CADIZ INC
Form 10-Q
August 09, 2012

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, 2012

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from ..... to .....
Commission File Number 0-12114

Cadiz Inc.

(Exact name of registrant specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	77-0313235 (I.R.S. Employer Identification No.)
550 South Hope Street, Suite 2850 Los Angeles, California (Address of principal executive offices)	90071 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes √ No ___

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

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

Large accelerated filer ___ Accelerated filer √ Non-accelerated filer ___ Smaller Reporting Company ___

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

As of August 6, 2012, the Registrant had 15,438,961 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, 2012	2011
Revenues	$ 6	$ 40
Costs and expenses:		
Cost of sales	2	18
General and administrative	2,895	2,218
Depreciation	95	92
Total costs and expenses	2,992	2,328
Operating loss	(2,986)	(2,288)
Interest expense, net	(1,596)	(1,374)
Other expense, net	-	(65)
Loss before income taxes	(4,582)	(3,727)
Income tax provision	2	1
Net loss applicable to common stock	$ (4,584)	$ (3,728)
Basic and diluted net loss per common share	$ (0.30)	$ (0.27)
Basic and diluted weighted average shares outstanding	15,439	13,957

See accompanying notes to the consolidated financial statements.

Cadiz Inc.

Consolidated Statements of Operations (Unaudited)

($ in thousands except per share data)	For the Six Months Ended June 30, 2012	2011
Revenues	$37	$497
Costs and expenses:		
Cost of sales	2	450
General and administrative	5,718	5,183
Depreciation	188	181
Total costs and expenses	5,908	5,814
Operating loss	(5,871)	(5,317)
Interest expense, net	(3,156)	(2,718)
Other income, net	-	56
Loss before income taxes	(9,027)	(7,979)
Income tax provision	5	3
Net loss applicable to common stock	$(9,032)	$(7,982)
Basic and diluted net loss per common share	$(0.59)	$(0.58)
Basic and diluted weighted average shares outstanding	15,437	13,818

See accompanying notes to the consolidated financial statements.

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Cadiz Inc.

Consolidated Balance Sheets (Unaudited)

($ in thousands)	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$4,016	$11,370
Accounts receivable	166	139
Prepaid expenses and other	1,514	604
Total current assets	5,696	12,113
Property, plant, equipment and water programs, net	43,667	41,886
Goodwill	3,813	3,813
Other assets	539	186
Total Assets	$53,715	$57,998
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$756	$1,069
Accrued liabilities	2,407	1,049
Tax liability	321	321
Current portion of long-term debt	-	4
Other liabilities	923	-
Total current liabilities	4,407	2,443
Long-term debt, net	55,146	52,032
Deferred revenue	1,053	670
Other long-term liabilities	-	923
Total Liabilities	60,606	56,068
Stockholders' equity:		
Common stock - $.01 par value; 70,000,000 shares authorized; shares issued and outstanding – 15,438,961 at June 30, 2012 and 15,429,541 at December 31, 2011	154	154
Additional paid-in capital	300,374	300,163
Accumulated deficit	(307,419)	(298,387)
Total stockholders' (deficit) equity	(6,891)	1,930
Total Liabilities and Stockholders' equity	$53,715	$57,998

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, 2012	2011
Cash flows from operating activities:		
Net loss		
Adjustments to reconcile net loss to	$ (9,032)	(7,982)
net cash used for operating activities:		
Depreciation	188	181
Amortization of debt discount and issuance costs	1,425	1,157
Interest expense added to loan principal	1,733	1,563
Unrealized gain on derivative liability	-	(56)
Compensation charge for stock and share options	232	1,793
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(27)	253
Increase in prepaid expenses and other	(910)	(437)
Decrease (increase) in other assets	31	(83)
(Decrease) increase in accounts payable	(832)	507
Increase (decrease) in accrued liabilities	575	(210)
Increase in deferred revenue	553	500
Net cash used for operating activities	(6,064)	(2,814)
Cash flows from investing activities:		
Additions to property, plant and equipment	(858)	(2,109)
Increase in restricted cash	(428)	-
Net cash used for investing activities	(1,286)	(2,109)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	2,000
Principal payments on long-term debt	(4)	(8)
Net cash (used for) provided by financing activities	(4)	1,992
Net decrease in cash and cash equivalents	(7,354)	(2,931)
Cash and cash equivalents, beginning of period	11,370	5,911
Cash and cash equivalents, end of period	$ 4,016	$ 2,980

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Stockholders' Equity (Unaudited)

($ in thousands except per share data)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders' Equity
	Shares	Amount	Capital	Deficit	(Deficit)
Balance as of December 31, 2011	15,429,541	$154	$300,163	$ (298,387)	$ 1,930
Stock awards	9,420	-	-	-	-
Stock based compensation expense	-	-	211	-	211
Net loss	-	-	-	(9,032)	(9,032)
Balance as of June 30, 2012	15,438,961	$154	$300,374	$ (307,419)	$ (6,891)

See accompanying notes to the consolidated financial statements.

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, 2011.

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 management 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, 2011. The results of operations for the six months ended June 30, 2012, are not necessarily indicative of results for the entire fiscal year ending December 31, 2012.

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 $9.0 million for the six months ended June 30, 2012, and $8.0 million for the six months ended June 30, 2011. The Company had working capital of $1.3 million at June 30, 2012, and used cash in operations of $6.1 million for the six months ended June 30, 2012, and $2.8 million for the six months ended June 30, 2011.

Cash requirements during the six month ended June 30, 2012, primarily reflect: (i) certain administrative costs related to the Company's water development efforts including legal and consulting costs associated with the Final Environmental Impact Report for the Cadiz Valley Water Conservation, Recovery and Storage Project ("Water Project"); (ii) due diligence costs associated with exploring the feasibility of converting the natural gas lines the Company has optioned to water transportation facilities; and (iii) $1.0 million in cash payments related to the extension of an option agreement with El Paso Natural Gas. Currently, the Company's sole focus is the development of its land and water assets.

Based upon the Company's current and anticipated usage of cash resources, in connection with pre-construction activities following the approval of the Final Environmental Impact Report, it will require additional working capital commencing during the fourth quarter of fiscal 2012 to meet its cash resource needs from that point forward and to continue to finance its operations until such time its asset development programs produce revenues. To meet working capital requirements, the Company will need to seek additional debt or equity financing in the capital markets. Furthermore, to the extent the Company's Term Loan is not converted into common stock by its lenders prior to the final maturity date, the Company will be required to refinance, extend or otherwise restructure the Term Loan. There can be no assurance that the Company will be able to obtain additional financing (public or private) and refinance, further extend or otherwise restructure the Term Loan on acceptable terms or at all.

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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 and/or sell certain of its real estate assets to meet future cash requirements, which could adversely affect its ability to implement its current business plan and ultimately its viability as a company.

The Company's current resources do not provide the capital necessary to fund its implementation of the Cadiz Valley Water Conservation, Recovery and Storage Project ("Water Project"). There is no assurance that additional financing (public or private) will be available on acceptable terms or at all.

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

On October 19, 2010, the Company closed a new $10 million working capital facility with the same existing lenders. A total of $7 million was drawn during the term of this facility.

In order to provide additional alternatives in connection with the Company's structuring of financing for pre-construction activities, on August 8, 2012, the Company entered into an agreement with the existing Lenders providing the Company an option to extend the maturity date of its Term Loan from June 29, 2013, to November 1, 2013 (See Note 8 - Subsequent Event). As it is the Company's intent to refinance the existing debt facility on a long term basis, the debt continues to be classified as non-current on the consolidated balance sheet.

In October and November 2009, the Company raised $7.1 million with a private placement of 226,200 Units at $31.50 per Unit. This included 20,880 Units purchased by the Lenders of the Term Loan pursuant to the Lenders' Participation Rights under the Term Loan. Each Unit consists of three (3) shares of the Company's common stock and one (1) stock purchase warrant. The warrant entitles the holder to purchase one (1) share of common stock at an exercise price of $15 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.

In June 2011, the Company filed a shelf registration statement on Form S-3 registering the sale of up to $50 million of the Company's common stock in one or more public offerings. The registration statement was declared effective on June 10, 2011. On July 8, 2011, the Company raised $4 million with the sale of 363,636 shares at $11 per share by way of a takedown from this shelf registration. The proceeds were used to replace the unutilized portion of its working capital facility and for general corporate purposes.

On November 30, 2011, the Company raised $6 million in a private placement of 666,667 shares of Common Stock at a price of $9 per share. For every three (3) shares of Common Stock issued, the Company issued (1) Common Stock purchase warrant (collectively, the "Warrants") entitling the holder to purchase, commencing 90 days from the date of the issuance and prior to December 8, 2014, one (1) share of Common Stock at an exercise price of $13 per share. These shares were registered through the Company's prospectus filing on March 28, 2012.

On December 14, 2011, the Company sold 570,000 shares of Common Stock from its existing shelf registration at a price of $9 per share for total proceeds of $5.1 million.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Short-Term Investments

The Company considers all short-term deposits with an original maturity greater than three months, but no greater than one year, to be short-term investments. The Company had no short-term investments at June 30, 2012, or December 31, 2011.

Supplemental Cash Flow Information

No cash payments, including interest, are due on the Term Loan prior to the maturity date, whether or not the Company exercises its option to extend the maturity date from June 29, 2013, to November 1, 2013 (See Note 8 - Subsequent Event).

The Company recorded non-cash additions to fixed assets of $2,530,000 at June 30, 2012, and $1,826,000 at December 31, 2011, which were accrued at the respective period ends, for the costs directly attributable to the development of the Water Project.

Recent Accounting Pronouncements

Fair value measurements and disclosures

Effective January 1, 2012, the Company adopted an update to the accounting rules for fair value measurement. The new accounting principle establishes a consistent definition of fair value in an effort to ensure that the fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ("IFRS") are comparable. This update changes certain fair value measurement principles and enhances the disclosure requirements for fair value measurements. This update does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use was already required or permitted by other standards within U.S. GAAP or IFRS. This update is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The adoption of this pronouncement did not have a material impact on the Company’s Condensed Consolidated Financial Statements and accompanying disclosures.

Statement of comprehensive income

Effective January 1, 2012, the Company adopted the FASB issued authoritative guidance on the presentation of comprehensive income. This update requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The adoption of this pronouncement did not have a material impact on the Company’s Condensed Consolidated Financial Statements and accompanying disclosures.

Goodwill impairment

Effective January 1, 2012, the Company adopted an update to the authoritative guidance related to goodwill impairment testing. This update gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step test mandated prior to the update. If, after assessing the totality of events and circumstances, a company determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it must perform the two-step test. Otherwise, a company may skip the two-step test. Companies are not required to perform the qualitative assessment and may, instead proceed directly to the first step of the two-part test. The adoption of this update guidance did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

NOTE 2 - PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

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

	June 30, 2012	December 31, 2011
Land and land improvements	$ 24,192	$ 24,188
Water programs	20,815	18,914
Buildings	1,187	1,187
Leasehold improvements	570	570
Furniture and fixtures	458	458
Machinery and equipment	1,061	997
Construction in progress	103	103
	48,386	46,417
Less accumulated depreciation	(4,719)	(4,531)
	$ 43,667	$ 41,886

Depreciation expense totaled $95,000 for the three months ended June 30, 2012, and $92,000 for the three months ended June 30, 2011. Depreciation expense totaled $188,000 and $181,000 for the six months ended June 30, 2012 and 2011, respectively.

NOTE 3 – LONG-TERM DEBT

The carrying value of the Company's debt, before discount, approximates fair value. The fair value of the Company’s debt (Level 2) is determined based on an estimation of discounted future cash flows of the debt at rates currently quoted or offered to the Company for similar debt instruments of comparable maturities by its lenders.

At June 30, 2012, and December 31, 2011, the carrying amount of the Company’s outstanding debt is summarized as follows (in thousands):

	June 30, 2012	December 31, 2011
Zero coupon secured convertible term loan due June 29, 2013. Interest accruing at 5% per annum until June 29, 2009 and at 6% thereafter	$ 58,406	$ 56,673
Other loans	-	4
Debt discount, net of accumulated accretion	(3,260)	(4,641)
	55,146	52,036
Less current portion	-	4
	$ 55,146	$ 52,032

Pursuant to the Company's loan agreements, annual maturities of long-term debt outstanding on June 30, 2012, are as follows:

12 Months Ending June 30	(in thousands)	
2013		58,406
2014		-
2015		-
	$	58,406

In June 2006, the Company entered into a $36.4 million five year zero coupon senior secured convertible term loan with Peloton Partners LLP (through an affiliate) ("Peloton") and another lender (the "Term Loan"). On April 16, 2008, the Company was 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, the Company completed arrangements to amend the Term Loan with Lampe Conway which modified certain of the conversion features and extended the maturity date to June 29, 2013 with interest continuing to accrue at 6% per annum through maturity. Further, the conversion feature was modified to allow up to $4.55 million of principal to be converted into 650,000 shares of the Company's Common Stock ("Common Stock") at a conversion price of $7 per share, and the remaining principal and interest to be converted into shares of Common Stock at a conversion price of $35 per share.

On October 19, 2010, the Company closed a new $10 million working capital facility with Lampe Conway and other participating lenders ("the Lenders"). Under the terms of the new $10 million facility, the Company drew the first $5 million at closing ("First Tranche"). Also upon closing, the Company was granted the option to draw up to an additional $5 million over the subsequent 12 months ("Second Tranche"). The Company drew a total of $2 million on the Second Tranche prior to its expiration. All interest on outstanding balances accrue at 6%, with no principal or interest payments required before the new facility's maturity date, consistent with the Company's existing term debt facility.

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

Also on October 19, 2010, the Company's existing debt facility with the Lenders was modified as to certain of its conversion features. $20.62 million of the existing convertible debt was changed to allow for up to $2.5 million of this amount to be converted at any time into the Company's common stock at the price of $13.50 per share, with the remaining amount becoming non-convertible. On June 30, 2011, $2 million of the $5 million available under the Second Tranche was drawn. As a result of the Second Tranche draw, $4 million of the outstanding loan became convertible into 320,000 shares of Cadiz common stock. Further, approximately $10 million of the loan that was previously convertible into approximately 290,000 shares of Cadiz common stock is no longer convertible.

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

As a result of the modifications of the convertible debt arrangements in June 2009 and October 2010, the change in conversion value between the original and modified instrument totaling approximately $3.2 million was recorded as additional debt discount with an offsetting amount recorded as additional paid-in capital. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan as additional interest expense. In connection with the modification transaction in October 2010, the Company recorded a derivative liability related to the conversion option. The fair value of the derivative liability was marked-to-market at the end of each reporting period and recorded as other income (expense). On July 25, 2011, the Company entered into an amendment to the facility eliminating the availability to the Company of the unused $3 million portion of the facility. As a result, the conversion option related to the unused portion of the facility no longer exists and a derivative liability is no longer being recorded.

On August 8, 2012, the Company entered into an agreement with the existing Lenders providing the Company an option to extend the maturity date of its Term Loan from June 29, 2013, to November 1, 2013 (See Note 8 - Subsequent Event). As it is the Company's intent to refinance the existing debt facility on a long term basis, the debt continues to be classified as non-current on the consolidated balance sheet.

Payments will be due under the Term Loan only to the extent that the Lenders elect not to exercise equity conversion rights prior to the Term Loan’s final maturity date. The Company currently expects to satisfy amounts due under the Term Loan through one or more of (a) equity conversion pursuant to the terms outlined above; (b) construction financing associated with the Water Project; (c) cash generated from further development of the Company’s other properties, such as a mitigation bank; and (d) debt or equity financing in the capital markets. As previously announced by the Company in February 2012, the Company has engaged an investment bank specializing in infrastructure financing to lead the Company through the construction financing process for the Water Project.

NOTE 4 – COMMON STOCK

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

In November 2008, the Company entered into an agreement with the law firm of Brownstein Hyatt Farber Schreck LLP to provide legal and advisory services. The primary services being provided are advising the Company as to the Water Project design and implementation, permit approvals, environmental compliance, negotiation and drafting of agreements related to the Water Project. The agreement provides for interim payments due upon completion of specified milestones with respect to the Water Project, with the fee payable in cash and/or stock. The first such milestone was satisfied on June 4, 2009, resulting in an obligation by the Company to pay a fee of $500,000, for which the parties agreed to payment in the form of 59,312 shares of the Company's common stock valued at $8.43 per share, reflecting the fair market value of the stock on June 4, 2009.

NOTE 5 – STOCK-BASED COMPENSATION PLANS AND WARRANTS

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

2003 Management Equity Incentive Plan

In December 2003, concurrently with the completion of the Company's then current financing arrangements with ING, the Company's board of directors authorized the adoption of a Management Equity Incentive Plan. As of June 30, 2012, a total of 315,000 common stock options remain outstanding under this plan.

Outside Director Compensation Plan

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

2007 Management Equity Incentive Plan

The 2007 Management Equity Incentive Plan was approved by stockholders at the 2007 Annual Meeting. As of June 30, 2012, a total of 10,000 common stock options remain outstanding under this plan.

2009 Equity Incentive Plan

The 2009 Equity Incentive Plan was approved by stockholders at the 2009 Annual Meeting. The plan provides for the grant and issuance of up to 850,000 shares and options to the Company's employees and consultants. The plan became effective when the Company filed a registration statement on Form S-8 on December 18, 2009. All options issued under the 2009 Equity Incentive Plan have a ten year term with vesting periods ranging from issuance date to 24 months. To date, 537,500 common stock purchase options have been issued under this plan and all remained outstanding as of June 30, 2012.

All options that have been issued under the above plans have been issued to officers, employees and consultants of the Company. In total, options to purchase 862,500 shares were unexercised and outstanding on June 30, 2012, under the three equity incentive plans.

The Company recognized stock option related compensation costs of $182,000 and $713,000 in the six months ended June 30, 2012 and 2011, respectively. On June 30, 2012, there was $145,000 of unamortized compensation expense relating to option awards. This unamortized compensation expense is expected to be recognized through December 2013. No options were exercised during the six months ended June 30, 2012.

Stock Awards to Directors, Officers, and Consultants

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

250,000 shares were issued under the 2007 Management Equity Incentive Plan. A 150,000 share award was issued that vested in three equal installments on January 1, 2008, January 1, 2009, and January 1, 2010. Of the remaining 100,000 shares reserved under the 2007 Management Equity Incentive Plan, 10,000 were issued as options as described above, and 90,000 were issued as shares that vested in May 2009 consistent with the terms of the agreements pursuant to which those executives provide services to the Company.

Of the total 850,000 shares reserved under the 2009 Equity Incentive Plan, a grant of 115,000 restricted shares of common stock became effective on January 14, 2010, and a grant of 140,000 restricted shares of common stock became effective on January 10, 2011, consistent with the terms of the agreements pursuant to which those executives provide services to the Company and which contemplate that such executives will participate in the Company's long-term incentive plans. The recipients of these restricted shares have a contractual agreement not to sell any of these shares for a period of three years following the effective date. Of the remaining 595,000 shares reserved under the 2009 Equity Incentive Plan, 22,707 shares of common stock were awarded to directors, 537,500 were issued as options as described above and 34,793 are available for future distribution as of June 30, 2012.

Under the Outside Director Compensation Plan, 72,782 shares have been awarded for the plan years ended June 30, 2003, through June 30, 2011. Of the 72,782 shares awarded, 58,987 shares have vested and been issued. The remaining 13,795 shares will vest on January 31, 2013.

The Company recognized stock based compensation costs related to stock based awards of $49,000 and $1,081,000 in the six months ended June 30, 2012 and 2011, respectively.

Stock Purchase Warrants Issued to Non-Employees

The Company accounts for equity securities issued to non-employees in accordance with the provisions of ASC 718 and ASC 505.

In October and November 2009, the Company raised $7.1 million with a private placement of 226,200 Units at $31.50 per Unit. This includes 20,880 Units purchased by the Lenders of the Term Loan pursuant to the Lenders' Participation Rights under the Term Loan. Each Unit consists of three (3) shares of the Company's common stock and one (1) stock purchase warrant. The warrant entitles the holder to purchase one (1) share of common stock at an exercise price of $15 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.

On November 30, 2011, the Company raised $6 million in a private placement of 666,667 shares of Common Stock at a price of $9 per share. For every three (3) shares of Common Stock issued, the Company issued (1) Common Stock purchase warrant (collectively, the "Warrants") entitling the holder to purchase, commencing 90 days from the date of the issuance and prior to December 8, 2014, one (1) share of Common Stock at an exercise price of $13 per share.

448,423 warrants remain outstanding as of June 30, 2012.

NOTE 6 – INCOME TAXES

As of June 30, 2012, the Company had net operating loss ("NOL") carryforwards of approximately $121 million for federal income tax purposes and $82 million for California state income tax purposes. Such carryforwards expire in varying amounts through the year 2032. 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's Federal NOLs are estimated to be approximately $58 million.

As of June 30, 2012, 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 $321,000 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, 2012.

The Company expects that the unrecognized tax benefits will decrease in the next 12 months by approximately $300,000 as a result of the expiration of statutes of limitation on December 31, 2012.

The Company's tax years 2008 through 2011 remain subject to examination by the Internal Revenue Service, and tax years 2007 through 2011 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 by the weighted-average common shares outstanding. Options, deferred stock units, warrants and the zero coupon term loan convertible into or exercisable for certain shares of the Company’s common stock 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 2,957,000 and 2,653,000 for the three months ended June 30, 2012 and 2011, respectively, and 2,833,000 and 2,601,000 for the six months ended June 30, 2012 and 2011, respectively.

NOTE 8 - SUBSEQUENT EVENT

On August 8, 2012, the Company entered into an agreement with its existing Lenders providing the Company an option, exercisable at any time prior to June 29, 2013, to extend the current maturity date of its Term Loan from June 29, 2013, to November 1, 2013 ("Extension Right"). The Extension Right required a payment by the Company of $100,000 at the time entered into and, if exercised, will require a further payment of $500,000 at the Company's option in cash or Company securities.

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, 2011.

Overview

Our primary asset consists 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, naturally recharging groundwater resources, and is situated in proximity to the Colorado River and the Colorado River Aqueduct (“CRA”), the major source of imported water for Southern California. Our main objective is to realize the highest and best use of these land and water resources in an environmentally responsible way.

For more than 20 years, we have maintained an agricultural development at our property in the Cadiz Valley, relying upon groundwater from the underlying aquifer system for irrigation. In 1993, we secured permits for agricultural production on up to 9,600 acres of the 34,000-acre Cadiz Valley property and the withdrawal of more than one million acre-feet of groundwater from the underlying aquifer system. Since that time, we have maintained various levels of agricultural development at the property and this development has provided our principal source of revenue. Although sustainable agricultural development is an important and enduring component of our business, we believe that the long-term value of our assets can best be derived through the development of a combination of water supply and storage projects at our properties.

The primary factors that drive the value of water supply and storage projects are continued population growth and sustained pressure on water supplies throughout California, including environmental restrictions and regulatory shortages on each of the State’s three primary water sources: the State Water Project, the Colorado River and the Los Angeles Aqueduct. Southern California’s water providers rely on these imported sources for a majority of their water supplies. Availability of supplies in California also differs greatly from year to year due to natural hydrological variability. For example, an historic drought from 2007 – 2009 was followed by above-average rainfall in 2010 and average rainfall in 2011 and through the first half of 2012. State Water Project deliveries are presently limited to just 60% of capacity for the year. With the region’s population expected to continue to grow, Southern California water providers are presently seeking new, reliable supply solutions to address anticipated fluctuations in traditional supplies and to plan for long-term water needs.

At present, our development efforts are primarily focused on the Cadiz Valley Water Conservation, Recovery and Storage Project ("Water Project" or "Project"), which proposes to capture and conserve millions of acre-feet of native groundwater currently being lost to evaporation from the aquifer system beneath our Cadiz Valley property and deliver it to water providers throughout Southern California (see "Water Resource Development"). We believe that the ultimate implementation of this Water Project will create the primary source of our future cash flow and, accordingly, our working capital requirements relate largely to the development activities associated with this Water Project.

Additionally, we are currently exploring opportunities to enter the water transportation market, and have executed two separate option agreements that, if exercised, would allow us to purchase a total of approximately 300 miles of existing, idle underground natural gas pipelines in Southern California for conversion to water transmission (see "Other Development Opportunities"). Initial feasibility studies indicate that the lines have excellent potential to be utilized by the Water Project and/or to move water into other areas of the region that currently lack access to water transportation infrastructure.

Further, we continue to explore additional uses of our land and water resource assets, including siting solar energy facilities and the development of a habitat mitigation bank. We plan to continue our current development efforts and also pursue strategic investments in complementary business or infrastructure to meet our objectives. We cannot predict with certainty when or if these objectives will be realized.

Water Resource Development

The Water Project is designed to capture and conserve billions of gallons of renewable native groundwater currently being lost annually to evaporation from the aquifer system underlying our Cadiz/Fenner Property and provide a reliable water supply to water users in Southern California. By implementing established groundwater management practices, the Water Project will create a new, sustainable water supply for Project participants without adversely impacting the aquifer system or the desert environment. The total quantity of groundwater to be recovered and conveyed to Project participants will not exceed a long-term annual average of 50,000 acre-feet per year. The Project also offers participants the ability to carry-over their annual supply, and store it in the groundwater basin from year to year, as well as approximately one million acre-feet of storage capacity that can be used to store imported water.

Water Project facilities would include, among other things:

- High yield wells designed to efficiently recover available native groundwater from beneath the Water Project area;
- A 43-mile conveyance pipeline to connect the well field to the CRA;
- A pumping plant to pump water through the conveyance pipeline from the CRA to the Project well-field, if an imported water storage component of the project is ultimately implemented;

- An energy source to provide power to the well-field, pipeline and pumping plant; and

- Spreading basins, which are shallow settling ponds that will be configured to efficiently percolate water from the ground surface down to the water table using subsurface storage capacity for the storage of water, if an imported water storage component of the project is ultimately implemented.

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

(1) A Water Conveyance Right-of-Way or Pipeline from the Water Project Area to a Delivery System

In September 2008, we secured a right-of-way for the Water Project's water conveyance pipeline by entering into a lease agreement with the Arizona & California Railroad Company ("ARZC"). The agreement allows for the use of a portion of the railroad's right-of-way to construct and operate a water conveyance pipeline for a period up to 99 years. The pipeline would be used to convey water between our Cadiz Valley property and the CRA. As part of the lease agreement, the ARZC would also receive water from the Project for fire suppression and other railroad purposes.

We are also exploring the potential to utilize one of the unused natural gas pipelines (as described in "Overview" above) that exist in the Project area, and as to which we hold an option right, as a means to access additional distribution systems. Initial feasibility studies indicate that this line could be used as a component of the Project to distribute water to Project participants in Phase I or import water from the California Aqueduct for storage at the Project area in Phase II. The potential use of this line by the Project has been analyzed as part of the Project's California Environmental Quality Act ("CEQA") process (see "Other Development Opportunities").

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

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

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

In 2011, we entered into similar agreements with Jurupa Community Services District (“JCSD”) and California Water Service Company (“Cal Water”). JCSD provides water and sewer services in a 48-square mile service area located in an unincorporated portion of western Riverside County, California. Cal Water, the third largest investor-owned American water utility, distributes and sells water to 1.7 million Californians through 435,000 connections in communities from Chico in Northern California to the Palos Verdes Peninsula in Southern California.

Under the terms of the agreements with the six water providers, upon completion of the Water Project’s CEQA review and certification of the Final Environmental Impact Report (“Final EIR”), which occurred on July 31, 2012, each agency now has the right to acquire an annual supply of 5,000 acre-feet of water at a pre-determined formula competitive with their incremental cost of new water. Following the July 31, 2012 CEQA certification, SMWD also adopted resolutions approving the form of a Water Purchase and Sale Agreement for 5,000 acre-feet of water. SMWD also was given the option to purchase an additional 10,000 acre-feet of water per year. In addition, the agencies have options to acquire storage rights in the Water Project to allow them to manage their supplies to complement their other water resources.

Approximately 80% of the water to be conserved annually by the Project is now either under a Purchase and Sale Agreement or under option. We continue to work with additional water providers interested in acquiring rights to the remaining available Project supplies and are in discussions with third parties regarding the imported storage aspect of this Project.

(3) Environmental Permits

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

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

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

A Notice of Preparation ("NOP") of a Draft Environmental Impact Report ("Draft EIR") formally commencing the public portion of the CEQA process was issued in February 2011 by SMWD. Two public scoping meetings were held in March 2011. SMWD released the Draft EIR on December 5, 2011, and conducted a 100-day public comment period, which concluded on March 14, 2012. As part of the comment period, SMWD hosted two public comment meetings and an informational workshop in January and February 2012.

The Draft EIR is a key component of the Project's environmental review and permitting process, and analyzes potential impacts to environmental resources at the Project area, including critical resources of the desert environment such as vegetation, mountain springs, and water and air quality. The Draft EIR considered peer-reviewed technical reports, as well as independently collected data, existing reports and a new state of the art Groundwater Management, Monitoring and Mitigation Plan ("GMMMP") to complete its analysis of the Project. The Draft EIR summarizes that, with the exception of unavoidable short-term construction emissions, by implementing the measures developed in the GMMMP, the Project will avoid any significant impacts to desert resources.

On May 1, 2012, the San Bernardino County Board of Supervisors voted to approve a memorandum of understanding with SMWD and Cadiz to establish a framework for finalizing the GMMMP and the County's role in enforcement of the GMMMP.

On July 13, 2012, SMWD released the Final EIR and responses to comments. A hearing was held on July 25, 2012, by the SMWD Board of Directors to take public comment and consider certification of the Final EIR.

On July 31, 2012, the SMWD Board of Directors certified the Final EIR.

(4) Construction and Working Capital

Within the Purchase and Sale Agreement with SMWD referred to in (2), above, SMWD is further authorized to continue next steps with Cadiz, which include permitting, design, construction, budgeting and developing an agreement with the Metropolitan Water District to deliver the Project's water to SMWD. We also expect that we will complete economic agreements with the other Water Project participants. As described above, construction would primarily consist of well-field facilities at the Water Project site, a conveyance pipeline extending approximately 43 miles along the right-of-way described in (1), above, from the well-field to the Colorado River Aqueduct ("CRA"), and an energy source to pump water through the conveyance pipeline between the Project well-field and the CRA.

Should the Water Project ultimately include the use of an existing natural gas pipeline as to which we hold option rights, then we will also incur costs associated with the exercise of this option and the conversion of the pipeline (see "Other Development Opportunities", below).

Agricultural Development

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

Permanent crops currently in commercial production include 160 acres of vineyards of certified-organic, dried-on-the-vine raisins and 260 acres of lemons. Both of these crops are farmed using sustainable agricultural practices.

We currently derive our agricultural revenues through the sale of our products in bulk or through independent packing facilities. We incur all of the costs necessary to produce and harvest our organic raisin crop. These raisins are then sold in bulk to a raisin processing facility. We also incur all of the costs necessary to produce our lemon crop. Once harvested, the lemons are shipped in bulk to a packing and sales facility.

In 2009, we entered into a lease agreement with a third party to develop up to an additional 500 acres of lemon orchards, 180 acres of which have been planted to date. We expect to receive lease income once the new lemon orchards reach commercial production through a profit sharing agreement within the lease.

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

Other Development Opportunities

Water Transportation

As described above (see "Overview"), we are currently evaluating the feasibility of converting existing idle natural gas pipelines for the transportation of water, either exclusively for the distribution of third party water or, in certain segments, in conjunction with the Water Project. In September 2011, we entered into two separate agreements with El Paso Natural Gas ("EPNG") and Questar Corporation ("Questar") providing us with options to purchase two separate underground natural gas pipelines. In February 2012, we made a $1,000,000 payment to extend our option agreement with EPNG to April 2013. In June 2012, the option agreement with Questar was amended to extend the option period to continue through April 2013. If both purchase options are exercised they would require payments totaling $50.5 million. Initial feasibility studies indicate that, upon conversion, the two pipelines would have a combined average capacity to distribute up to 40,000 acre-feet of water per year per segment in markets that currently lack multiple pick-up and delivery water distribution segments.

Currently, the vast majority of potential water transfers in Southern California are difficult to implement because of location or the lack of space available in the existing distribution system, thereby creating a demand for additional water transfer capacity. If we are ultimately able to utilize the natural gas pipelines to provide new water transmission lines in key markets, we intend to access existing demand for water transfers and allow agencies to do so outside of the few existing systems. Further, we believe a conversion of the pipelines for water transfer use, if feasible, will allow remote water supplies to reach the urban market and could also help link Southern California groundwater systems that have been historically inaccessible.

The EPNG line, which originates near Bakersfield, California, and extends 220 miles into Cadiz, California, could potentially be used in conjunction with the Water Project. This use was further evaluated in the Project's CEQA environmental documents described above (see "Water Resource Development").

Solar Energy Production

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

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

Other Property Development

Approximately 15,000 acres of our properties not currently being developed are located within areas designated by the federal government as Critical Desert Tortoise Habitat and/or Desert Wilderness Areas. We are currently exploring the potential to make certain of these properties available in a mitigation bank, which provides credits that can be acquired by entities that must acquire land to mitigate or offset development in other areas.

Over the longer-term, we believe 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 may become attractive. Moreover, other opportunities in business or infrastructure complementary to our current objectives could provide new opportunities for our business.

We remain committed to the sustainable use of our land and water assets, and will continue to explore all opportunities for environmentally-responsible development of these assets. We cannot predict with certainty which of these various opportunities will ultimately be realized.

Results of Operations

Three Months Ended June 30, 2012, Compared to Three Months Ended June 30, 2011

We have not received significant revenues from our water resource and real estate development activity to date. As a result, we have historically incurred a net loss from operations. We had revenues of $6 thousand for the three months ended June 30, 2012, and $40 thousand for the three months ended June 30, 2011. We incurred a net loss of $4.6 million in the three months ended June 30, 2012, compared with a $3.7 million net loss during the three months ended June 30, 2011.

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

Revenues We had revenues of $6 thousand for the three months ended June 30, 2012, and $40 thousand for the three months ended June 30, 2011. The decrease in revenue in 2012 was primarily due to a smaller and shorter 2011-2012 lemon harvest season in comparison to the 2010-2011 lemon harvest year.

Cost of Sales Cost of sales was $2 thousand for the three months ended June 30, 2012, and $18 thousand for the three months ended June 30, 2011. The lower cost of sales reflects the lower lemon harvesting and marketing costs due to the shorter harvest season and smaller size of the 2011-2012 lemon crop.

General and Administrative Expenses General and administrative expenses were $2.9 million during the three months ended June 30, 2012, and $2.2 million during the three months ended June 30, 2011. 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, 2012, were $73 thousand, compared with $567 thousand for the three months ended June 30, 2011. The expense reflects the vesting schedules of the stock and option awards under the 2009 Equity Incentive Plan. The lower 2012 expense was primarily due to lower stock based non-cash compensation costs related to stock and options issued in 2011 under the 2009 Equity Incentive Plan.

Other General and Administrative Expenses, exclusive of stock based compensation costs, totaled $2.8 million and $1.7 million for the three months ended June 30, 2012 and 2011, respectively. The higher 2012 expenses were primarily due to additional legal and consulting fees related to water development efforts in connection with the Final Environmental Impact Report and due diligence costs associated with the feasibility of converting the natural gas lines we have optioned to water transportation facilities (see "Other Development Opportunities").

Depreciation Depreciation expense totaled $95 thousand for the three months ended June 30, 2012, and $92 thousand for the three months ended June 30, 2011.

Interest Expense, net Net interest expense totaled $1.6 million during the three months ended June 30, 2012, compared to $1.4 million during the same period in 2011. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Three Months Ended June 30, 2012	2011
Interest on outstanding debt	$ 873	$ 791
Amortization of financing costs	23	20
Amortization of debt discount	701	563
Interest income	(1)	-
	$ 1,596	$ 1,374

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

Other Expense, net Net other expense for the three months ended June 30, 2012 was $0 and $65 thousand for the three months ended June 30, 2011. The amount recorded in 2011 relates to the derivative liability associated with certain of the Term Loan's conversion options. See Notes to the Consolidated Financial Statements: Note 3 – Long-term Debt.

Income Taxes Income tax expense for the three months ended June 30, 2012 was $2 thousand and $1 thousand for the three months ended June 30, 2011. See Notes to the Consolidated Financial Statements: Note 6 – Income Taxes.

Six Months Ended June 30, 2012, Compared to Six Months Ended June 30, 2011

We had revenues of $37 thousand for the six months ended June 30, 2012, and $497 thousand for the six months ended June 30, 2011. We incurred a net loss of $9.0 million in the six months ended June 30, 2012, compared with a $8.0 million net loss during the six months ended June 30, 2011.

Revenues We had revenues of $37 thousand for the six months ended June 30, 2012, and $497 thousand for the six months ended June 30, 2011. The decrease in revenue in 2012 was primarily due to a smaller and shorter 2011-2012 lemon harvest season in comparison to the 2010-2011 lemon harvest year.

Cost of Sales Cost of sales totaled $2 thousand during the six months ended June 30, 2012, and $450 thousand during the six months ended June 30, 2011. The lower cost of sales reflects the lower lemon harvesting and marketing costs due to the shorter harvest season and smaller size of the 2011-2012 lemon crop.

General and Administrative Expenses General and administrative expenses during the six months ended June 30, 2012, totaled $5.7 million compared to $5.2 million for the six months ended June 30, 2011. 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 six months ended June 30, 2012, were $232 thousand compared with $1.8 million for the six months ended June 30, 2011. The expense reflects the vesting schedules of the stock and option awards under the 2009 equity incentive plan.

Other General and Administrative Expenses, exclusive of stock based compensation costs, totaled $5.5 million in the six months ended June 30, 2012, compared with $3.4 million for the six months ended June 30, 2011. The higher 2012 expenses were primarily due to additional legal and consulting fees related to water development efforts in connection with the Final Environmental Impact Report and due diligence costs associated with the feasibility of converting the natural gas lines we have optioned to water transportation facilities (see "Other Development Opportunities").

Depreciation Depreciation expense totaled $188 thousand for the six months ended June 30, 2012, and $181 thousand for the six months ended June 30, 2011.

Interest Expense, net Net interest expense totaled $3.2 million during the six months ended June 30, 2012, compared to $2.7 million during the same period in 2011. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Six Months Ended June 30,	
	2012	2011
Interest on outstanding debt	$ 1,733	$ 1,563
Amortization of financing costs	44	39
Amortization of debt discount	1,381	1,118
Interest income	(2)	(2)
	$ 3,156	$ 2,718

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

Other Income, net Net other income for the six months ended June 30, 2012, was $0 and $56 thousand for the six months ended June 30, 2011. The amount recorded in 2011 is in connection to the derivative liability related to certain of the Term Loan's conversion options. See Notes to the Consolidated Financial Statements: Note 3 – Long-term Debt.

Income Taxes Income tax expense was $5 thousand for the six months ended June 30, 2012, and $3 thousand for the six months ended June 30, 2011. See Notes to the Consolidated Financial Statements: Note 6 – Income Taxes.

Liquidity and Capital Resources

Current Financing Arrangements

As we have not received significant revenues from our development activities 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.

Based upon our current and anticipated usage of cash resources, in connection with pre-construction activities following approval of the Final Environmental Impact Report, we will require additional working capital commencing during the fourth quarter of fiscal 2012 to meet our cash resource needs from that point forward and to continue to finance our operations until such time as our asset development programs produce revenues. To meet working capital requirements, we will need to seek additional debt or equity financing in the capital markets. Furthermore, to the extent the Term Loan is not converted into common stock by the lenders prior to the final maturity date, we will be required to refinance, extend or otherwise restructure the Term Loan.

We have worked with our secured lenders to structure our debt in a way which allows us to continue our development of the Water Project and minimize the dilution of the ownership interests of common stockholders. In June 2006, we entered into a $36.4 million five year zero coupon senior secured convertible term loan with Peloton Partners LLP (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 with Lampe Conway which modified certain of the conversion features and extended the maturity date to June 29, 2013, with interest continuing to accrue at 6% per annum though maturity. Further, the conversion feature was modified to allow up to $4.55 million of principal to be converted into 650,000 shares of our Common Stock (“Common Stock”) at a conversion price of $7 per share, and the remaining principal and interest to be converted into shares of Common Stock at a conversion price of $35 per share.

On October 19, 2010, we closed a new $10 million working capital facility with Lampe Conway and our other participating lender (“the Lenders”). Under the terms of the new $10 million facility, we drew the first $5 million at closing (“First Tranche”). Also upon closing, we were granted the option to draw up to an additional $5 million over the subsequent 12 months (“Second Tranche”). We drew a total of $2 million on the Second Tranche prior to its expiration. All interest on outstanding balances accrues at 6%, with no principal or interest payments required before the new facility’s maturity date, consistent with our existing term debt facility.

The First Tranche (including accrued interest) is convertible at any time Common Stock at a price of $13.50 per share, and the Second Tranche (including accrued interest) is convertible Common Stock at $12.50 per share.

Also on October 19, 2010, our existing debt facility with the Lenders was modified as to certain of its conversion features. $20.62 million of the existing convertible debt was changed to allow for up to $2.5 million of this amount to be converted at any time into Common Stock at the price of $13.50 per share, with the remaining amount becoming non-convertible. On June 30, 2011, $2 million of the $5 million available Second Tranche was drawn. As a result of the Second Tranche draw, $4 million of the outstanding loan became convertible into 320,000 shares of Common Stock. Further, approximately $10 million of the loan that was previously convertible into approximately 290,000 shares of Cadiz common stock is no longer convertible.

In order to provide additional alternatives in connection with our structuring of financing for pre-construction activities, on August 8, 2012, we entered into an agreement with our existing Lenders providing the Company an option to extend the maturity date of our Term Loan from June 29, 2013, to November 1, 2013 (see Notes to the Consolidated Financial Statements: Note 8 – Subsequent Event). As it is our intent to refinance the existing debt facility on a long term basis, the debt continues to be classified as non-current on the consolidated balance sheet.

The Term Loan is collateralized by substantially all of the assets of the Company, and contains representations, warranties and covenants that are typical for agreements of this type, including restrictions that would limit our ability to incur additional indebtedness, incur liens, pay dividends or make restricted payments, dispose of assets, make investments and merge or consolidate with another person. However, while there are affirmative covenants, there are no financial maintenance covenants and no restrictions on our ability to issue additional common stock to fund future working capital needs. 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, 2012, we were in compliance with its debt covenants.

On July 8, 2011, we sold 363,636 shares of Common Stock at a price of $11 per share for total proceeds of $4 million. The proceeds were used to replace the unutilized portion of our working capital facility and for general corporate purposes.

On November 30, 2011, we raised $6 million in a private placement of 666,667 shares of Common Stock at a price of $9 per share. For every three (3) shares of Common Stock issued, we issued (1) Common Stock purchase warrant (collectively, the “Warrants”) entitling the holder to purchase, commencing 90 days from the date of the issuance and prior to December 8, 2014, one (1) share of Common Stock at an exercise price of $13 per share.

On December 14, 2011, we sold 570,000 shares of Common Stock at a price of $9 per share for total proceeds of $5.1 million.

Additionally, as a result of private placements conducted in 2009, we have 226,200 common stock purchase warrants outstanding that are exercisable at $15 per share and expire in October and November of 2012. If these warrants were fully exercised, they would result in proceeds of approximately $3.4 million to the Company.

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

At June 30, 2012, we had no outstanding credit facilities other than the Convertible Term Loan.

Cash Used for Operating Activities. Cash used for operating activities totaled $6.1 million and $2.8 million for the six months ended June 30, 2012 and 2011, respectively. The cash was primarily used to fund: (i) general and administrative expenses related to our water development efforts including the development of the Final Environmental Impact Report; (ii) due diligence costs associated with exploring the feasibility of converting the natural gas lines we have optioned to water transportation facilities; and (iii) $1.0 million in cash payments related to the extension of an option agreement with El Paso Natural Gas (see “Other Development Opportunities”).

Cash Used for Investing Activities. Cash used for investing activities during the six months ended June 30, 2012 was $1.3 million compared with $2.1 million during the same period in 2011. The 2011 period included additional investments in well-field and environmental work related to progressing the Water Project.

Cash Used for (Provided by) Financing Activities. Cash used for financing activities for the six months ended June 30, 2012 was $4 thousand compared with $2 million provided by financing activities during the same period in 2011. The 2011 period included $2 million drawn by the Company on the second tranche of its Term Loan.

Outlook

Short Term Outlook. Based on our current and anticipated usage of cash resources, in connection with pre-construction activities following approval of the Final Environmental Impact Report, we will require additional working capital commencing during the fourth quarter of fiscal 2012 to meet our cash resource needs from that point forward and to continue to finance our operations until such time as our asset development programs produce revenues. To meet working capital requirements, we will need to seek additional debt or equity financing in the capital markets. Furthermore, payments will be due under the Term Loan only to the extent that the Lenders elect not to exercise equity conversion rights prior to the Term Loan's final maturity date. We currently expect to satisfy amounts due under the Term Loan through one or more of (a) equity conversion pursuant to the terms outlined in Note 3 to the Consolidated Financial Statements - Long-Term Debt; (b) construction financing associated with the Water Project; (c) cash generated from further development of our other properties, such as a mitigation bank; and (d) debt or equity financing in the capital markets. As previously announced by the Company in February 2012, we have engaged an investment bank specializing in infrastructure financing to lead the Company through the construction financing process for the Water Project.

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. Our future working capital needs will depend upon the specific measures we pursue in the development of our water resources and other development. Future capital expenditures will depend primarily on the progress of the Water Project.

We will evaluate the amount of cash needed, and the manner in which such cash will be raised, on an ongoing basis. We may meet any future cash requirements through a variety of means, including debt or equity placements, or through the sale or other disposition of assets. Equity placements would be undertaken only to the extent necessary, so as to minimize the dilutive effect of any such placements upon our existing stockholders. Limitations on our liquidity and ability to raise capital may adversely affect us. Sufficient liquidity is critical to meet our resource development activities. Although we currently expect our sources of capital to be sufficient to meet our near term liquidity needs, there can be no assurance that our liquidity requirements will continue to be satisfied. If we cannot raise needed funds, we might be forced to make substantial reductions in our operating expenses and/or sell certain of our real estate assets, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company.

Recent Accounting Pronouncements

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

Certain Known Contractual Obligations

	Payments Due by Period				
Contractual Obligations	Total	1 year or less	2-3 years	4-5 years	After 5 years
(in thousands)					
Long-term debt obligations	$58,406	$58,406	$-	$-	$-
Interest Expense	3,625	3,625	-	-	-
Operating leases	886	289	373	224	-
	$62,917	$62,320	$373	$224	$-

* The above table does not reflect unrecognized tax benefits of $3.3 million, the timing of which is uncertain. Refer to Note 7 to our Annual Report on Form 10-K for the year ended December 31, 2011.

Not included in the table above is a potential obligation to pay an amount of up to 1% of the net present value of the Water Project in consideration of certain legal and advisory services to be provided to us by Brownstein Hyatt Farber Schreck LLP. The primary services being provided are advising us as to Water Project design and implementation, permit approvals, environmental compliance, negotiation and drafting of agreements related to the Water Project. This fee would be payable upon receipt of all environmental approvals and permits and the execution of binding agreements for at least 51% of the Water Project's annual capacity. A portion of this fee may be payable in stock. Interim payments of up to $1.5 million, to be credited against the final total, would be made upon the achievement of certain specified milestones. $500 thousand of these interim payments was earned and paid in June 2009 in consideration for the legal and advisory services previously provided. This arrangement may be terminated by either party upon 60 days notice, with any compensation earned but unpaid prior to termination payable following termination.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2012, all of the Company's indebtedness bore interest at fixed rates; therefore, the Company is not exposed to market risk from changes in interest rates on long-term debt obligations.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

The Company established disclosure controls and procedures to ensure that material information related to the Company, including its consolidated entities, is accumulated and communicated to senior management, including the Chairman and Chief Executive Officer (the "Principal Executive Officer") and Chief Financial Officer (the "Principal Financial Officer") and to its Board of Directors. Based on their evaluation as of June 30, 2012, the Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and such information is accumulated and communicated to management, including the principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

As noted under Item 1A, Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, third parties have the ability in California to file litigation challenging the approval of a project, which they usually do by alleging inadequate disclosure and mitigation of the environmental impacts of the project. As a result we are and expect to continue to be party to various legal proceedings arising in the general course of our business, including in particular our development of the Water Project. We cannot predict the ultimate outcome of any such proceeding, however, at present we do not believe that the ultimate resolution of these proceedings will have a material adverse effect on our business.

ITEM 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

On August 7, 2012, our Board of Directors scheduled our 2012 Annual Meeting of Stockholders ("Annual Meeting") for November 5, 2012. The record date, time and location of the Annual Meeting will be as set forth in our proxy statement for the Annual Meeting.

Because the date of the Annual Meeting will be more than 30 days after the anniversary of our 2011 Annual Meeting of Stockholders, any qualified stockholder proposal or stockholder nominations to be included in our proxy statement for the Annual Meeting in accordance with the rules of the Securities and Exchange Commission and our Bylaws must be received on or before September 5, 2012.

ITEM 6. Exhibits

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

10.1 First Amended Agreement to Option Agreement with Questar Southern Trials Pipeline Company dated June 29, 2012

10.2 Amendment No. 5 to Credit Agreement and Amendment No. 3 to Registration Rights Agreement among Cadiz Inc. and Cadiz Real Estate LLC, as Borrowers, the Several Lenders from time to time parties thereto, and LC Capital Master Fund Ltd., as Administrative Agent, dated as of August 8, 2012

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	August 9, 2012
Keith Brackpool	Date
Chairman of the Board and Chief Executive Officer	
(Principal Executive Officer)	

By: /s/ Timothy J. Shaheen	August 9, 2012
Timothy J. Shaheen	Date
Chief Financial Officer and Secretary	
(Principal Financial Officer)	