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CADIZ INC  
Form 10-Q  
August 10, 2009

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United States

Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended June 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.

Large accelerated filer \_\_\_ Accelerated filer  Non-accelerated filer \_\_\_ Smaller Reporting Company \_\_\_

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Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes\_\_\_ No

As of June 30, 2009, the Registrant had 12,600,236 shares of common stock, par value \$0.01 per share, outstanding.

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## Consolidated Statements of Operations (Unaudited)

(\$ in thousands except per share data)	For the Three Months Ended June 30,	
	2009	2008
Revenues	\$ 19	\$ 16
Costs and expenses:		
Cost of sales	-	4
General and administrative	3,179	2,568
Depreciation	85	85
Total costs and expenses	3,264	2,657
Operating loss	(3,245)	(2,641)
Other income (expense)		
Interest expense, net	(1,140)	(1,054)
Other income (expense), net	(1,140)	(1,054)
Loss before income taxes	(4,385)	(3,695)
Income tax provision	1	3
Net loss	\$ (4,386)	\$ (3,698)
Net loss available to common stockholders	\$ (4,386)	\$ (3,698)
Basic and diluted net loss per common share	\$ (0.35)	\$ (0.31)
Basic and diluted weighted average shares outstanding	12,600	11,958

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Operations (Unaudited)

(\$ in thousands except per share data)	For the Six Months Ended June 30,	
	2009	2008
Revenues	\$ 48	\$ 33
Costs and expenses:		
Cost of sales	101	17
General and administrative	5,231	6,496
Depreciation and amortization	171	169
Total costs and expenses	5,503	6,682
Operating loss	(5,455)	(6,649)
Other income (expense)		
Interest expense, net	(2,324)	(2,024)
Other income (expense), net	(2,324)	(2,024)
Loss before income taxes	(7,779)	(8,673)
Income tax provision	2	4
Net loss	\$ (7,781)	\$ (8,677)
Net loss available to common stockholders	\$ (7,781)	\$ (8,677)
Basic and diluted net loss per common share	\$ (0.62)	\$ (0.73)
Basic and diluted weighted average shares outstanding	12,528	11,957

See accompanying notes to the consolidated financial statements.

## Consolidated Balance Sheets (Unaudited)

(\$ in thousands)	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,167	\$ 2,014
Short-term investments	1,500	4,500
Accounts receivable	70	66
Prepaid expenses and other	761	507
Total current assets	3,498	7,087
Property, plant, equipment and water programs, net	35,680	35,784
Goodwill	3,813	3,813
Other assets	592	728
Total Assets	\$ 43,583	\$ 47,412
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 22	\$ 247
Accrued liabilities	1,207	775
Current portion of long term debt	24	9
Total current liabilities	1,253	1,031
Long-term debt, net	34,695	33,975
Total Liabilities	35,948	35,006
Stockholders' equity:		
Common stock - \$.01 par value; 70,000,000 shares authorized; shares issued and outstanding – 12,600,236 at June 30, 2009 and 12,453,210 at December 31, 2008	126	125
Additional paid-in capital	266,542	263,533
Accumulated deficit	(259,033)	(251,252)
Total stockholders' equity	7,635	12,406
Total Liabilities and Stockholders' equity	\$ 43,583	\$ 47,412

See accompanying notes to the consolidated financial statements.



## Consolidated Statements of Cash Flows (Unaudited)

(\$ in thousands except per share data)	For the Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net loss		
Adjustments to reconcile net loss to net cash used for operating activities:	\$ (7,781)	\$ (8,677)
Depreciation	171	169
Amortization of debt discount & issuance costs	1,307	1,112
Interest expense added to loan principal	1,047	993
Compensation charge for stock awards and share options	1,392	2,544
Changes in operating assets and liabilities:		
Increase in accounts receivable	(4)	(1)
Increase in prepaid expenses and other	(157)	(660)
Increase (decrease) in accounts payable	(225)	48
Increase (decrease) in accrued liabilities	432	(103)
Net cash used for operating activities	(3,818)	(4,575)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	3,000	-
Additions to property, plant and equipment	(67)	(77)
Other	-	(7)
Net cash provided by (used in) investing activities	2,933	(84)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	47	-
Principal payments on long-term debt	(9)	(4)
Net cash provided by (used in) financing activities	38	(4)
Net decrease in cash and cash equivalents	(847)	(4,663)
Cash and cash equivalents, beginning of period	2,014	8,921
Cash and cash equivalents, end of period	\$ 1,167	\$ 4,258

See accompanying notes to the consolidated financial statements.



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Consolidated Statement of Stockholders' Equity (Unaudited)

	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
Convertible term loan conversion option	-	-	1,618	-	1,618
Stock based compensation expense	-	-	1,391	-	1,391
Net loss	-	-	-	(7,781)	(7,781)
Balance as of June 30, 2009	12,600,236	\$ 126	\$ 266,542	\$ (259,033)	\$ 7,635

See accompanying notes to the consolidated financial statements.

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Notes To The Consolidated Financial Statements

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

The Consolidated Financial Statements have been prepared by Cadiz Inc., sometimes referred to as “Cadiz” or “the Company”, without audit and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company’s Form 10-K for the year ended December 31, 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 six months ended June 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 \$7.8 million for the six months ended June 30, 2009, and \$8.7 million for the six months ended June 30, 2008. The Company had working capital of \$2.2 million at June 30, 2009, and used cash in operations of \$3.8 million for the six months ended June 30, 2009 and \$4.6 million for the six months ended June 30, 2008. 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, an additional \$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 after receiving a termination notice from the Company. In November and December 2008, the Company raised an additional \$5.2 million with a private placement of 165,000 Units at \$31.50 per unit. Each unit consists of three (3) shares of the Company's common stock and two (2) stock purchase warrants.

The 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.

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 2010 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. 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.

#### 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 June 30, 2009, the Company was invested in a 91-day, \$1.5 million deposit held with the Certificate of Deposit Account Registry Service® which is FDIC insured and matures in September 2009.

## Recent Accounting Pronouncements

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (“SFAS 157”). Relative to SFAS No. 157, the FASB issued FASB Staff Position (“FSP”) FASB Statements (“FAS”) 157-1, FAS 157-2, FAS 157-3 and FAS 157-4 in 2009. FSP FAS 157-1 amends SFAS No. 157 to exclude SFAS No. 13, “Accounting for Leases,” and its related interpretive accounting pronouncements that address leasing transactions. FSP FAS 157-2 delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP FAS 157-3 clarifies how SFAS No. 157 should be applied when valuing securities in markets that are not active. FSP FAS 157-4 provides additional guidance on: (a) determining when the volume and level of activity for the asset or liability has significantly decreased; (b) identifying circumstances in which a transaction is not orderly; and (c) understanding the fair value measurement implications of both (a) and (b). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard 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 SFAS 157 did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations” (“SFAS 141(R)”), which establishes principles and requirements for how the acquirer shall recognize and measure in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill acquired in a business combination. This statement 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 SFAS 141(R) had no impact on the Company’s financial position and results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an Amendment of ARB No. 51" ("SFAS 160"), which establishes and expands accounting and reporting standards for minority interests, which are characterized as noncontrolling interests, in a subsidiary and the deconsolidation of a subsidiary. SFAS 160 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. This statement is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 160 had no impact on the Company's financial position and results of operations.

In May 2008, the FASB issued FSP Accounting Principles Board Opinion ("APB") No. 14-1, "Accounting for Convertible Debt Instruments That May be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). Under FSP APB 14-1, an issuer must 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 FSP APB 14-1 had no impact on the Company's financial position and results of operations.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," which 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 under SFAS No. 128, "Earnings Per Share." FSP EITF 03-6-1 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 FSP EITF 03-6-1 has no impact on the Company's financial position and results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. FSP No. This position 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 FSP SFAS No. 107-1 and APB No. 28-1 impacts disclosure only, the adoption of this position 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 FASB issued SFAS No. 165, "Subsequent Events". The new standard 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 statement is effective for interim and annual periods ending after June 15, 2009. This statement impacts disclosure only. The Company has performed an evaluation of subsequent events through August 10, 2009, which is the date the financial statements were issued.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets. SFAS No.166 is a revision of SFAS No.140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities”, enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and a company’s continuing involvement in transferred assets. It removes the concept of qualifying special-purpose entity from US GAAP, changes the requirements for derecognizing financial assets and requires additional disclosures about a transferor’s continuing involvement in transferred financial assets. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company is currently evaluating the potential impact of SFAS No.166.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation (FIN) No. 46(R)”, amending existing consolidation guidance for variable interest entities. The new standard requires a company to perform a qualitative analysis when determining whether it must consolidate a variable interest entity. SFAS 167 also amends certain guidance for determining whether an entity is a variable interest entity. A company must now disclose how its involvement with a variable interest entity affects the company’s financial statements and disclose any significant judgments and assumptions made in determining whether it must consolidate a variable interest entity. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company is currently evaluating the potential impact of SFAS No.167.

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles”, a replacement of SFAS No. 162. The FASB Accounting Standards Codification will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this statement, the Codification will supersede all then-existing accounting and reporting standards, other than rules and interpretative releases issued by the SEC. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and will have no impact on the Company's financial position or results of operations.

## NOTE 2 - PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

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

	June 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	413	407
Machinery and equipment	911	854
Construction in progress	4	-
	39,331	39,264
Less accumulated depreciation	(3,651)	(3,480)
	\$ 35,680	\$ 35,784

Depreciation expense totaled \$85,000 for the three months ended June 30, 2009 and 2008. Depreciation expense totaled \$171,000 and \$169,000 for the six months ended June 30, 2009 and 2008, respectively.

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

	June 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	\$ 42,324	\$ 41,276
Other loans	52	13
Debt discount, net of accumulated accretion	(7,657)	(7,305)
	34,719	33,984
Less current portion	24	9
	\$ 34,695	\$ 33,975

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

12 Months Ending June 30,	(in thousands)
2010	24
2011	16
2012	12
2013	42,324
	\$ 42,376

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 convert 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 Convert 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 convert 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 Convert Portion) plus all accrued interest in full without penalty, and may at the same time prepay the Initial Convert 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 June 30, 2009, the Company was in compliance with its debt covenants.



#### NOTE 4 – COMMON STOCK

On October 1, 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.

#### 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 June 30, 2009, under the two management equity incentive plans.

The Company recognized stock option related compensation costs of \$0 and \$131,000 in the six months ended June 30, 2009 and 2008, respectively. No options were exercised during the six months ended June 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.

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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 \$1,391,000 of stock based compensation expense related to stock based awards in the six months ended June 30, 2009, and \$2,413,000 in the six months ended June 30, 2008. On June 30, 2009, there was \$1,263,000 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 June 30, 2009.

## NOTE 6 – INCOME TAXES

As of June 30, 2009, the Company had net operating loss ("NOL") carryforwards of approximately \$99.7 million for federal income tax purposes and \$45.3million 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 June 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 \$211,000 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 six months ended June 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 2,446,000 and 2,322,000 for the six months ended June 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 June 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			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 4,500	\$ -	\$ -	\$ 4,500
Total investments at fair value	\$ 4,500	\$ -	\$ -	\$ 4,500

(in thousands)	Investments at Fair Value as of June 30, 2009			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 1,500	\$ -	\$ -	\$ 1,500
Total investments at fair value	\$ 1,500	\$ -	\$ -	\$ 1,500

## NOTE 9 – SUBSEQUENT EVENT

As previously reported, in 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 on the Company's part 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 as of June 4. These shares were issued subsequent to the current period being reported. The number of shares so issued represented less than one percent of the Company's outstanding common stock.

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## ITEM 2. Management's Discussion and Analysis of Financial Conditions 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. 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 limited 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 remain 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 land holdings 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 June 30, 2009, Compared to Three Months Ended June 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 \$19 thousand for the three months ended June 30, 2009, and \$16 thousand for the three months ended June 30, 2008. We incurred a net loss of \$4.4 million in the three months ended June 30, 2009, compared with a \$3.7 million net loss during the three months ended June 30, 2008. The higher 2009 loss was primarily due to higher stock based compensation related to shares issued under the 2007 Management Equity Incentive Plan and a stock based incentive fee earned for certain legal and advisory services upon completion of milestones associated with the Cadiz Project.

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 \$19 thousand for the three months ended June 30, 2009, and \$16 thousand for the three months ended June 30, 2008, both related to the completion of the lemon harvest.

**Cost of Sales** Cost of Sales totaled \$0 thousand during the three months ended June 30, 2009, and \$4 thousand during the three months ended June 30, 2008. All costs associated with the completion of the lemon harvest for the three months ended June 30, 2009 had previously been recognized.

**General and Administrative Expenses** General and administrative expenses during the three months ended June 30, 2009, totaled \$3.2 million compared to \$2.6 million for the three months ended June 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 June 30, 2009, were \$990 thousand, compared with \$839 thousand for the three months ended June 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 \$727 thousand in 2008 relate to Milestone-Based Deferred Stock, none of which was 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 \$2.2 million in the three months ended June 30, 2009, compared with \$1.7 million for the three months ended June 30, 2008. The difference related to a \$500 thousand stock base incentive fee earned for certain legal and advisory services upon completion of certain milestones associated with the Cadiz Project.

**Depreciation** Depreciation expense for the three months ended June 30, 2009 and 2008, totaled \$85 thousand for each period.

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Interest Expense, net Net interest expense totaled \$1.1 million during the three months ended June 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 June 30,	
	2009	2008
Interest on outstanding debt	\$ 531	\$ 508
Amortization of financing costs	17	18
Amortization of debt discount	605	556
Interest income	(13)	(28)
	\$ 1,140	\$ 1,054

The increase in net interest expense is primarily due the amortization of the debt discount related to the zero coupon secured convertible term loan and interest on the loan. 2009 interest income decreased from \$28 thousand in 2008 to \$13 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 June 30, 2009, was \$1 thousand, compared with \$3 thousand during the prior year period. See Notes to the Consolidated Financial Statements: Note 6 – Income Taxes.

Six Months Ended June 30, 2009, Compared to Six Months Ended June 30, 2008

We had revenues of \$48 thousand for the six months ended June 30, 2009 and \$33 thousand for the six months ended June 30, 2008. We incurred a net loss of \$7.8 million in the six months ended June 30, 2009, compared with an \$8.7 million net loss during the six months ended June 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 \$48 thousand for the six months ended June 30, 2009 and \$33 thousand for the six month ended June 30, 2008, both related to the completion of the lemon harvest.

Cost of Sales Cost of Sales totaled \$101 thousand during the six months ended June 30, 2009 and \$17 thousand during the six months ended June 30, 2008. The higher cost of sales in 2009 related to cost associated with a reduction in the carrying value of the raisin inventory.

General and Administrative Expenses General and administrative expenses during the six months ended June 30, 2009, totaled \$5.2 million compared to \$6.5 million for the six months ended June 30, 2008. Non-cash compensation costs for stock and option awards are included in General and Administrative Expenses.

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Compensation costs from stock and option awards for the six months ended June 30, 2009, were \$1.4 million, compared with \$2.5 million for the six months ended June 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, \$579 thousand in 2009 and \$1.8 million in 2008 relate to Milestone Based Deferred Stock, none of which was 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 \$3.8 million in the six months ended June 30, 2009, compared with \$4.0 million for the six months ended June 30, 2008.

Depreciation and Amortization Depreciation and amortization expense for the six months ended June 30, 2009 and 2008 totaled \$171 thousand and \$169 thousand, respectively.

Interest Expense, net Net interest expense totaled \$2.3 million during the six months ended June 30, 2009, compared to \$2.0 million during the same period in 2008. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Six Months Ended June 30,	
	2009	2008
Interest on outstanding debt	\$ 1,047	\$ 993
Amortization of financing costs	39	36
Amortization of debt discount	1,268	1,076
Interest income	(30)	(81)
	\$ 2,324	\$ 2,024

The increase in net interest expense is primarily due the amortization of the debt discount related to the conversion option embedded in the senior secured convertible term loan. 2009 interest income decreased to \$30 thousand from \$81 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 six months ended June 30, 2009 was \$2 thousand, compared with \$4 thousand of income tax expense during the six months ended June 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 convert 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 Convert 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 convert 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 Convert Portion) plus all accrued interest in full without penalty, and may at the same time prepay the Initial Convert 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 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 June 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.

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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.

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 June 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 \$3.8 million and \$4.6 million for the six months ended June 30, 2009, and June 30, 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 six months ended June 30, 2009, was \$2.9 million, compared with \$84 thousand of cash used for investing activities during the same period in 2008. The 2009 period included \$3 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 \$38 thousand during the six months ended June 30, 2009, compared with \$4 thousand of cash used for financing activities during the prior year period.

## Outlook

**Short Term Outlook.** Based on our current and anticipated usage of cash resources, we will require additional working capital commencing during the first quarter of fiscal 2010 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 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	\$ 42,376	\$ 24	\$ 28	\$ 42,324	\$ -
Interest Expense	11,563	1	1	11,561	-
Operating leases	898	364	488	46	-
	\$ 54,837	\$ 389	\$ 517	\$ 53,931	\$ -

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 the reporting quarter and was reflected in accrued liabilities at June 30, 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 June 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 June 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.

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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, in 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 on the Company's part 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 as of June 4. The number of shares so issued represented less than one percent of the Company's outstanding common stock.

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.

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ITEM 6. Exhibits

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

- 10.1 Amended and Restated Employment Agreement Between Keith Brackpool and Cadiz Inc. dated May 22, 2009.
- 10.2 Employment Agreement Between Timothy J. Shaheen and Cadiz Inc. dated May 22, 2009.
- 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)

August 10, 2009  
Date

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

August 10, 2009  
Date