CADIZ INC
Form 10-Q
August 07, 2014

United States

Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-Q

(Mark One)

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2014
OR
o 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 þ No o

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 þ No o

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 o Accelerated filer þ Non-accelerated filer o Smaller Reporting Company o

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

As of August 4, 2014, the Registrant had 16,177,002 shares of common stock, par value $0.01 per share, outstanding.

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Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

($ in thousands except per share data)	For the Three Months Ended June 30, 2014	2013
Revenues	$11	$4
Costs and expenses:		
Cost of sales	-	-
General and administrative	2,401	2,811
Depreciation	63	64
Total costs and expenses	2,464	2,875
Operating loss	(2,453)	(2,871)
Interest expense, net	(2,061)	(1,589)
Loss before income taxes	(4,514)	(4,460)
Income tax provision	1	1
Net loss and comprehensive loss applicable to common stock	$(4,515)	$(4,461)
Basic and diluted net loss per common share	$(0.28)	$(0.29)
Basic and diluted weighted average shares outstanding	16,172	15,453

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

($ in thousands except per share data)	For the Six Months Ended June 30, 2014	2013
Revenues	$15	$8
Costs and expenses:		
Cost of sales	-	-
General and administrative	4,989	6,695
Depreciation	127	128
Total costs and expenses	5,116	6,823
Operating loss	(5,101)	(6,815)
Interest expense, net	(4,106)	(4,026)
Loss on extinguishment of debt and debt refinancing	-	(1,055)
Loss before income taxes	(9,207)	(11,896)
Income tax provision	2	4
Net loss and comprehensive loss applicable to common stock	$(9,209)	$(11,900)
Basic and diluted net loss per common share	$(0.57)	$(0.77)
Basic and diluted weighted average shares outstanding	16,169	15,450

See accompanying notes to the consolidated financial statements.

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Consolidated Balance Sheets (Unaudited)

($ in thousands except share data)		June 30, 2014		December 31, 2013
ASSETS				
Current assets:				
Cash and cash equivalents	$	5,311	$	11,887
Accounts receivable		243		291
Inventories		205		-
Prepaid expenses and other		403		350
Total current assets		6,162		12,528
Property, plant, equipment and water programs, net		43,707		43,820
Goodwill		3,813		3,813
Debt issuance costs		959		1,068
Other assets		3,216		2,945
Total assets	$	57,857	$	64,174
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	$	222	$	833
Accrued liabilities		1,188		1,738
Current portion of long-term debt		11		11
Total current liabilities		1,421		2,582
Long-term debt, net		100,409		96,417
Deferred revenue		750		750
Other long-term liabilities		923		923
Total liabilities		103,503		100,672
Stockholders' deficit:				
Common stock - $.01 par value; 70,000,000 shares authorized; shares issued and outstanding – 16,172,239 at June 30, 2014 and 16,152,756 at December 31, 2013		161		161
Additional paid-in capital		304,040		303,979
Accumulated deficit		(349,847)		(340,638)
Total stockholders' deficit		(45,646)		(36,498)
Total liabilities and stockholders' deficit	$	57,857	$	64,174

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Cash Flows (Unaudited)

($ in thousands)	For the Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net loss		
Adjustments to reconcile net loss to	$ (9,209)	(11,900)
net cash used for operating activities:		
Depreciation	127	128
Amortization of debt discount and issuance costs	417	1,362
Interest expense added to loan principal	3,689	2,664
Loss on early extinguishment of debt and debt refinancing	-	835
Compensation charge for stock and share option awards	61	453
Changes in operating assets and liabilities:		
Decrease in accounts receivable	48	171
Increase in prepaid expenses and other	(258)	(381)
Increase in other assets	(271)	(2,917)
Decrease in accounts payable	(611)	(420)
Decrease in accrued liabilities	(550)	(546)
Net cash used for operating activities	(6,557)	(10,551)
Cash flows from investing activities:		
Additions to property, plant and equipment	(14)	(167)
Net cash used for investing activities	(14)	(167)
Cash flows from financing activities:		
Net proceeds from issuance of long-term debt	-	17,500
Debt issuance costs	-	(1,243)
Principal payments on long-term debt	(5)	(5)
Net cash (used for) provided by financing activities	(5)	16,252
Net (decrease) increase in cash and cash equivalents	(6,576)	5,534
Cash and cash equivalents, beginning of period	11,887	1,685
Cash and cash equivalents, end of period	$ 5,311	$ 7,219

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Stockholders' Defecit (Unaudited)

($ in thousands except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance as of December 31, 2013	16,152,756	$161	$303,979	$ (340,638)	$ (36,498)
Stock-based compensation expense	19,483	-	61	-	61
Net loss and comprehensive loss	-	-	-	(9,209)	(9,209)
Balance as of June 30, 2014	16,172,239	$161	$304,040	$ (349,847)	$ (45,646)

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., also 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, 2013.

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. The results of operations for the six months ended June 30, 2014, are not necessarily indicative of results for the entire fiscal year ending December 31, 2014.

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 $9.2 million for the six months ended June 30, 2014, and $11.9 million for the six months ended June 30, 2013. The Company had working capital of $4.7 million at June 30, 2014, and used cash in operations of $6.6 million for the six months ended June 30, 2014, and $10.6 million for the six months ended June 30, 2013.

Cash requirements during the six months ended June 30, 2014 primarily reflect certain administrative and litigation costs related to the Company’s water project development efforts. Following the Superior Court ruling dismissing certain legal challenges during the quarter ended June 30, 2014 (See Note 6 – Commitments and Contingencies”, below), the Company expects its on-going cash requirements associated with litigation to be less for the remaining two quarters of 2014. Currently, the Company’s sole focus is the development of its land and water assets.

In March 2013, the Company completed arrangements with its senior lenders to refinance its then existing $66 million zero coupon convertible term loan (“Term Loan”). Under the terms of the new arrangements, the existing lenders held $30 million of non-convertible secured debt at the time of the transaction, with the balance of the Company’s outstanding debt of approximately $36 million held in a convertible note instrument. Further, the Company increased the capacity of the convertible note instrument with an additional $17.5 million to be used for working capital purposes. In July 2013, the majority of the $30 million of non-convertible secured debt was acquired in a private transaction by MSD Credit Opportunity Fund, L.P. (“MSD Credit”). In October 2013, the Company completed arrangements with MSD Credit to increase the secured debt facility by $10 million to fund additional working capital (“New Term Loan”).

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In July 2013, the Company filed a new shelf registration statement on Form S-3 registering the issuance of up to $40 million in shares of the Company's common stock, preferred stock, warrants, subscription rights, units and certain debt instruments in one or more public offerings.

The Company's existing cash resources of $5.3 million provide the Company with sufficient funds to meet its expected working capital needs through the end of the first quarter of 2015. Based upon the Company's current and anticipated usage of cash resources, and depending on its progress toward implementation of the Cadiz Valley Water Conservation, Recovery and Storage Project ("Water Project" or "Project"), it may require additional working capital during 2015. The Company will evaluate the amount of cash needed, and the manner in which such cash will be raised, on an ongoing basis. The Company 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 the Company's existing stockholders. Limitations on the Company's liquidity and ability to raise capital may adversely affect it. Sufficient liquidity is critical to meet its resource development activities. Although the Company currently expects its sources of capital to be sufficient to meet its near-term liquidity needs, there can be no assurance that its 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.

Supplemental Cash Flow Information

No cash payments, including interest, are due on the corporate secured debt or convertible notes prior to their maturities.

In connection with the October 2013 additional debt facility, the Company issued 700,000 shares to its senior lender subject to certain restrictions on resale. The fair value of the shares of common stock issued totaled approximately $2.4 million, which was recorded as additional debt discount with a corresponding 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.

As of June 30, 2014, the Company had $923,000 in non-cash additions to fixed assets recorded, which were included in other long-term liabilities on the consolidated balance sheets, for the costs directly attributable to the development of the Water Project.

Recent Accounting Pronouncements

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued an accounting standards update which requires an unrecognized tax benefit be presented on the balance sheet as a reduction of a deferred tax asset for a net operating loss ("NOL") or tax credit carryforward under certain circumstances. The guidance is effective for all fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this pronouncement did not have any impact on the Company's Consolidated Financial Statements and accompanying disclosures.

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Accounting Guidance Not Yet Adopted

On May 28, 2014, the FASB issued an accounting standards update on revenue recognition including enhanced disclosures. Under the new standard, revenue is recognized when (or as) a good or service is transferred to the customer and the customer obtains control of the good or service. The Company is currently evaluating this new guidance which is effective January 1, 2017 and cannot determine the impact of this standard at this time.

NOTE 2 – LONG-TERM DEBT

The carrying value of the Company's debt 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 by its lenders for similar debt instruments of comparable maturities.

NOTE 3 – STOCK-BASED COMPENSATION PLANS AND WARRANTS

The Company has issued options and has granted stock awards pursuant to its 2003 Management Equity Incentive Plan, 2009 Equity Incentive Plan and 2014 Equity Incentive Plan, as described below.

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, 2014, a total of 315,000 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. Under the plan, a total of 527,500 common stock purchase options have been issued. In May 2014, unexercised options to purchase 20,000 shares were forfeited. As of June 30, 2014, 507,500 common stock options remain outstanding under this plan.

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2014 Equity Incentive Plan

The 2014 Equity Incentive Plan was approved by stockholders at the June 10, 2014 Annual Meeting. The plan provides for the grant and issuance of up to 675,000 shares and options to the Company's employees, directors and consultants. Upon approval of the 2014 Equity Incentive Plan, all shares of common stock that remained available for award under the 2009 Equity Incentive Plan were cancelled. Following registration of the 2014 Plan on Form S-8, the Company entered into revised employment agreements with certain senior management that provide for the issuance of up to 162,500 Restricted Stock Units ("RSU's") during the period July 1, 2014 through December 31, 2016 and the issuance of up to 200,000 RSU's in connection with obtaining construction financing for the Water Project. No RSU's were outstanding on June 30, 2014.

Under the 2014 Equity Incentive 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 30 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 31 that first follows the award date.

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 822,500 shares were unexercised and outstanding on June 30, 2014, under the three equity incentive plans.

The Company recognized no stock option related compensation costs in the six months ended June 30, 2014, and $40,000 in the six months ended June 30, 2013. No options were exercised during the six months ended June 30, 2014.

Stock Awards to Directors, Officers, and Consultants

The Company has granted stock awards pursuant to its 2009 Equity Incentive Plan and 2014 Equity Incentive Plan.

Of the total 850,000 shares reserved under the 2009 Equity Incentive Plan, 115,000 restricted shares of common stock were granted on January 14, 2010, and 140,000 restricted shares of common stock were granted 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, 42,265 shares of common stock were awarded to directors and 507,500 were issued as options as described above as of June 30, 2014. Upon approval of the 2014 Equity Incentive Plan in June 2014, 45,235 shares remaining available for award under the 2009 Equity Incentive Plan were cancelled.

Under the 2014 Equity Incentive Plan, 14,514 shares have been awarded to the Company's directors for services performed during the plan year ended June 30, 2014. These shares will vest and be issued on January 31, 2015.

The Company recognized stock-based compensation costs of $61,000 and $40,000 for the six months ended June 30, 2014 and 2013, respectively.

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Stock Purchase Warrants Issued to Non-Employees

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

On November 30, 2011, the Company raised $6 million with 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 one (1) Common Stock purchase warrant 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 October 30, 2012, the Company increased the capacity of its then existing Term Loan facility with an additional $5 million facility. Concurrently with the funding of the facility, the Company issued warrants to the lenders to purchase an aggregate of 250,000 shares of its common stock. These warrants have an exercise price of $10 per share and must be exercised not later than two years from the date of issuance.

As of June 30, 2014, 472,222 warrants remain outstanding.

NOTE 4 – INCOME TAXES

As of June 30, 2014, the Company had net operating loss (“NOL”) carryforwards of approximately $213 million for federal income tax purposes and $120 million for California state income tax purposes. Such carryforwards expire in varying amounts through the year 2034. Use of the carryforward amounts is subject to a significant annual limitation as a result of ownership changes.

As of June 30, 2014, the Company possessed unrecognized tax benefits totaling approximately $2.4 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.

The Company's tax years 2010 through 2013 remain subject to examination by the Internal Revenue Service, and tax years 2009 through 2013 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 consolidated balance sheets.

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NOTE 5 – NET LOSS PER COMMON SHARE

Basic net loss per share 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 net loss per share because their inclusion would have been antidilutive. Had these instruments been included, the fully diluted weighted average shares outstanding would have increased by approximately 8,554,000 and 5,662,000 for the three months ended June 30, 2014 and 2013, respectively, and 8,493,000 and 8,026,000 for the six months ended June 30, 2014 and 2013, respectively.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Third parties in California have the ability to challenge approval of a water project. In 2012, the Company was named as a real-party-in-interest in nine lawsuits challenging the various Water Project approvals granted by Santa Margarita Water District ("SMWD") and County of San Bernardino ("County"). In 2013, three cases were dismissed or otherwise settled. Administrative trial for the six remaining cases began in December 2013 and concluded in February 2014. During the quarter ended June 30, 2014, the trial court issued a ruling in these cases, which denied all six petitions and upheld the environmental review and approvals granted by SMWD and the County. The ruling remains subject to appeal. As of the date of this filing, the Company is unable to determine whether or not the petitioners will appeal the ruling. The petitioners have 60 days following the Court's entry of judgment to file an appeal.

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

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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, 2013.

Overview

At present, the Company is primarily focused on the development of the Cadiz Valley Water Conservation, Recovery and Storage Project ("Water Project" or "Project"), which will 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. During the quarter ended June 30, 2014, the California Superior Court denied all pending claims against the Project under the California Environmental Quality Act ("CEQA"). This ruling, while subject to appeal, upheld all existing Water Project approvals and permits. See Part II – Other Information, Item 1. Legal Proceedings. Following the dismissal of this litigation, we continue to progress implementation of the Water Project as set out in Water Resource Development, below.

We are a land and water resource development company with 45,000 acres of land in three separate 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 34,000-acre property in the Cadiz Valley ("Cadiz/Fenner Property"), relying upon groundwater from the underlying aquifer system for irrigation. In 1993, we secured permits to develop agriculture on up to 9,600 acres of the Cadiz Valley property and withdraw more than one million acre-feet of groundwater from the underlying aquifer system. Since that time, we have maintained various levels of agriculture at the property and this operation has provided our principal source of revenue.

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In addition to our sustainable agricultural operations, we believe that the long-term value of our land assets can best be derived through the development of a combination of water supply and storage projects at our properties. The primary factor driving the value of such projects is continuing pressure on water supplies throughout California, including environmental and regulatory restrictions on each of the State's three main water sources: the State Water Project, the CRA and the Los Angeles Aqueduct. Southern California's water providers rely on imports from these systems for a majority of their water supplies, but deliveries from all three into the region have been below capacity over the last several years. Availability of supplies in California also differs greatly from year to year due to natural hydrological variability. In January 2014, California's Governor declared a drought emergency for the entire state as a result of record-low winter precipitation and depleted reservoir storage levels. According to new data released by the National Weather Service in July 2014, more than 80% of California is in an extreme drought condition. Also in July, the California State Water Resources Control Board adopted drought regulations that give local agencies the authority to fine those who waste water up to $500 a day. Further, deliveries from the State Water Project, which provides water supplies from Northern California to the central and southern parts of the state, have been limited to just 5% of capacity for 2014 in response to drought conditions as well as ongoing regulatory restrictions. Faced with severe drought conditions and systemic challenges to the state's traditional supplies, Southern California water providers are actively seeking new, reliable supply solutions to plan for both short and long-term water needs.

We also continue to explore additional uses of our land and water resource assets, including additional agricultural opportunities, the development of a land conservation bank on our properties outside the Water Project area and other long-term legacy uses of our properties, such as habitat conservation and cultural uses.

In addition to these development efforts, we will 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 Water Project participants will not exceed a long-term annual average of 50,000 acre-feet per year for 50 years. The Water Project also offers participants the ability to carry-over their annual supply and store it in the groundwater basin from year to year. A second phase of the Water Project, Phase II, will offer approximately one million acre-feet of storage capacity that can be used to store imported water supplies at the Water Project area.

Water Project facilities required for Phase I primarily include, among other things:

- High yield wells designed to efficiently recover available native groundwater from beneath the Water Project area;
- A water conveyance pipeline to deliver water from the well field to the CRA; and
- An energy source to provide power to the well-field, pipeline and pumping plant.

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If an imported water storage component of the Water Project is ultimately implemented in Phase II, the following additional facilities would be required, among other things:

- A pumping plant to pump water through the conveyance pipeline from the CRA to the Water Project well-field; 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.

In general, several elements are needed to implement such a project: (1) a water conveyance pipeline right-of-way 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/regulatory permits; and (4) construction and working capital. 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 Pipeline Right-of-Way 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"), which operates an active shortline railroad extending from Cadiz to Matthie, Arizona. 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 buried pipeline would be constructed parallel to the railroad tracks and be used to convey water between our Cadiz Valley property and the CRA in Rice, California. The ARZC is also a Project participant and would receive water from the Project to serve a variety of railroad purposes, including fire suppression and other safety and maintenance uses. In addition, in September 2013, we entered into a trackage rights agreement with the ARZC that would enable the operation of steam-powered, passenger excursion trains on the line powered by water made available from the pipeline.

The ARZC pipeline route was fully analyzed in the Water Project's Final Environmental Impact Report ("FEIR") as part of the CEQA environmental review process completed in 2012. Pursuant to our lease agreement with ARZC, we made a payment in the amount of $3.3 million in March 2013, marking the completion of the environmental review period and the commencement of the construction and operation term of the agreement.

We also acquired an unused natural gas pipeline (as described in "Existing Pipeline Asset" below) that exists in the Project area as a means to access additional distribution systems. Initial feasibility studies indicate that this pipeline could be used as a component of the Project to distribute water to Project participants or import water for storage at the Project area in Phase II. The potential use of this pipeline by the Project was preliminarily analyzed as part of the Project's Environmental Impact Report ("EIR"). Additional environmental review would be required prior to converting this line for water distribution.

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

In 2010 and 2011, we entered into option and environmental cost sharing agreements with six water providers: Santa Margarita Water District ("SMWD"), Golden State Water Company (a wholly-owned subsidiary of American States Water [NYSE: AWR]), Three Valleys Municipal Water District, Suburban Water Systems (a wholly owned subsidiary of SouthWest Water Company), Jurupa Community Services District and California Water Service Company, the third largest investor-owned American water utility. The six water providers serve more than one million customers in cities throughout California's San Bernardino, Riverside, Los Angeles, Orange, Imperial and Ventura Counties.

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 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. 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.

Following CEQA certification, SMWD was the first participant to adopt resolutions approving a Water Purchase and Sale Agreement for 5,000 acre-feet of water. The structure of the SMWD purchase agreement calls for an annually adjusted water supply payment of up to $500 per acre-foot including identified income streams, plus their pro rata portion of the capital recovery charge and operating and maintenance costs. The capital recovery charge is calculated by amortizing the total capital investment by the Company over a 30-year term.

Approximately 80% of the water to be conserved annually by the Project is now either under a Water Purchase and Sale Agreement or remains under option. We are currently working with the existing participating agencies to convert their option agreements to definitive economic agreements. We are also advancing discussions with additional water providers and agricultural districts interested in acquiring rights to the remaining available Project supplies, as well as with third parties regarding the imported storage aspect of the Project.

(3) Environmental/Regulatory 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 environmental consulting firm CH2M HILL to complete a comprehensive study of the water resources at the Project area. Following a year of analysis, CH2M HILL released its study of the aquifer system in February 2010. Utilizing new models produced by the U.S. Geological Survey in 2006 and 2008, the study estimated the total groundwater in storage in the aquifer system to be between 17 and 34 million acre-feet, a quantity on par with Lake Mead, the nation's largest surface reservoir. The study also identified a renewable annual supply of native groundwater in the aquifer system currently being lost to evaporation. CH2M HILL's findings, which were peer reviewed by leading groundwater experts, confirmed that the aquifer system could sustainably support the Water Project.

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

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As discussed in (2), above, we entered into environmental cost-sharing agreements with all participating water providers to create a framework for funds to be committed to the required environmental review and permitting process under CEQA. SMWD served as the lead agency for the review process. ESA Associates, a leading environmental consulting firm, prepared the Water Project's environmental review documentation.

The CEQA process began in February 2011 with the issuance of a Notice of Preparation ("NOP") of a Draft Environmental Impact Report ("Draft EIR") by SMWD. SMWD held two public scoping meetings in March 2011 and released the Draft EIR in December 2011. The Draft EIR analyzed 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 analysis of the Project considered peer-reviewed technical reports, independently collected data, existing reports and the Project's state of the art Groundwater Management, Monitoring and Mitigation Plan ("GMMMP").

SMWD conducted a 100-day public comment period for the Draft EIR, hosting two public comment meetings and an informational workshop in January and February 2012. The public comment period concluded in March 2012. In May 2012, we entered into a Memorandum of Understanding with San Bernardino County and SMWD, creating the framework for finalizing the GMMMP in accordance with County's desert groundwater ordinance.

At the beginning of July 2012, SMWD released the Final EIR and responses to public comments. The Final EIR summarized that, with the exception of unavoidable short-term construction emissions, by implementing the measures developed in the GMMMP, the Project will avoid significant impacts to desert resources. A public hearing was held on July 25, 2012 by the SMWD Board of Directors to take public testimony and consider certification of the Final EIR. On July 31, 2012, the SMWD Board of Directors certified the Final EIR.

Following SMWD's certification of the Final EIR, the San Bernardino County Board of Supervisors voted on October 1, 2012 to approve the GMMMP for the Project and adopted certain findings under CEQA, becoming the first Responsible Agency to take an approving action pursuant to the certified EIR. San Bernardino County served as a Responsible Agency in the CEQA review process as the local government entity responsible for oversight over groundwater resources in the Cadiz Valley.

Metropolitan Water District of Southern California ("Metropolitan"), a Responsible Agency, will take action under CEQA prior to construction regarding the terms and conditions of the Project's use of the CRA. Project water supplies will enter Metropolitan's CRA in accordance with its published engineering and design standards and subject to all applicable fees and charges routinely established by Metropolitan for the conveyance of water within its service territory.

Third parties in California have the ability to challenge CEQA approvals in State Court. In 2012, the Company was named as a real-party-in-interest in nine lawsuits challenging the various Water Project approvals granted by SMWD and San Bernardino County. In 2013, three cases were dismissed or otherwise settled. The six remaining cases, which were brought by two petitioners, proceeded to trial in December 2013. On May 1, 2014, the trial court issued a ruling in these cases, which denied all six petitions and upheld the environmental review and approvals granted by SMWD and San Bernardino County. See Part II – Other Information, Item 1. Legal Proceedings.

(4) Construction and Working Capital

As part of the Water Purchase and Sale Agreement with SMWD referred to in (2), above, SMWD further authorized beginning the Project's next steps with the Company, including final permitting, design and construction. This work is presently ongoing.

As described above, construction of Phase I of the Project 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 CRA, and an energy source to pump water through the conveyance pipeline between the Project well-field and the CRA. The construction of these facilities will require capital financing, which is expected to be entirely provided with lower-cost senior debt, secured by the new facility assets. The Company's existing corporate term debt (see "Liquidity and Capital Resources" below) provides us the flexibility to incorporate Water Project construction financing within our current debt structure.

Existing wells at the Cadiz Valley property currently in use for our agricultural operations will be integrated into the Water Project well-field, reducing the number of wells that must be constructed prior to Project implementation.

Existing Pipeline Asset

In September 2011, we entered into an agreement with El Paso Natural Gas ("EPNG"), a subsidiary of Kinder Morgan Inc., providing us with rights to purchase a 220-mile idle, natural gas pipeline between Bakersfield and Cadiz, California for $40 million.

Initial feasibility studies indicated that upon conversion, the 30-inch line could transport between 20,000 and 30,000 acre-feet of water per year between the Water Project area and various points along the Central and Northern California water transportation network. In February 2012, we made a $1 million payment to EPNG to extend our option to purchase the 220-mile line until April 2013.

In December 2012, we entered into a new agreement with EPNG dividing the 220-mile pipeline in Barstow, California, with the Company gaining ownership rights to the 96-mile eastern segment between Barstow and the Cadiz Valley and returning to EPNG rights to the 124-mile western segment for its own use. The 96-mile eastern portion from the Cadiz Valley to Barstow was identified as the most critical segment of the line for accessing the state's water transportation infrastructure. The Barstow area serves as a hub for water delivered from northern and central California to communities in Southern California's High Desert.

In consideration of the new agreement, EPNG reduced the purchase price of the 96-mile eastern segment to $1 (one dollar), plus previous option payments totaling $1.07 million already made by the Company. On April 11, 2014, the Company paid the remaining purchase price of $1 (one dollar) and secured ownership of the asset. In addition, the agreement provides that if EPNG files for regulatory approval of any new use of the 124-mile western segment by December 2015, EPNG will make a payment of $10 million to the Company on the date the application for regulatory approval is filed.

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The 96-mile Cadiz-Barstow pipeline creates significant opportunities for our water resource development efforts. Once converted to water use, the pipeline can be used to directly connect the Cadiz area to northern and central California water sources, serving a growing need for additional locations for storage of water south of the Bay Delta region. In addition, the 96-mile pipeline creates new opportunities to deliver water, either directly or via exchange, to potential customers in San Bernardino and Kern Counties, areas which do not currently have an interconnection point with the Project. When both the 96-mile line and the 43-mile pipeline to the CRA become operational, the Cadiz Project would link the two major water delivery systems in California providing flexible opportunities for both supply and storage.

The entire EPNG pipeline was evaluated in the Water Project's EIR during the CEQA process at a programmatic level. Any use of the line would be conducted in conformity with the Project's GMMMP and is subject to further CEQA evaluation (see "Water Resource Development" above).

Agricultural Development

Within the Cadiz/Fenner Property, 9,600 acres have been zoned for agriculture. The infrastructure currently includes seven wells that are interconnected within a portion of 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. If the entire 9,600 acres were developed and irrigated, total water usage would be approximately 40,000 – 50,000 acre-feet per year depending on the crop mix. The underlying groundwater, fertile soil, and desert temperatures are well suited for a wide variety of fruits and vegetables.

Permanent crops currently include 160 acres of vineyard used to produce dried-on-the-vine raisins and approximately 420 acres of lemon orchards. Both of these crops are farmed using sustainable agricultural practices.

We currently derive our agricultural revenues through direct farming and sale of our products into the market or through the lease of our agricultural properties to third parties for farming. The entire organic raisin crop grown at the property is farmed by the Company and we incur all of the costs required to produce and harvest the crop. The harvested raisins are then sold in bulk to a raisin processing facility. Approximately 80 acres of lemons in production are farmed by the Company. We incur all of the costs required to produce this lemon crop. Once harvested, the lemons are shipped in bulk to an independent packing and sales facility.

The remaining 340 acres of lemons are developing crops that are farmed pursuant to lease agreements with two separate parties. We expect to receive a profit share component provided by each of the leases once the new lemon orchards reach commercial production.

Agricultural revenues will continue to vary from year to year based on the number of acres in development, crop yields, and prices. We do not expect that our agricultural revenues will be material to our overall results of operations once the Water Project is fully operational. However, our agricultural operations are expected to be maintained in complement with the Water Project to provide added value to Project operations.

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Additional Eastern Mojave Properties

We also own approximately 11,000 acres outside of the Cadiz/Fenner Valley area in other parts of the Mojave Desert in eastern San Bernardino County.

Our primary landholding outside of the Cadiz area is approximately 9,000 acres in the Piute Valley. This landholding is located approximately 15 miles from the resort community of Laughlin, Nevada, and about 12 miles from the Colorado River town of Needles, California. Extensive hydrological studies, including the drilling and testing of a full-scale production well, have demonstrated that this landholding is underlain by high-quality groundwater. The aquifer system underlying this property is naturally recharged by precipitation (both rain and snow) within a watershed of approximately 975 square miles and could be suitable for a water supply project, agricultural development or solar energy production. Certain of these properties are located in or adjacent to areas designated by the federal government as Critical Desert Tortoise Habitat and/or Desert Wilderness Areas and are suitable candidates for preservation and conservation.

Additionally, we own acreage located near Danby Dry Lake, approximately 30 miles southeast of our Cadiz/Fenner Valley properties. The Danby Dry Lake property is located approximately 10 miles north of the CRA. Initial hydrological studies indicate that the area has excellent potential for a water supply project. Certain of the properties in this area may also be suitable for agricultural development and/or preservation and conservation.

Land Conservation Bank

As stated above, approximately 10,000 acres of our properties outside of the Cadiz Valley that are 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 in the permitting process with the California Department of Fish and Wildlife to permit approximately 7,500 acres of these properties for inclusion in a land conservation bank, which would provide credits that can be acquired by entities that must mitigate or offset planned development in other areas. For example, this bank could potentially service the mitigation requirements of numerous utility-scale solar development projects being considered throughout Riverside and San Bernardino Counties, including projects within the recently approved federal Riverside-East Solar Energy Zone.

Other Opportunities

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 at 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 utilized.

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Results of Operations

Three Months Ended June 30, 2014, Compared to Three Months Ended June 30, 2013

We have not earned significant revenues from our water resource and real estate development activity to date. Our revenues have been limited to our agricultural operations. As a result, we have historically incurred a net loss from operations. We had revenues of $11 thousand during the three months ended June 30, 2014, compared with $4 thousand in revenues during the three months ended June 30, 2013. We incurred a net loss of $4.5 million in each of the three months ended June 30, 2014 and 2013.

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 $11 thousand during the three months ended June 30, 2014, and $4 thousand during the three months ended June 30, 2013.

Cost of Sales Cost of sales was zero for each of the three months ended June 30, 2014 and 2013.

General and Administrative Expenses General and administrative expenses were $2.4 million during the three months ended June 30, 2014, and $2.8 million during the three months ended June 30, 2013. 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, 2014, were $31 thousand, compared with $14 thousand for the three months ended June 30, 2013.

General and Administrative Expenses, exclusive of stock-based compensation costs, totaled $2.4 million and $2.8 million for the three months ended June 30, 2014 and 2013, respectively. The decrease in general and administrative expenses in 2014 was primarily related to lower litigation costs related to the Water Project due to the timing of the administrative trial (see “Water Resource Development”, above).

Depreciation Depreciation expense totaled $63 thousand for the three months ended June 30, 2014, and $64 thousand for the three months ended June 30, 2013.

Interest Expense, net Net interest expense totaled $2.1 million during the three months ended June 30, 2014, compared to $1.6 million during the same period in 2013. The higher interest expense for the three months ended June 30, 2014 related to the additional term debt associated with our refinancing in March 2013. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Three Months Ended June 30,	
	2014	2013
Interest on outstanding debt	$ 1,851	$ 1,538
Amortization of financing costs	54	51
Amortization of debt discount	156	-
	$ 2,061	$ 1,589

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Income Taxes Income tax expense for each of the three months ended June 30, 2014 and 2013 was $1 thousand. See Note 4 to the Consolidated Financial Statements - “Income Taxes”.

Six Months Ended June 30, 2014, Compared to Six Months Ended June 30, 2013

We had revenues of $15 thousand for the six months ended June 30, 2014, compared with $8 thousand in revenues during the six months ended June 30, 2013. We incurred a net loss of $9.2 million in the six months ended June 30, 2014, compared with an $11.9 million net loss during the six months ended June 30, 2013. The higher 2013 loss was primarily due to litigation costs, higher stock based non-cash compensation costs and the loss on extinguishment of debt and debt refinancing.

Revenues We had revenues of $15 thousand during the six months ended June 30, 2014, and $8 thousand during the six months ended June 30, 2013.

Cost of Sales Cost of sales was zero for each of the six months ended June 30, 2014 and 2013.

General and Administrative Expenses General and administrative expenses during the six months ended June 30, 2014 totaled $5.0 million compared to $6.7 million for the six months ended June 30, 2013. 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, 2014, totaled $61 thousand compared with $453 thousand for the six months ended June 30, 2013. The higher 2013 expense was primarily due to higher stock non-cash compensation costs related to shares awarded to the law firm of Brownstein Hyatt Faber and Schreck LLP for certain legal and advisory services to the Company.

Other general and administrative expenses, exclusive of stock-based compensation costs, totaled $4.9 million in the six months ended June 30, 2014, compared with $6.2 million for the six months ended June 30, 2013. The decrease in general and administrative expenses in 2014 was primarily due to lower litigation costs related to the Water Project due to the timing of the administrative trial (see “Water Resource Development”, above).

Depreciation Depreciation expense totaled $127 thousand for the six months ended June 30, 2014, and $128 thousand for the six months ended June 30, 2013.

Interest Expense, net Net interest expense totaled $4.1 million during the six months ended June 30, 2014, compared to $4.0 million during the same period in 2013. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Six Months Ended June 30, 2014	2013
Interest on outstanding debt	$ 3,689	$ 2,664
Amortization of financing costs	109	113
Amortization of debt discount	308	1,249
	$ 4,106	$ 4,026

Income Taxes Income tax expense was $2 thousand for the six months ended June 30, 2014, and $4 thousand for the six months ended June 30, 2013. See Note 4 to the Consolidated Financial Statements – "Income Taxes".

Liquidity and Capital Resources

Current Financing Arrangements

As we have not earned significant revenues from our development activities to date, we have been required to obtain financing to bridge the gap between the time Water Project 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 also worked with our secured lenders to structure our debt in a way which allows us to continue development of the Water Project and minimize the dilution of the ownership interests of common stockholders.

In March 2013, we refinanced our term debt. The major components of the refinancing included:

I. A $30 million senior term loan secured by the underlying assets of the Company (the "Senior Secured Debt") that accrues interest at 8% per annum and requires no principal or interest payments before maturity in March 2016; and

II. $53.5 million in convertible notes (the "Convertible Notes") that accrues interest at 7% per annum with no principal or interest payments required before maturity in March 2018.

We believe that by breaking our debt into two components, we now have the flexibility to incorporate project financing for the Water Project, as necessary, into our current debt structure. While the new $30 million senior term loan would be required to be repaid by any necessary project financing, the $53.5 million of Convertible Notes have been designed to allow project financing to be placed ahead of it in terms of priority.

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In October 2013, we entered into an agreement ("Credit Agreement") with our majority senior lender, MSD Credit Opportunity Master Fund, L.P. ("MSD Credit"), to increase the existing $30 million senior secured term loan by $10 million to fund additional working capital. This $10 million tranche accrues interest at 8% per annum and requires no principal or interest payments prior to maturity on June 30, 2017. The $10 million and the original $30 million are both secured by the underlying assets of the Company, including all landholdings and infrastructure. The Credit Agreement also provides that in the case of certain asset sales unrelated to the Water Project, the Company would retain for working capital purposes up to 50% of the first $10 million of sales, with the remainder requiring mandatory prepayment of the Senior Secured Debt. As part of the transaction, we issued 700,000 shares of Cadiz Inc. common stock to MSD Credit subject to certain restrictions on resale.

Both the Senior Secured Debt and the Convertible Notes contain 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 new loans 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, 2014, we were in compliance with our debt covenants.

As we continue to actively pursue our business strategy, additional financing may continue to be required. See "Outlook", below. The covenants in the term debt 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 Project development activities.

At June 30, 2014, we had no outstanding credit facilities other than the Senior Secured Debt and the Convertible Notes described above.

Cash Used for Operating Activities. Cash used for operating activities totaled $6.6 million and $10.6 million for the six months ended June 30, 2014 and 2013, respectively. The cash was primarily used to fund general and administrative expenses related to our Water Project development efforts and litigation costs for the six month periods ended June 30, 2014 and 2013. Additionally, a $3.3 million cash payment was made in March 2013 related to the lease agreement with the Arizona & California Railroad Company to use a portion of the railroad's right-of-way to construct and operate a water conveyance pipeline which is reflected in the increase in other assets in the consolidated statement of cash flows.

Cash Used for Investing Activities. Cash used for investing activities during the six months ended June 30, 2014 was $14 thousand compared with $167 thousand during the same period in 2013.

Cash (Used for) Provided by Financing Activities. Cash used for financing activities for the six months ended June 30, 2014 was $5 thousand compared with $16.3 million provided by financing activities during the same period in 2013. The 2013 period included $17.5 million of proceeds as part of the issuance of long-term debt, offset by $1.2 million in debt issuance costs related to the debt refinancing.

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Outlook

Short-Term Outlook. Our existing cash resources of $5.3 million provide us with sufficient funds to meet our expected working capital needs through the end of the first quarter of 2015. Should we require additional working capital to fund operations, 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”. 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 Debt or our Convertible Notes at maturity (see “Current Financing Arrangements”, above).

Our future working capital needs will depend upon the specific measures we pursue in the entitlement and development of our water resources and other developments. 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 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. 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. See Note 1 to the Consolidated Financial Statements – “Description of Business and Summary of Significant Accounting Policies” for further information.

Recent Accounting Pronouncements

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

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2014, 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.

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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 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, 2014, 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.

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PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

CEQA Claims Challenging Water Project Approvals

As noted in Item 3. Legal Proceedings in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, third parties have the ability in California to file litigation challenging the approval of a development project. In 2012, we were named as a real party in interest in nine (9) lawsuits related to the Water Project approvals granted in 2012 by the Santa Margarita Water District ("SMWD") and the County of San Bernardino ("County") in accordance with the California Environmental Quality Act ("CEQA"). Three (3) of these cases were subsequently dismissed or otherwise settled leaving six lawsuits brought by two (2) plaintiffs. . The six lawsuits were coordinated in Orange County Superior Court ("Court") before one judge in 2013.

The six lawsuits challenged the following three (3) separate Project approvals:

(1) MOU Approval – two cases filed by Tetra Technologies, Inc. ("Tetra") (NYSE: TTI) challenging the May 2012 approvals of the Memorandum of Understanding between Cadiz, SMWD and the County related to the Project's Groundwater Management, Monitoring & Mitigation Plan ("GMMMP").

(2) EIR Approval – two cases filed by Tetra and the Center for Biological Diversity, et al ("CBD") challenging the adequacy of the Environmental Impact Report certified by SMWD on July 31, 2012.

(3) GMMMP Approval – two cases filed by Tetra and CBD challenging the approval of the Groundwater Management, Monitoring and Mitigation Plan by the County Board of Supervisors on October 1, 2012.

All six cases sought various forms of relief, but were primarily focused on causing a reconsideration of the environmental documents and limitation of the Project approvals.

Administrative trial for the six lawsuits began in December 2013 and concluded in February 2014. During the quarter ended June 30, 2014, the Court issued a ruling in these matters, which denied all claims in the six cases and upheld the CEQA environmental review and all Project approvals granted by SMWD and the County. The ruling remains subject to appeal. As of the date of this filing, the Company is unable to determine whether or not the petitioners will appeal the ruling. The petitioners have 60 days following the Court's entry of judgment to file an appeal.

Other Proceedings

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

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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, 2013.

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

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.

31.1 Certification of Scott S. Slater, 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 Scott S. Slater, 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

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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/ Scott S. Slater Scott S. Slater Chief Executive Officer and President (Principal Executive Officer)	August 7, 2014 Date
By:	/s/ Timothy J. Shaheen Timothy J. Shaheen Chief Financial Officer and Secretary (Principal Financial Officer)	August 7, 2014 Date

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