accounts receivable | 181 | 277 |
| Prepaid expenses and other | 638 | 299 |
| Total current assets | 3,630 | 6,487 |
| Property, plant, equipment and water programs, net | 38,879 | 38,315 |
| Goodwill | 3,813 | 3,813 |
| Other assets | 417 | 321 |
| Total Assets | \$46,739 | \$48,936 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$855 | \$358 |
| Accrued liabilities | 650 | 1,518 |
| Current portion of long term debt | 16 | 16 |
| Total current liabilities | 1,521 | 1,892 |
| Long-term debt, net | 45,725 | 44,403 |
| Derivative liabilities | 330 | 451 |
| Tax liability | 321 | 321 |
| Other long-term liabilities | 923 | 923 |
| Total Liabilities | 48,820 | 47,990 |
| Stockholders' equity: | | |
| Common stock - \$.01 par value; 70,000,000 shares authorized; shares issued and outstanding – 13,827,354 at March 31, 2011 and 13,677,772 at December 31, 2010 | 138 | 137 |
| Additional paid-in capital | 283,584 | 282,359 |
| Accumulated deficit | (285,803) | (281,550) |
| Total stockholders' equity (deficit) | (2,081) | 946 |
| Total Liabilities and Stockholders' equity | \$46,739 | \$48,936 |

See accompanying notes to the consolidated financial statements.

2

Cadiz Inc.

Consolidated Statements of Cash Flows (Unaudited)

| (\$ in thousands except per share data) | For the Three Months Ended March 31, | |
|---|---|----------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net loss | | |
| Adjustments to reconcile net loss to net cash used for operating activities: | \$ (4,253) | (5,207) |
| Depreciation | 89 | 99 |
| Amortization of debt discount & issuance costs | 574 | 380 |
| Interest expense added to loan principal | 771 | 655 |
| Unrealized gain on derivative liability | (121) | - |
| Compensation charge for stock and share options | 1,226 | 2,110 |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 96 | 77 |
| Increase in prepaid expenses and other | (339) | (168) |
| (Increase) decrease in other assets | (115) | 32 |
| Increase (decrease) in accounts payable | 497 | (307) |
| Decrease in accrued liabilities | (411) | (32) |
| Increase in tax liability | - | 17 |
| Net cash used for operating activities | (1,986) | (2,344) |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (1,110) | (352) |
| Net cash used in investing activities | (1,110) | (352) |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | (4) | (7) |
| Net cash used in financing activities | (4) | (7) |
| Net decrease in cash and cash equivalents | (3,100) | (2,703) |
| Cash and cash equivalents, beginning of period | 5,911 | 8,878 |
| Cash and cash equivalents, end of period | \$2,811 | \$6,175 |

See accompanying notes to the consolidated financial statements.

Cadiz Inc.

Consolidated Statement of Stockholders' Equity (Unaudited)

(\$ in thousands except per share data)

| | Common Stock Shares | Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity |
|----------------------------------|------------------------|-----------------|----------------------------------|------------------------|----------------------------------|
| Balance as of December 31, 2010 | 13,677,772 | \$137 | \$282,359 | \$ (281,550) | \$ 946 |
| Stock awards | 149,582 | 1 | - | - | 1 |
| Stock based compensation expense | - | - | 1,225 | - | 1,225 |
| Net loss | - | - | - | (4,253) | (4,253) |
| Balance as of March 31, 2011 | 13,827,354 | \$138 | \$283,584 | \$ (285,803) | \$ (2,081) |

See accompanying notes to the consolidated financial statements.

Cadiz Inc.

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, 2010.

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, 2010. The results of operations for the three months ended March 31, 2011, are not necessarily indicative of results for the entire fiscal year ending December 31, 2011.

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 \$4.3 million for the three months ended March 31, 2011, and \$5.2 million for the three months ended March 31, 2010. The Company had working capital of \$2.1 million and additional available capacity of \$5 million on its working capital facility at March 31, 2011, and used cash in operations of \$2.0 million for the three months ended March 31, 2011 and \$2.3 million for the three months ended March 31, 2010. The first quarter cash requirements are typically seasonally higher than those required for the remaining quarters due to cultural costs incurred in the agricultural operations and the timing of certain administrative costs. 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.

On October 19, 2010, the Company closed a new \$10 million working capital facility with the same existing lenders. Under the terms of the new \$10 million facility, the Company drew the first \$5 million on the closing date and, at the Company's option, it may draw up to an additional \$5 million over the 12 months following the closing date.

In November and December 2008, the Company raised \$5.2 million with a private placement of 165,000 Units at \$31.50 per unit. Each unit consisted 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 the Company's 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.

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 included 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 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 from the \$10 million working capital facility entered into in October 2010, see Note 3, "Long-Term Debt", provide the Company 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 2012 working capital needs. If the Company is unable to generate this from its current development activities, then it will need to seek additional debt or equity financing in the capital markets.

Principles of Consolidation

In 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, 2011, and no short-term investments at December 31, 2010.

Supplemental Cash Flow Information

No cash payments, including interest, are due on the loan with Lampe Conway prior to the June 29, 2013, final maturity date.

The Company recorded non-cash additions to fixed assets of \$382,000 at March 31, 2011, which were accrued at quarter end, for the costs directly attributable to the development of the Water Project.

Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-28, an accounting pronouncement related to Accounting Standards Codification Topic 350, Intangibles – Goodwill and Other, which requires a company to consider whether there are any adverse qualitative factors indicating that an impairment may exist in performing step 2 of the impairment test for reporting units with zero or negative carrying amounts. The provisions of this pronouncement are effective for fiscal years, and interim periods within those fiscal years, beginning December 15, 2010. The Company adopted this pronouncement on January 1, 2011. The adoption of this pronouncement has no impact on the Company's financial position and results of operations.

NOTE 2 - PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

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

| | March 31, 2011 | December 31, 2010 |
|-------------------------------|-------------------|----------------------|
| Land and land improvements | \$ 23,916 | \$ 23,680 |
| Water programs | 15,950 | 15,496 |
| Buildings | 1,187 | 1,180 |
| Leasehold improvements | 570 | 570 |
| Furniture and fixtures | 442 | 442 |
| Machinery and equipment | 967 | 950 |
| Construction in progress | 102 | 163 |
| | 43,134 | 42,481 |
| Less accumulated depreciation | (4,255) | (4,166) |
| | \$ 38,879 | \$ 38,315 |

Depreciation expense totaled \$89,000 for the three months ended March 31, 2011, and \$99,000 for the three months ended March 31, 2010.

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, 2011, and December 31, 2010, the carrying amount of the Company's outstanding debt is summarized as follows (in thousands):

| | March 31, 2011 | December 31, 2010 |
|---|-------------------|----------------------|
| Zero coupon secured convertible term loan due June 29, 2013. Interest accruing at 5% per annum until June 29, 2009 and at 6% thereafter | \$ 52,183 | \$ 51,412 |
| Other loans | 16 | 20 |
| Debt discount, net of accumulated accretion | (6,458) | (7,013) |
| | 45,741 | 44,419 |
| Less current portion | 16 | 16 |
| | \$ 45,725 | \$ 44,403 |

Edgar Filing: CADIZ INC - Form 10-Q

Pursuant to the Company's loan agreements, annual maturities of long-term debt outstanding on March 31, 2011, are as follows:

| 12 Months Ending March 31 | (in thousands) |
|------------------------------|----------------|
| 2012 | 16 |
| 2013 | 0 |
| 2014 | 52,183 |
| | \$ 52,199 |

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 "Term Loan"). On June 4, 2009, the Company completed arrangements to amend the Term Loan with Lampe Conway which modified certain of the conversion features and extended the maturity date to June 29, 2013.

On October 19, 2010, the Company entered into a new \$10 million working capital facility with Lampe Conway and other participating lenders ("the Lenders"). Under the terms of the new \$10 million facility, the Company drew the first \$5 million on the Closing Date ("First Tranche"). At the Company's option, it may draw up to an additional \$5 million over the 12 months following the Closing Date ("Second Tranche"). All interest on outstanding balances will accrue at 6%, with no principal or interest payments required before the new facility's June 29, 2013 maturity date, consistent with the Company's existing term debt facility.

The First Tranche (including accrued interest) is convertible at any time into the Company's common stock at a price of \$13.50 per share and the Second Tranche (including accrued interest), if drawn, would be convertible into the Company's common stock at \$12.50 per share.

Also on the Closing Date, the Company's existing Term Loan with the Lenders was modified as to certain of its conversion features:

- \$20.62 million of the existing convertible debt has been changed to allow for up to \$2.5 million of this amount to be converted at any time into the Company's common stock at the price of \$13.50 per share, with the remaining amount becoming non-convertible.
- If the Second Tranche is drawn, approximately \$20 million of additional existing debt would be changed to allow for up to \$5 million of this amount to be converted at any time into the Company's common stock at \$12.50 per share, with the remaining amount becoming non-convertible.

- The final \$4.55 million of the existing debt continues to be convertible at \$7 per share.

The Term Loan is collateralized by substantially all of the assets of the Company, and contains representations, warranties and covenants that are typical for agreements of this type, including restrictions that would limit the Company's ability to incur additional indebtedness, incur liens, pay dividends or make restricted payments, dispose of assets, make investments and merge or consolidate with another person. However, while there are affirmative covenants, there are no financial maintenance covenants and no restrictions on the Company's ability to issue additional common stock to fund future working capital needs.

As a result of the modifications of the convertible debt arrangements in June 2009 and October 2010, the change in conversion value between the original and modified instrument totaling approximately \$3.2 million was recorded as additional debt discount with an offsetting amount recorded as additional paid-in capital. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan as additional interest expense. In connection with the modification transaction in October 2010, the Company recorded a derivative liability related to the conversion option. This derivative liability had a fair value of \$330 thousand at March 31, 2011, and will be marked-to-market at the end of each reporting period and recorded as other income (expense).

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 entered into an agreement with the law firm of Brownstein Hyatt Farber Schreck LLP to provide legal and advisory services. The primary services being provided are advising the Company as to the Cadiz Water Conservation and Storage Project ("Water Project") design and implementation, permit approvals, environmental compliance, negotiation and drafting of agreements related to the Water Project. The agreement provides for interim payments due upon completion of specified milestones with respect to the Water 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, 2009.

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.

2003 Management Equity Incentive Plan

In December 2003, concurrently with the completion of the Company's then current financing arrangements with ING, the Company's board of directors authorized the adoption of a Management Equity Incentive Plan. Under the Incentive Plan, a total of 1,472,051 shares of common stock and common stock options were granted to key personnel. As of March 31, 2011, a total of 315,000 common stock options remain outstanding under this plan.

Outside Director Compensation Plan

The Cadiz Inc. Outside Director Compensation Plan was approved by Cadiz shareholders in November 2006. Under the plan, each outside director receives \$30,000 of cash compensation and receives a deferred stock award consisting of shares of the Company's common stock with a value equal to \$20,000 on June 30th of each year. The award accrues on a quarterly basis, with \$7,500 of cash compensation and \$5,000 of stock earned for each fiscal quarter in which a director serves. The deferred stock award vests automatically on the January 31st which first follows the award date.

2007 Management Equity Incentive Plan

The 2007 Management Equity Incentive Plan was approved by stockholders at the 2007 Annual Meeting. The plan provides for the grant and issuance of up to 1,050,000 shares and options to the Company's employees and consultants. The plan became effective when the Company filed a registration statement on Form S-8 on July 25, 2007. As of March 31, 2011, a total 10,000 common stock options remain outstanding under this plan.

2009 Equity Incentive Plan

The 2009 Equity Incentive Plan was approved by stockholders at the 2009, Annual Meeting. The plan provides for the grant and issuance of up to 850,000 shares and options to the Company's employees and consultants. The plan became effective when the Company filed a registration statement on Form S-8 on December 18, 2009.

In January and February 2010, the Company granted a total of 402,500 options for the purchase of one share of common stock under the 2009 Equity Incentive Plan. These 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. In February 2011, the Company granted 20,000 options for purchase of one share of common stock at a price of \$12.60 under the 2009 Equity Incentive Plan. All options under the 2009 Equity Incentive Plan have a ten year term with vesting periods ranging from issuance date to 24 months, and all remained outstanding as of March 31, 2011.

All options that have been issued under the above plans have been issued to officers and employees of the Company. In total, options to purchase 747,500 shares were unexercised and outstanding on March 31, 2011, under the three equity incentive plans.

The Company recognized stock option related compensation costs of \$179,000 and \$1,198,000 in the three months ended March 31, 2011 and 2010, respectively. On March 31, 2011, there was \$471,000 of unamortized compensation expense relating to option awards. This unamortized compensation expense is expected to be recognized through February 2013. No options were exercised during the three months ended March 31, 2011.

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 the Company's 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 consistent with the terms of the agreements pursuant to which those executives provide services to the Company.

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, and a grant of 140,000 restricted shares of common stock became effective on January 10, 2011, consistent with the terms of the agreements pursuant to which those executives provide services to the Company and which contemplate that such executives will participate in the Company's long-term incentive plans.

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 595,000 shares reserved under the 2009 Equity Incentive Plan, 422,500 were issued as options as described above and 127,500 are available for future distribution as of March 31, 2011.

Under the Outside Director Compensation Plan, 37,267 shares have been awarded for the plan years ended June 30, 2006, through June 30, 2010. As of March 31, 2011, all shares awarded have vested and been issued.

The Company recognized stock based compensation costs related to stock based awards of \$1,048,000 and \$912,000 in the three months ended March 31, 2011 and 2010, respectively. On March 31, 2011, there was \$30,000 of unamortized compensation expense relating to these stock awards.

Stock Purchase Warrants Issued to Non-Employees

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 the Company's 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.

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.

391,200 warrants remain outstanding as of March 31, 2011.

NOTE 6 – INCOME TAXES

As of March 31, 2011, the Company had net operating loss (“NOL”) carryforwards of approximately \$108 million for federal income tax purposes and \$65 million for California state income tax purposes. Such carryforwards expire in varying amounts through the year 2031. 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, 2011, 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 \$321,000 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 or interest during the three months ended March 31, 2011.

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 2007 through 2010 remain subject to examination by the Internal Revenue Service, and tax years 2006 through 2010 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 2,410,000 and 2,599,000 for the three months ended March 31, 2011 and 2010, respectively.

NOTE 8 – SUBSEQUENT EVENT

In April 2011, the Company granted options to purchase 100,000 shares of common stock to an employee under the 2009 Equity Incentive Plan.

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, 2010.

Overview

Our primary asset consists of 45,000 acres of land located in three areas of eastern San Bernardino County, California. Virtually all of this land is underlain by high-quality, naturally recharging groundwater resources, and is situated in proximity to the Colorado River and the Colorado River Aqueduct, a major source of imported water for Southern California. Our main objective is to realize the highest and best use of these land and water resources in an environmentally responsible way.

In 1993, we secured permits for up to 9,600 acres of agricultural development at our 35,000-acre property in the Cadiz Valley and the withdrawal of more than one million acre-feet of groundwater from the underlying aquifer system. Since that time, we have maintained various levels of agricultural development at the property and this development has provided our principal source of revenue. Although sustainable agricultural development is an important and enduring component of our business, we believe that the long-term value of our assets can best be derived through the development of a combination of water supply, water storage, and solar energy projects at our properties.

The primary factors that drive the value of water supply projects are continued population growth and increasing pressure on water supplies throughout California. Southern California now faces the prospect of long-term and systematic water supply shortages resulting from restrictions on each of its three imported water sources: the State Water Project, the Colorado River and the Los Angeles Aqueduct. As a result of these restrictions, water agencies must overcome significant long-term supply deficiencies to meet existing and projected demands. For example, despite experiencing above-average rainfall this past winter, ongoing environmental and regulatory restrictions affecting California's water supplies and infrastructure continue to limit water deliveries from the imported supply sources. Given that the present imbalance in annual supply and demand is projected to continue for many years into the future, water agencies are evaluating new sources of supply as a method to off-set their existing shortages.

Opportunities in the solar energy production market are being driven by a series of policy initiatives issued by the State of California and the United States government. This includes California's mandate to acquire 33% of the state's electricity from renewable sources by 2020 and federal efforts to accelerate the development of renewable energy and energy transmission projects in the Mojave Desert. Energy companies, government agencies and environmental organizations are actively working to identify suitable locations for solar energy development to meet future energy needs and have encouraged development on private lands.

As a result of these developments in the water and energy sectors, we plan to continue to pursue water supply, water storage and solar energy projects at our properties. At present, our development efforts are primarily focused on the Cadiz Valley Water Conservation, Recovery and Storage Project ("Water Project"), which involves the conservation of groundwater that is otherwise lost to evaporation from the aquifer system beneath our property in the Cadiz Valley. (see Water Resource Development) We believe that the ultimate implementation of this Water Project will create the primary source of our future cash flow and, accordingly, our working capital requirements relate largely to the development activities associated with this Water Project.

Water Resource Development

The Water Project proposes to capture, conserve and store groundwater that would otherwise be lost to evaporation from dry lakes near our Cadiz Valley property and provide a new, reliable water supply for Southern California. The Water Project will be designed, constructed and operated in accordance with established groundwater management principles so as to maximize the reasonable and beneficial use of groundwater, and avoid waste and harm to the surrounding environment or other consumptive users.

In general, several elements are needed to complete such a project: (1) a pipeline right-of-way from the Colorado River Aqueduct to the Water Project area; (2) storage and supply agreements with one or more public water agencies or private water utilities; (3) environmental permits; and (4) construction and working capital financing. As described below, the first three elements have been progressed on a concurrent basis. The fourth is dependent on actions arising from the completion of the first three.

(1) A Pipeline Right-of-Way from the Colorado River Aqueduct to the Water Project Area

In September 2008, we secured a right-of-way for the Water Project's water conveyance pipeline by entering into a lease agreement with the Arizona & California Railroad Company. The agreement allows for the use of a portion of the railroad's right-of-way for a period up to 99 years to construct and operate the Water Project's water conveyance pipeline. The pipeline would be used to convey water between our Cadiz Valley property and the Colorado River Aqueduct.

(2) Storage and Supply Agreements with One or More Public Water Agencies or Private Water Utilities

In June 2010, we entered into option and environmental cost sharing agreements with three water providers: Santa Margarita Water District ("Santa Margarita"), Golden State Water Company (a wholly-owned subsidiary of American States Water [NYSE: AWR]), and Three Valleys Municipal Water District. The three water providers serve more than one million customers in cities throughout California's San Bernardino, Riverside, Los Angeles, Orange and Ventura Counties.

In September 2010, we entered into option and environmental cost sharing agreements with Suburban Water Systems, a wholly-owned subsidiary of SouthWest Water Company. Suburban Water Systems provides water to a population of approximately 300,000 people in a 42-square-mile service area across California's Los Angeles and Orange counties.

In May 2011, we entered into an option agreement with Jurupa Community Services District ("JCSD"). JCSD provides water and sewer services in an unincorporated 48-square mile service area of western Riverside County, California.

Under the terms of the option agreements with the five water providers, upon completion of the Water Project's California Environmental Quality Act ("CEQA") review, each agency will have the right to acquire an annual supply of 5,000 acre-feet of water at a pre-determined formula competitive with their incremental cost of new water. SMWD also has the option to purchase an additional 10,000 acre-feet of water per year. The agencies also have options to acquire carry-over storage rights in the Water Project to allow them to manage their supplies in complement with their other water resources. The option agreements had no impact to our operations, financial position, or cash flows for the three months ended March 31, 2011.

We continue to work with additional water providers interested in acquiring rights to the remaining annual supply expected to be conserved by the Water Project and are in discussions with third parties regarding the imported storage aspect of this Project. We have also begun to develop an operating plan for the Water Project that will manage the delivery of conserved water to the Project's subscribers.

(3) Environmental Permits

In order to properly develop and quantify the sustainability of the Water Project, and prior to initiating the formal permitting process for the Water Project, we commissioned internationally recognized environmental consulting firm CH2M HILL to complete a comprehensive study of the water resources at the Project area. Following a year of analysis, CH2M HILL released its study of the aquifer system in February 2010. Utilizing new models produced by the U.S. Geological Survey in 2006 and 2008, the study estimated the total groundwater in storage in the aquifer system to be between 17 and 34 million acre-feet, a quantity on par with Lake Mead, the nation's largest surface reservoir. The study also identified a renewable annual supply of native groundwater in the aquifer system currently being lost to evaporation. CH2M Hill's findings, which were peer reviewed by leading groundwater experts, confirmed that the aquifer system could sustainably support the Water Project.

Further, and also prior to beginning the formal environmental permitting process, we entered into a Memorandum of Understanding with the Natural Heritage Institute ("NHI"), a leading global environmental organization committed to protecting aquatic ecosystems, to assist with our efforts to sustainably manage the development of our Cadiz Valley property. As part of this "Green Compact," we follow stringent plans for groundwater management and habitat conservation, and will create a groundwater monitoring plan for the Water Project.

As discussed in (2), above, we entered into environmental cost sharing agreements with all participating water providers. The environmental cost sharing agreements created a framework for funds to be committed by each participant to share in the costs associated with the CEQA review work. SMWD is serving as the lead agency for the review process. In July 2010, ESA Associates, a leading environmental consulting firm, was retained to prepare the Water Project's formal CEQA documentation.

A Notice of Preparation (NOP) of a Draft Environmental Impact Report (DEIR) formally commencing the public portion of the CEQA process was issued in February 2011 by SMWD, and a 30-day scoping comment period was initiated at that time. Two public scoping meetings were held in March 2011. Preparation of the DEIR by ESA and SMWD is ongoing and the document is expected to be released for public review and comment following consideration of comments received during the scoping period.

In April 2011, a 13-member Groundwater Stewardship Committee ("GSC") comprised of leading national groundwater experts was formed by SMWD and other project participants, including the Company, to review historical and recently collected field data and modeling work and provide advice and recommendations for the Water Project's proposed operating plan and monitoring program. Members of the GSC have been drawn from various sectors and include individuals from regulatory institutions, non-governmental organizations, academia, and the professional groundwater industry, all with extensive experience on similar projects. The work of the GSC is being conducted concurrently with the Project's CEQA environmental review and permitting process. The operating plan and monitoring plans will be components of the DEIR document.

(4) Construction and Working Capital

Once the environmental review is concluded, we expect that we will complete economic agreements with the Water Project participants and make arrangements for the construction phase of the Water Project. Construction would consist of wellfield facilities at our Cadiz Valley property and a conveyance pipeline extending approximately 44 miles along the right-of-way described in (1), above, from the wellfield to the Colorado River Aqueduct.

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 commercial production include 160 acres of vineyards of certified-organic, dried-on-the-vine raisins and 260 acres of lemons. Both of these crops are farmed using sustainable agricultural practices. Seasonal vegetable crops in production include squash and beans. All seasonal vegetable crops are grown organically.

We currently derive our agricultural revenues through the sale of our products in bulk or through independent packing facilities. We incur all of the costs necessary to produce and harvest our organic raisin crop. These raisins are then sold in bulk to a raisin processing facility. We also incur all of the costs necessary to produce our lemon crop. Once harvested, the lemons are shipped in bulk to a packing and sales facility. In 2009, we entered into a lease agreement with a third party to develop up to an additional 500 acres of lemon orchards. We expect to receive lease income once the new lemon orchards reach commercial production through a profit sharing agreement within the lease. The first 110 acres of this new orchard have been planted as of April 2011.

Although we plan to maintain our agricultural development, revenues will continue to vary from year to year based on acres in development, crop yields, and prices. Further, we do not believe that our agricultural revenues are likely to be material to our overall results of operations once we begin to receive revenues from the Water Project.

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. Located in an area with strong solar irradiation, proximity to existing utility corridors, appropriate topography, and access to water supplies, our properties could provide an ideal setting for solar energy generation. Moreover, state, federal and local government entities, along with environmental organizations, have issued compelling calls to increase the production of renewable energy to reduce greenhouse gas emissions and the consumption of imported fossil fuels. Solar energy development on private land, particularly in the Mojave Desert region where our properties are located, is being encouraged as an alternative to the use of federal desert lands.

We believe that our significant, contiguous private landholdings in the Mojave Desert could provide an alternative to the use of federal lands for new solar facilities in the region. Up to 20,000 acres at our Cadiz Valley property could potentially be made available for solar energy projects. We are presently in discussions with energy companies interested in utilizing our landholdings for various types of solar energy development.

In addition to solar energy development, we believe that over the longer-term, 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 will continue to explore all opportunities for environmentally-responsible 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, 2011, Compared to Three Months Ended March 31, 2010

We have not received significant revenues from our water resource and real estate development activity to date. As a result, we have historically incurred a net loss from operations. We had revenues of \$457 thousand for the three months ended March 31, 2011, and \$3 thousand for the three months ended March 31, 2010. We incurred a net loss of \$4.3 million in the three months ended March 31, 2011, compared with a \$5.2 million net loss during the three months ended March 31, 2010. The lower 2011 loss was primarily due to lower stock based non-cash compensation costs related to options issued in 2010 under the 2009 Equity Incentive Plan.

Our primary expenses are our ongoing overhead costs associated with the development of the Water Project (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 We had revenues of \$457 thousand for the three months ended March 31, 2011, and \$3 thousand for the three months ended March 31, 2010. The increase in revenue in 2011 was primarily due to a larger and longer 2010-2011 lemon harvest season in comparison to the 2009-2010 lemon harvest year.

Cost of Sales Cost of sales totaled \$432 thousand for the three months ended March 31, 2011, and \$0 for the three months ended March 31, 2010. The higher cost of sales reflects higher lemon harvesting and marketing costs due to the larger size of the 2010-2011 lemon crop.

General and Administrative Expenses General and administrative expenses were \$3.0 million during the three months ended March 31, 2011, and \$4.1 million during the three months ended March 31, 2010. Non-cash compensation costs for stock and option awards are included in General and Administrative Expenses. The lower 2011 expense was primarily due to lower stock based non-cash compensation costs related to options issued in 2010 under the 2009 Equity Incentive Plan.

Compensation costs from stock and option awards for the three months ended March 31, 2011, were \$1.2 million, compared with \$2.1 million for the three months ended March 31, 2010. The expense reflects the vesting schedules of the stock and option awards under the 2007 and 2009 equity incentive plans.

Other General and Administrative Expenses, exclusive of stock based compensation costs, totaled \$1.7 million and \$2.0 million for the three months ended March 31, 2011 and 2010, respectively.

Depreciation Depreciation expense totaled \$89 thousand for the three months ended March 31, 2011, and \$99 thousand for the three months ended March 31, 2010.

Interest Expense, net Net interest expense totaled \$1.2 million during the three months ended March 31, 2011, compared to \$1.0 million during the same period in 2010. The following table summarizes the components of net interest expense for the two periods (in thousands):

| | Three Months Ended March 31, | |
|---------------------------------|---------------------------------|----------|
| | 2011 | 2010 |
| Interest on outstanding debt | \$ 771 | \$ 655 |
| Amortization of financing costs | 19 | 10 |
| Amortization of debt discount | 555 | 370 |
| Interest income | (2) | (2) |
| | \$ 1,343 | \$ 1,033 |

See Notes to the Consolidated Financial Statements: Note 3 – Long-term Debt.

Other Income, net Net other income for the three months ended March 31, 2011, was \$121 thousand, and \$0 for the three months ended March 31, 2010. The amount recorded in 2011 is in connection to the derivative liability related to certain of the Term Loan’s conversion options. This derivative liability had a fair value of \$330 thousand at March 31, 2011, and will be marked-to-market at the end of each reporting period and recorded as other income (expense). See Notes to the Consolidated Financial Statements: Note 3 – Long-term Debt.

Income Taxes Income tax expense for the three months ended March 31, 2011, was \$2 thousand, and \$1 thousand for the three months ended March 31, 2010. 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 Water 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 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” or “Lenders”), and Lampe Conway subsequently replaced Peloton as administrative agent of the loan. On June 4, 2009, we completed arrangements to extend the maturity date of the Term Loan from June 29, 2011 to June 29, 2013 with interest continuing to accrue at 6% per annum through maturity. Further, the conversion feature was modified to allow up to \$4.55 million of principal to be converted into 650,000 shares of Cadiz common stock 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.

On October 19, 2010, we closed a new \$10 million working capital facility with our existing Lenders. Under the terms of the new \$10 million facility, we drew the first \$5 million on the Closing Date (“First Tranche”). At our option, we may draw up to an additional \$5 million over the 12 months following the Closing Date (“Second Tranche”). All interest on outstanding balances will accrue at 6%, with no principal or interest payments required before the new facility’s June 29, 2013 maturity date, consistent with our existing term debt facility. The First Tranche (including accrued interest) is convertible at any time into our common stock at a price of \$13.50 per share, and the Second Tranche (including accrued interest), if drawn, would be convertible into our common stock at \$12.50 per share.

Also on the Closing Date, our existing debt facility with the Lenders, which as of September 30, 2010, had \$45.65 million outstanding, was modified as to certain of its conversion features. \$20.62 million of the existing convertible debt has been changed to allow for up to \$2.5 million of this amount to be converted at any time into our common stock at the price of \$13.50 per share, with the remaining amount becoming non-convertible. If the Second Tranche is drawn, approximately \$20 million of additional existing debt would be changed to allow for up to \$5 million of this amount to be converted at any time into our common stock at \$12.50 per share, with the remaining amount becoming non-convertible. The final \$4.55 million of the existing debt continues to be convertible at \$7 per share.

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, 2011, the Company was in compliance with its debt covenants.

Additionally, as a result of private placements conducted in 2008 and 2009, the Company has 165,000 common stock purchase warrants outstanding that are exercisable at \$12.50 and expire in November and December of 2011, and 226,200 common stock purchase warrants outstanding that are exercisable at \$15.00 and expire in October and November of 2012. If these warrants were fully exercised, they would result in proceeds of approximately \$5.4 million to the Company.

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, 2011, we had no outstanding credit facilities other than the Convertible Term Loan.

Cash Used for Operating Activities. Cash used for operating activities totaled \$2.0 million and \$2.3 million for the three months ended March 31, 2011 and 2010, respectively. The first quarter cash requirements are typically seasonally higher than those required for the remaining quarters due to cultural costs incurred in the agricultural operations and the timing of certain administrative costs. The cash was primarily used to fund general and administrative expenses related to our resource development efforts.

Cash Used In Investing Activities. Cash used in investing activities during the three months ended March 31, 2011, was \$1.1 million, compared with \$352 thousand during the same period in 2010. The 2011 period included additional investments in well-field and environmental work related to progressing the Water Project.

Cash Used In Financing Activities. Cash used in financing activities was \$4 thousand during the three months ended March 31, 2011, compared with \$7 thousand during the comparable prior year period.

Outlook

Short Term Outlook. Our \$10 million working capital facility, which closed on October 19, 2010, together with our existing cash resources, provide us with sufficient funds to meet our expected working capital needs through fiscal year 2011. Based on our current and anticipated usage of cash resources, we will require additional working capital commencing during the second quarter of fiscal 2012 to meet our cash resource needs from that point forward and to continue to finance our operations 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 Water 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 debt or equity 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 we cannot raise needed funds, we might be forced to make substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our 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 (in thousands) | Total | Payments Due by Period | | | |
|---|-----------|------------------------|-----------|-----------|------------------|
| | | 1 year or less | 2-3 years | 4-5 years | After 5 years |
| Long-term debt obligations | \$ 52,199 | \$ 16 | \$ 52,183 | \$ - | \$ - |
| Interest Expense | 7,591 | 1 | 7,590 | - | - |
| Operating leases | 525 | 312 | 213 | - | - |
| | \$ 60,315 | \$ 329 | \$ 59,986 | \$ - | \$ - |

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 Water Project in consideration of certain legal and advisory services to be provided to us by Brownstein Hyatt Farber Schreck LLP. The primary services being provided are advising us as to Water Project design and implementation, permit approvals, environmental compliance, negotiation and drafting of agreements related to the Water Project. This fee would be payable upon receipt of all environmental approvals and permits and the execution of binding agreements for at least 51% of the Water Project's annual capacity. A portion of this fee may be payable in stock. Interim payments of up to \$1.5 million, to be credited against the final total, would be made upon the achievement of certain specified milestones. \$500 thousand of these interim payments was earned in June 2009 in consideration for the legal and advisory services previously provided. 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, 2011, all of the Company's indebtedness bore interest at fixed rates; therefore, the Company is not exposed to market risk from changes in interest rates on long-term debt obligations.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

The Company 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 its Board of Directors. Based on their evaluation as of March 31, 2011, the Company's 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.

25

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or of which any of the Company's property is the subject.

ITEM 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

On May 5, 2011, Southern California water provider Jurupa Community Services District ("JCSD") received an option from the Company to acquire conserved water and related storage capacity in the Cadiz Water Conservation & Storage Project ("Project") under the same terms and conditions as those provided in the Company's June 2010 Option Agreement with the Three Valleys Municipal Water District. The agreement with JCSD commits \$125,000 to the environmental review and also provides JCSD with options to acquire both a firm annual supply of 5,000 acre feet of water conserved by the Project and storage rights in the Project once the environmental review is complete.

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

10.1

Letter agreement with Scott S. Slater dated April 12, 2011

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 9, 2011 |
| Keith Brackpool | Date |
| Chairman of the Board and Chief Executive Officer | |
| (Principal Executive Officer) | |

| | |
|---------------------------------------|-------------|
| By: /s/ Timothy J. Shaheen | May 9, 2011 |
| Timothy J. Shaheen | Date |
| Chief Financial Officer and Secretary | |
| (Principal Financial Officer) | |