

CADIZ INC
Form 10-Q
November 06, 2009

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 September 30, 2009

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.

Edgar Filing: CADIZ INC - Form 10-Q

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).
Yes No

As of October 30, 2009, the Registrant had 13,283,188 shares of common stock, par value \$0.01 per share, outstanding.

Index

For the Three and Nine Months ended September 30, 2009	Page
PART I – FINANCIAL INFORMATION	
ITEM 1. Financial Statements	
Cadiz Inc. Consolidated Financial Statements	
<u>Unaudited Statements of Operations for the three months ended September 30, 2009 and 2008</u>	1
<u>Unaudited Statements of Operations for the nine months ended September 30, 2009 and 2008</u>	2
<u>Unaudited Balance Sheets as of September 30, 2009 and December 31, 2008</u>	3
<u>Unaudited Statements of Cash Flows for the nine months ended September 30, 2009 and 2008</u>	4
<u>Unaudited Statement of Stockholders' Equity for the nine months ended September 30, 2009</u>	5
<u>Unaudited Notes to the Consolidated Financial Statements</u>	6
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	27
<u>ITEM 4. Controls and Procedures</u>	27
<u>PART II – OTHER INFORMATION</u>	29

Consolidated Statements of Operations (Unaudited)

(\$ in thousands except per share data)	For the Three Months Ended September 30,	
	2009	2008
Revenues	\$ 138	\$ 247
Costs and expenses:		
Cost of sales	247	192
General and administrative	1,963	2,349
Depreciation	85	87
Total costs and expenses	2,295	2,628
Operating loss	(2,157)	(2,381)
Other income (expense)		
Interest expense, net	(976)	(1,103)
Other income (expense), net	(976)	(1,103)
Loss before income taxes	(3,133)	(3,484)
Income tax provision	1	2
Net loss	\$(3,134)	\$(3,486)
Net loss available to common stockholders	\$(3,134)	\$(3,486)
Basic and diluted net loss per common share	\$(0.25)	\$(0.29)
Basic and diluted weighted average shares outstanding	12,649	11,958

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations (Unaudited)

(\$ in thousands except per share data)	For the Nine Months Ended September 30,	
	2009	2008
Revenues	\$ 186	\$ 280
Costs and expenses:		
Cost of sales	348	209
General and administrative	7,194	8,845
Depreciation	256	256
Total costs and expenses	7,798	9,310
Operating loss	(7,612)	(9,030)
Other income (expense)		
Interest expense, net	(3,300)	(3,127)
Other income (expense), net	(3,300)	(3,127)
Loss before income taxes	(10,912)	(12,157)
Income tax provision	3	6
Net loss	\$(10,915)	\$(12,163)
Net loss available to common stockholders	\$(10,915)	\$(12,163)
Basic and diluted net loss per common share	\$(0.87)	\$(1.02)
Basic and diluted weighted average shares outstanding	12,569	11,957

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheet (Unaudited)

(\$ in thousands)	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,425	\$2,014
Short-term investments	-	4,500
Accounts receivable	113	66
Tax receivable	108	-
Inventories	266	172
Prepaid expenses	326	335
Total current assets	2,238	7,087
Property, plant, equipment and water programs, net	35,603	35,784
Goodwill	3,813	3,813
Other assets	536	728
Total Assets	\$42,190	\$47,412
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$232	\$247
Accrued liabilities	513	559
Tax liabilities	320	216
Current portion of long term debt	22	9
Total current liabilities	1,087	1,031
Long-term debt, net	35,661	33,975
Total Liabilities	36,748	35,006
Stockholders' equity:		
Common stock - \$.01 par value; 70,000,000 shares authorized; shares issued and outstanding – 12,659,548 at September 30, 2009 and 12,453,210 at December 31, 2008	127	125
Additional paid-in capital	267,482	263,533
Accumulated deficit	(262,167)	(251,252)
Total stockholders' equity	5,442	12,406

Edgar Filing: CADIZ INC - Form 10-Q

Total Liabilities and Stockholders' equity	\$42,190	\$47,412
--	----------	----------

See accompanying notes to the consolidated financial statements.

3

Consolidated Statement of Cash Flows (Unaudited)

(\$ in thousands except per share data)	For the Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net loss		
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	255	256
Amortization of debt discount & issuance costs	1,635	1,718
Interest expense added to loan principal	1,696	1,507
Compensation charge for stock awards and share options	1,833	3,451
Issuance of stock for services	500	-
Changes in operating assets and liabilities:		
Increase in accounts receivable	(155)	(182)
Increase in prepaid expenses	(85)	(824)
Decrease in other assets	145	-
Increase (decrease) in accounts payable	(15)	32
Increase in accrued liabilities	58	122
Net cash used for operating activities	(5,048)	(6,083)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	4,500	-
Additions to property, plant and equipment	(74)	(92)
Other	-	(7)
Net cash provided by (used in) investing activities	4,426	(99)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	47	-
Principal payments on long-term debt	(14)	(7)
Net cash provided by (used in) financing activities	33	(7)
Net decrease in cash and cash equivalents	(589)	(6,189)
Cash and cash equivalents, beginning of period	2,014	8,921
Cash and cash equivalents, end of period	\$1,425	\$2,732

See accompanying notes to the consolidated financial statements.

 Consolidated Statement of Stockholders' Equity (Unaudited)

(\$ in thousands except per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance as of December 31, 2008	12,453,210	\$ 125	\$263,533	\$ (251,252)	\$ 12,406
Stock awards	147,026	1	-	-	1
Issuance of common stock for services	59,312	1	499	-	500
Convertible term loan conversion option	-	-	1,617	-	1,617
Stock based compensation expense	-	-	1,833	-	1,833
Net loss	-	-	-	(10,915)	(10,915)
Balance as of September 30, 2009	12,659,548	\$ 127	\$267,482	\$ (262,167)	\$ 5,442

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements (Unaudited)

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, 2008.

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, 2008. The results of operations for the nine months ended September 30, 2009, are not necessarily indicative of results for the entire fiscal year ending December 31, 2009.

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 \$10.9 million for the nine months ended September 30, 2009, and \$12.2 million for the nine months ended September 30, 2008. The Company had working capital of \$1.2 million at September 30, 2009, and used cash in operations of \$5.2 million for the nine months ended September 30, 2009 and \$6.1 million for the nine months ended September 30, 2008. As further discussed below, in October 2009, the Company raised \$7.0 million with a private placement of 220,880 Units at \$31.50 per Unit. Working capital requirements are seasonally less in the second half of the year as proceeds from agricultural operations are realized. 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 September 2006, \$1.1 million was raised when certain holders of warrants to purchase the Company's common stock at \$15.00 per share chose to exercise the warrants and purchase 70,000 shares of common stock. Another \$5.0 million was raised in February 2007, when all remaining 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 \$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. In October 2009, the Company raised \$7.0 million with a private placement of 220,880 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 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 to fund such projects 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. Based upon the Company's current and anticipated usage of cash resources, it will require additional working capital commencing during the first quarter of fiscal 2011 to meet its cash resource needs from that point forward and to continue to finance its operations until such time as its asset development programs produce revenues. 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

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. At September 30, 2009, the Company had no short-term investments, and had \$4.5 million invested in short-term investments at September 30, 2008.

Recent Accounting Pronouncements

On January 1, 2008, the Financial Accounting Standards Board issued new accounting guidance on fair value measurements. This new guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The new guidance was effective for the Company beginning January 1, 2008, for certain financial assets and liabilities. Refer to Note 8 for additional information regarding our fair value measurements for financial assets and liabilities. The new guidance is effective for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis beginning July 1, 2009. The new accounting guidance describes how to measure fair value based on a three-level hierarchy of inputs, of which the first two are considered observable and the last unobservable.

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of this new accounting guidance did not have a material impact on our consolidated financial statements.

In December 2007, the Financial Accounting Standards Board issued new accounting guidance on business combinations and non-controlling interests in consolidated financial statements. The new guidance revises the method of accounting for a number of aspects of business combinations and noncontrolling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests) and post-acquisition exit activities of acquired businesses. This new accounting guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this accounting guidance has had no impact on the Company's financial position and results of operations.

In May 2008, the Financial Accounting Standards Board issued new accounting guidance on convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. This new guidance requires an issuer to allocate the initial proceeds from the issuance of a convertible debt instrument between the instrument's liability and equity components so that the effective interest rate of the liability component equals the issuer's nonconvertible debt borrowing rate at issuance. The adoption of this accounting guidance had no impact on the Company's financial position and results of operations.

In June 2008, the Financial Accounting Standards Board issued new accounting guidance for determining whether instruments granted in share-based payment transactions are participating securities. This new accounting guidance addresses whether unvested instruments granted in share-based payment transactions that contain nonforfeitable rights to dividends or dividend equivalents are participating securities subject to the two-class method of computing earnings per share. This accounting guidance is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this new accounting guidance had no impact on the Company's financial position and results of operations.

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 will not have an impact on the Company's consolidated results of operations, financial position or cash flows. This enhanced disclosure is provided in Note 3.

In May 2009, the Financial Accounting Standards Board issued new guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The statement requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or available to be issued. This new guidance is effective for interim and annual periods ending after June 15, 2009. This new guidance impacts disclosure only. The Company has performed an evaluation of subsequent events through November 9, 2009, which is the date the financial statements were issued. Refer to subsequent events disclosures in Note 9.

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. This amendment will not have a material affect on our financial position, results of operations or liquidity.

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. This amendment will not have a material affect on our financial position, results of operations or liquidity.

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 does not change GAAP and will not have an 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):

	September 30, 2009	December 31, 2008
Land and land improvements	\$ 21,998	\$ 21,998
Water programs	14,274	14,274
Buildings	1,161	1,161
Leasehold improvements	570	570
Furniture and fixtures	422	407
Machinery and equipment	911	854
Construction in progress	3	-
	39,339	39,264
Less accumulated depreciation	(3,736)	(3,480)
	\$ 35,603	\$ 35,784

Depreciation expense totaled \$85,000 for the three months ended September 30, 2009, and \$87,000 for the three months ended September 20, 2008. Depreciation expense totaled \$256,000 for the nine months ended September 30, 2009 and 2008.

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 September 30, 2009, and December 31, 2008, the carrying amount of the Company's outstanding debt is summarized as follows (in thousands):

Edgar Filing: CADIZ INC - Form 10-Q

	September 30, 2009	December 31, 2008
Zero coupon secured convertible term loan due June 29, 2013. Interest accruing at 5% per annum until June 29, 2009 and at 6% thereafter	\$ 42,973	\$ 41,276
Other loans	46	13
Debt discount, net of accumulated accretion	(7,336)	(7,305)
	35,683	33,984
Less current portion	22	9
	\$ 35,661	\$ 33,975

Pursuant to the Company's loan agreements, annual maturities of long-term debt outstanding on September 30, 2009, are as follows:

12 Months Ending September 30,	(in thousands)
2010	22
2011	16
2012	8
2013	42,973
	\$ 43,019

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; and
- 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 September 30, 2009, 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. The number of shares so issued represent less than one percent of the Company’s outstanding common stock.

NOTE 5 – STOCK-BASED COMPENSATION PLANS AND WARRANTS

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

Stock Options Issued under the 2003 and 2007 Management 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 three years. 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.

The Company also granted options to purchase 7,661 common shares at a price of \$20.00 per share under the 2007 Management Equity Incentive Plan on July 25, 2007, and options to purchase 10,000 common shares at a price of \$18.99 on January 9, 2008. 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 20,000 shares and 40,000 shares were forfeited in August 2008 and February 2009, respectively. Previously recognized expenses of \$66,000 related to the unvested portion of these awards was credited against stock based compensation expense in 2008. All options have been issued to officers, employees and consultants of the Company. In total, options to purchase 325,000 shares were unexercised and outstanding on September 30, 2009, under the two management equity incentive plans.

The Company recognized stock option related compensation costs of \$0 and \$82,000 in the nine months ended September 30, 2009 and 2008, respectively. No options were exercised during the nine months ended September 30, 2009.

Stock Awards to Directors, Officers, and Consultants

The Company has granted stock awards pursuant to its 2007 Management 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 vests in three equal installments on January 1, 2008, January 1, 2009, and January 1, 2010. 100,000 shares have been issued pursuant to this award as of January 2009.
- 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.

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, became effective on that date. The award will vest on January 31, 2010.

The compensation cost of stock grants without market conditions is measured at the quoted market price 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 \$1,832,000 of stock based compensation expense related to stock based awards in the nine months ended September 30, 2009, and \$3,369,000 in the nine months ended September 30, 2008. On September 30, 2009, there was \$936,000 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 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 one year, but is callable by the Company commencing six months following completion of the offering if the closing market price of the Company's stock exceeds \$18.75 for 10 consecutive trading days. 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. 330,000 warrants remain outstanding on September 30, 2009.

NOTE 6 – INCOME TAXES

As of September 30, 2009, the Company had net operating loss (“NOL”) carryforwards of approximately \$102.0 million for federal income tax purposes and \$47.7 million for California state income tax purposes. Such carryforwards expire in varying amounts through the year 2029. 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 September 30, 2009, 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 accrued approximately \$320,000 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 nine months ended September 30, 2009.

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 2005 through 2008 remain subject to examination by the Internal Revenue Service, and tax years 2004 through 2008 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 2,464,000 and 2,345,000 for the nine months ended September 30, 2009 and 2008, respectively.

NOTE 8 – FAIR VALUE MEASUREMENTS

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008 and September 30, 2009, and indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. The Company considers a security that trades at least weekly to have an active market. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

(in thousands)	Investments at Fair Value as of December 31, 2008						Total
	Level 1	Level 2		Level 3			
Certificates of deposit	\$ 4,500	\$ -	\$ -	\$ -	\$ -	\$ 4,500	
Total investments at fair value	\$ 4,500	\$ -	\$ -	\$ -	\$ -	\$ 4,500	

(in thousands)	Investments at Fair Value as of September 30, 2009						Total
	Level 1	Level 2		Level 3			
Certificates of deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total investments at fair value	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

NOTE 9 – SUBSEQUENT EVENT

In October 2009, the Company raised \$7.0 million with a private placement of 220,880 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.

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, 2008.

Overview

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

Our primary assets consist of 45,000 acres of land in three areas of eastern San Bernardino County, California. Virtually all of this land is underlain by high-quality groundwater resources that are suitable for a variety of uses, including water storage and supply programs. The advantages of underground water storage relative to surface storage include minimal surface environmental impacts, low capital investment, and minimal evaporative water loss. The properties are located in proximity to the Colorado River and the Colorado River Aqueduct, the major source of imported water for Southern California.

The value of these assets derives from a combination of projected population increases and limited water and energy supplies throughout Southern California. California is facing the very real possibility that current and future supplies of water will not be able to meet demand. Water agencies throughout California have imposed mandatory rationing in 2009 in order to meet anticipated demand. Moreover, through a series of policy initiatives, the State of California and the United States government have issued compelling calls for increased renewable energy production, including California's mandate to acquire 33% of the state's electricity from renewable sources by 2020. As a result, 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 solar energy facilities.

Our objective is to realize the highest and best use for these assets in an environmentally responsible way. We believe this can best be achieved through a combination of water storage and supply, 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, recovery, and dry-year supply project to augment the water supplies available to Southern California.

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.

Meanwhile, the need for new water storage and dry-year supplies has not abated. The population of California continues to grow, while water supplies are being challenged by drought, lack of infrastructure and environmental protections. Indeed, California is facing the very real possibility that current and future supplies of water will not be able to meet demand. In 2007, a federal judge limited deliveries out of California’s State Water Project, reducing Southern California’s water supply. This restriction has reduced available supplies from California’s State Water Project to just 40% of capacity in 2009. Moreover, cities throughout Southern California have endured dry local conditions for three years leaving supplies in storage at perilously low levels, while Colorado River deliveries to the State have remained at average levels.

These conditions have greatly challenged California’s water supplies. Approximately 49 water agencies throughout California have imposed mandatory rationing in 2009 in order to meet anticipated demand and at least 60 water agencies have imposed voluntary conservation measures. Policy leaders and lawmakers have introduced legislation to improve the State’s water infrastructure and are pursuing public financing for new storage and supply projects.

To meet the growing demand for new water storage and supplies, we have continued to pursue the implementation of the Cadiz Project. To that end, 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 June 2009, we executed Letters of Intent (LOI) with five Southern California water providers, including four public municipal water agencies and Golden State Water Company, California's second largest publicly-traded water utility. As part of the LOIs, Cadiz and the five 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 3 million customers in California's San Bernardino, Riverside, Los Angeles, Orange and Ventura Counties. The Company expects to add additional participants for other aspects of the project as the environmental review proceeds.

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 certified organic vineyards and 260 acres of lemons. Both of these crops are farmed using sustainable agricultural practices. Additionally, we entered into an agreement with a third party to develop up to another 500 acres of lemons.

Seasonal vegetable crops are all grown organically and 2009 plantings include squash and beans.

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 generation. Both federal and state initiatives support alternative energy facilities to reduce greenhouse gas emissions and the consumption of imported fossil fuels. The locations, topography, and proximity of our properties to utility corridors are 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 our land and water assets and we continue to explore all opportunities for development of these assets. We cannot predict with certainty which of these various opportunities will ultimately be utilized.

Results of Operations

Three Months Ended September 30, 2009, Compared to Three Months Ended September 30, 2008

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 \$138 thousand for the three months ended September 30, 2009, and \$247 thousand for the three months ended September 30, 2008. We incurred a net loss of \$3.1 million in the three months ended September 30, 2009, compared with a \$3.5 million net loss during the three months ended September 30, 2008. The higher 2008 loss was primarily due to higher stock based compensation related to shares issued under the 2007 Management 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 \$138 thousand for the three months ended September 30, 2009, and \$247 thousand for the three months ended September 30, 2008. The decrease in revenue in 2009 was primarily due to a smaller raisin harvest in 2009 in comparison to 2008.

Cost of Sales Cost of sales totaled \$247 thousand during the three months ended September 30, 2009, and \$192 thousand during the three months ended September 30, 2008. The harvest for the 2009 raisin crop was smaller than the prior year, which required a higher allocation of fixed growing costs in 2009 to a smaller crop. This resulted in an increase in cost of sales in 2009 versus 2008.

General and Administrative Expenses General and administrative expenses during the three months ended September 30, 2009, totaled \$2 million compared to \$2.3 million for the three months ended September 30, 2008. 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 September 30, 2009, were \$440 thousand, compared with \$907 thousand for the three months ended September 30, 2008. The expense reflects the vesting schedule of 2007 Management Equity Incentive Plan stock awards that became effective in July 2007. Of these amounts, \$289 thousand in 2009 and \$628 thousand in 2008 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 2011. 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 \$1.5 million in the three months ended September 30, 2009, compared with \$1.4 million for the three months ended September 30, 2008.

Edgar Filing: CADIZ INC - Form 10-Q

Depreciation Depreciation expense totaled \$85 thousand for the three months ended September 30, 2009, and \$87 thousand for the three months ended September 30, 2008.

Interest Expense, net Net interest expense totaled \$976 thousand during the three months ended September 30, 2009, compared to \$1.1 million during the same period in 2008. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Three Months Ended September 30,	
	2009	2008
Interest on outstanding debt	\$ 650	\$ 514
Amortization of financing costs	8	20
Amortization of debt discount	320	586
Interest income	(2)	(17)
	\$ 976	\$ 1,103

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. 2009 interest income decreased from \$17 thousand in 2008 to \$2 thousand in 2009, due to lower cash balances and lower short-term interest rates. See Notes to the Consolidated Financial Statements: Note 3 – Long-term Debt.

Income Taxes Income tax expense for the three months ended September 30, 2009, was \$1 thousand, compared with \$2 thousand during the prior year period. See Notes to the Consolidated Financial Statements: Note 6 – Income Taxes.

Nine Months Ended September 30, 2009, Compared to Nine Months Ended September 30, 2008

We had revenues of \$186 thousand for the nine months ended September 30, 2009, and \$280 thousand for the nine months ended September 30, 2008. We incurred a net loss of \$10.9 million in the nine months ended September 30, 2009, compared with a \$12.2 million net loss during the nine months ended September 30, 2008. The higher loss in the 2008 period primarily related to higher non-cash expenses related to stock and option awards and expenses related to the Company's lawsuit against the Metropolitan Water District of Southern California that was settled in the first quarter of 2009.

Revenues Cadiz had revenues of \$186 thousand for the nine months ended September 30, 2009, and \$280 thousand for the nine month ended September 30, 2008. The decrease in revenue in 2009 was primarily due to a smaller raisin harvest in 2009 in comparison to 2008.

Cost of Sales Cost of sales totaled \$348 thousand during the nine months ended September 30, 2009, and \$209 thousand during the nine months ended September 30, 2008. The harvest for the 2009 raisin crop was smaller than the prior year, which required a higher allocation of fixed growing costs in 2009 to a smaller crop. This resulted in an increase in cost of sales in 2009 versus 2008.

General and Administrative Expenses General and administrative expenses during the nine months ended September 30, 2009, totaled \$7.2 million compared to \$8.8 million for the nine months ended September 30, 2008. 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 nine months ended September 30, 2009, were \$1.8 million, compared with \$3.5 million for the nine months ended September 30, 2008. The expense reflects the vesting schedule of 2007 Management Equity Incentive Plan stock awards that became effective in July 2007. Of these amounts, \$868 thousand in 2009 and \$2.5 million in 2008 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 2011. 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 \$5.4 million in the nine months ended September 30, 2009, compared with \$5.4 million for the nine months ended September 30, 2008.

Depreciation and Amortization Depreciation and amortization expense for the nine months ended September 30, 2009 and 2008 was \$256 thousand.

Interest Expense, net Net interest expense totaled \$3.3 million during the nine months ended September 30, 2009, compared to \$3.1 million during the same period in 2008. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Nine Months Ended September 30,	
	2009	2008
Interest on outstanding debt	\$ 1,697	\$ 1,507
Amortization of financing costs	47	56
Amortization of debt discount	1,588	1,662
Interest income	(32)	(98)
	\$ 3,300	\$ 3,127

The increase in net interest expense is primarily due to the increase in interest rate from 5% to 6% per annum on the senior secured convertible term loan, and is partially offset by the amortization of the debt discount related to the conversion option embedded in the term loan. 2009 interest income decreased to \$32 thousand from \$98 thousand in the prior year, due to lower cash balances, lower short-term interest rates and a more conservative investment policy. See Notes to the Consolidated Financial Statements: Note 3 – Long-term Debt.

Income Taxes Income tax expense for the nine months ended September 30, 2009 was \$3 thousand, compared with \$6 thousand of income tax expense during the nine months ended September 30, 2008. See Note 6 of the Notes to the Consolidated Financial Statements – 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; and
- 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 September 30, 2009, we were in compliance with its debt covenants.

A private placement which we completed in November 30, 2004, included the issuance of warrants to purchase shares of our common stock at an exercise price of \$15.00 per share. During 2006, holders of 70,000 of the warrants exercised their warrants, resulting in our issuance of 70,000 shares of common stock with net proceeds of \$1,050,000. In January 2007, we exercised our right to terminate all unexercised warrants on March 2, 2007, subject to a 30 days notice period. In response, holders of all 335,440 warrants then outstanding exercised their warrants during February 2007. As a result, we issued 335,440 shares of our common stock and received net proceeds of \$5,031,000. Following these exercises, no warrants from this 2004 private placement remain outstanding.

We completed a private placement in November and December of 2008, 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 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 one year, but is callable by us commencing six months following completion of the offering if the closing market price of our common stock exceeds \$18.75 for 10 consecutive trading days. 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 2009, the Company raised \$7.0 million with a private placement of 220,880 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 September 30, 2009, we had no outstanding credit facilities other than the Convertible Term Loan.

Cash Used for Operating Activities. Cash used for operating activities totaled \$5 million and \$6.1 million for the nine months ended September 30, 2009 and 2008, respectively. Working capital requirements are seasonally less in the second half of the year as proceeds from agricultural operations are realized. The cash was primarily used to fund general and administrative expenses related to the Company's resource development efforts.

Cash Provided by (Used for) Investing Activities. Cash provided by investing activities in the nine months ended September 30, 2009, was \$4.4 million, compared with \$99 thousand of cash used for investing activities during the same period in 2008. The 2009 period included \$4.5 million of short term deposits that matured, which were not considered cash equivalents.

Cash Provided by (Used for) Financing Activities. Cash provided by financing activities was \$33 thousand during the nine months ended September 30, 2009, compared with \$7 thousand of cash used for financing activities during the prior year period.

Outlook

Short Term Outlook. The \$7.0 million of proceeds from our October 2009 private placement provide us with sufficient funds to meet our expected working capital needs through fiscal year 2010. 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 (in thousands)	Total	Payments Due by Period			After 5 years
		1 year or less	2-3 years	4-5 years	
Long term debt obligations	\$43,019	\$22	\$24	\$42,973	\$-
Interest Expense	10,914	1	1	10,912	-
Operating leases	807	364	443	-	-
	\$54,740	\$387	\$468	\$53,885	\$-

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 September 30, 2009, 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 September 30, 2009, 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, 2008.

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

As previously reported, on October 23, 2009 the Company completed a private placement (the "Placement") of 200,000 Units at the price of \$31.50 per Unit. On October 29, 2009 the Company issued an additional 20,880 Units, with identical terms, pursuant to the exercise of Participation Rights held by the lenders under the Company's Term Loan. Each Unit consists of three (3) shares of the Company's common stock and one (1) common stock purchase warrant. The Warrant entitles the holder to purchase, commencing 90 days from the date of issuance, one (1) share of Common Stock at an exercise price of \$15 per share. This Warrant has a term expiring October 30, 2012, but is callable by the Company commencing November 1, 2010 if the closing market price of the Company's Common Stock exceeds \$22.50 for 10 consecutive trading days.

The issuance of securities was not registered under the Securities Act of 1933, as amended (the "Securities Act"), but was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act as the transaction did not involve a public offering, the number of investors was limited, the investors were provided with information about us, and the Company placed restrictions on the resale of the securities.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matter to a Vote of Security Holders

Not applicable.

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
Keith Brackpool
Chairman of the Board and Chief Executive
Officer
(Principal Executive Officer)

November 6, 2009
Date

By: /s/ Timothy J. Shaheen
Timothy J. Shaheen
Chief Financial Officer and Secretary
(Principal Financial Officer)

November 6, 2009
Date