

CADIZ INC
Form 10-Q
August 06, 2007

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, 2007

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 77-0313235

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

777 S. Figueroa Street, Suite 4250

Los Angeles, California 90017

(Address of principal executive offices) (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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of August 1, 2007, the Registrant had 11,903,611 shares of common stock, par value \$0.01 per share, outstanding.

CADIZ INC.

INDEX

<i>For the Three and Six months ended June 30, 2007</i>	<i>Page</i>
PART I - FINANCIAL INFORMATION	
ITEM 1. Financial Statements	
Cadiz Inc. Consolidated Financial Statements	
Unaudited Statements of Operations for the three months ended June 30, 2007 and 2006	1
Unaudited Statements of Operations for the six months ended June 30, 2007 and 2006	2
Unaudited Balance Sheets as of June 30, 2007 and December 31, 2006	3
Unaudited Statements of Cash Flows for the six months ended June 30, 2007 and 2006	4
Unaudited Statement of Stockholders' Equity for the six months ended June 30, 2007	5
Unaudited Notes to the Consolidated Financial Statements	6
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
ITEM 3. Quantitative and Qualitative Disclosures about Market Risk	26
ITEM 4. Controls and Procedures	26
PART II - OTHER INFORMATION	27
ii	

CADIZ INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<i>(\$ in thousands except per share data)</i>	For the Three Months Ended June 30,	
	2007	2006
Revenues	\$ 5	\$ 157
Costs and expenses:		
Cost of sales	-	130
General and administrative	1,356	1,774
Depreciation and amortization	39	39
Total costs and expenses	1,395	1,943
Operating loss	(1,390)	(1,786)
Other income (expense)		
Interest expense, net	(765)	(496)
Loss on early extinguishment of debt	-	(868)
Other (expense), net	(765)	(1,364)
Loss before income taxes	(2,155)	(3,150)
Income tax provision	3	-
Net loss	\$ (2,158)	\$ (3,150)
Net loss applicable to common stock	\$ (2,158)	\$ (3,150)
Basic and diluted net loss per common share	\$ (0.18)	\$ (0.28)
Basic and diluted weighted average shares outstanding	11,889	11,330

See accompanying notes to the consolidated financial statements.

CADIZ INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<i>(\$ in thousands except per share data)</i>	For the Six Months Ended June 30,	
	2007	2006
Revenues	\$ 357	\$ 409
Costs and expenses:		
Cost of sales	348	341
General and administrative	3,131	3,870
Depreciation and amortization	76	79
Total costs and expenses	3,555	4,290
Operating loss	(3,198)	(3,881)
Other income (expense)		
Interest expense, net	(1,528)	(977)
Loss on early extinguishment of debt	-	(868)
Other income	-	350
Other income (expense), net	(1,528)	(1,495)
Loss before income taxes	(4,726)	(5,376)
Income tax provision	8	-
Net loss	\$ (4,734)	\$ (5,376)
Net loss applicable to common stock	\$ (4,734)	\$ (5,376)
Basic and diluted net loss per common share	\$ (0.40)	\$ (0.47)
Basic and diluted weighted average shares outstanding	11,785	11,330

See accompanying notes to the consolidated financial statements.

CADIZ INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(\$ in thousands)</i>	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,098	\$ 10,397
Marketable securities	8,658	-
Accounts receivable	15	301
Prepaid expenses and other	518	243
Total current assets	13,289	10,941
Property, plant, equipment and water programs, net	35,290	35,190
Goodwill	3,813	3,813
Other assets	603	382
Total Assets	\$ 52,995	\$ 50,326
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 343	\$ 444
Accrued liabilities	811	380
Current portion of long term debt	9	9
Total current liabilities	1,163	833
Long-term debt	27,681	25,881
Total Liabilities	28,844	26,714
Commitments and contingencies		
Stockholders' equity:		
Series F convertible preferred stock - \$.01 par value: 100,000 shares authorized; shares issued and outstanding - none at June 30, 2007 and 1,000 at December 31, 2006	-	-
Common stock - \$.01 par value; 70,000,000 shares authorized; shares issued and outstanding - 11,903,611 at June 30, 2007 and 11,536,597 at December 31, 2006	119	116
Additional paid-in capital	250,476	245,206
Accumulated deficit	(226,444)	(221,710)
Total stockholders' equity	24,151	23,612
Total Liabilities and Stockholders' equity	\$ 52,995	\$ 50,326

See accompanying notes to the consolidated financial statements.

CADIZ INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(\$ in thousands except per share data)</i>	For the Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (4,734)	\$ (5,376)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	76	79
Amortization of debt discount & issuance costs	895	14
Interest expense added to loan principal	938	786
Loss on early extinguishment of debt	-	868
Compensation charge for stock awards and share options	102	1,058
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	286	167
Decrease (increase) in prepaid borrowing expense	-	522
Decrease (increase) in prepaid expenses and other	(275)	(302)
Decrease (increase) in other assets	(250)	-
Increase (decrease) in accounts payable	(101)	40
Increase (decrease) in accrued liabilities	431	(124)
Net cash used for operating activities	(2,632)	(2,268)
Cash flows from investing activities:		
Investment in marketable securities	(8,658)	-
Additions to property, plant and equipment	(176)	(20)
Decrease/(increase) in other assets	-	1
Net cash used by investing activities	(8,834)	(19)
Cash flows provide by (used by) financing activities:		
Proceeds from issuance of long-term debt	-	36,375
Net proceeds from exercise of stock options	140	-
Net proceeds from exercise of warrants	5,031	-
Debt issuance costs	-	(409)
Principal payments on long-term debt	(4)	(26,642)
Net cash provided by financing activities	5,167	9,324
Net increase (decrease) in cash and cash equivalents	(6,299)	7,037
Cash and cash equivalents, beginning of period	10,397	5,302
Cash and cash equivalents, end of period	\$ 4,098	\$ 12,339

See accompanying notes to the consolidated financial statements.

CADIZ INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

*For the Six months ended June 30, 2007**(\$ in thousands)*

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Stockholders'</u>
					<u>Capital</u>		<u>Equity</u>
Balance as of December 31, 2006	1,000	\$ -	11,536,597	\$ 116	\$245,206	\$ (221,710)	\$ 23,612
Warrants exercised	-	-	335,440	3	5,028	-	5,031
Stock awards and options exercised	-	-	14,285	-	140	-	140
Series F preferred stock converted to common stock	(1,000)	-	17,289	-	-	-	-
Stock compensation expense	-	-	-	-	102	-	102
Net loss	-	-	-	-	-	(4,734)	(4,734)
Balance as of June 30, 2007	-	\$ -	11,903,611	\$ 119	\$250,476	\$ (226,444)	\$ 24,151

See accompanying notes to the consolidated financial statements.

CADIZ INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business

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, 2006.

The foregoing Consolidated Financial Statements include the accounts of the Company and contain all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation 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 year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by 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, 2006. The results of operations for the six months ended June 30, 2007 are not necessarily indicative of results for the entire fiscal year ended December 31, 2007.

Basis of Presentation

The financial statements of the Company have been prepared using accounting principles applicable to a going concern, which assumes realization of assets and settlement of liabilities in the normal course of business. The Company incurred losses of \$4.7 million for the six months ended June 30, 2007 and \$5.4 million for the six months ended June 30, 2006. The Company had working capital of \$12.1 million at June 30, 2007 and used cash in operations of \$2.6 million for the six months ended June 30, 2007 and \$2.3 million for the six months ended June 30, 2006. Currently, the Company's sole focus is the development of its land and water assets.

In 2006, the Company refinanced its long term debt with a new \$36.4 million zero coupon senior secured convertible term loan that matures on June 29, 2011. The new loan provided \$9.3 million of additional funds after repayment of the Company’s prior credit facility and certain transaction fees. The Company also received \$1.1 million in September 2006, when certain holders of warrants issued in 2004 exercised their right to purchase 70,000 common shares at \$15.00 per share. In 2007, the Company exercised its right to terminate the remaining warrants on March 2, 2007, subject to a 30 day notice period. In response, the remaining warrant holders exercised their right to purchase 335,440 shares of the Company’s common stock during the notice period, and the Company received an additional \$5.0 million from the sale of these shares. Following this exercise, no Warrants remain outstanding.

Based on current forecasts, the Company believes it has sufficient resources to fund operations for more than one year. The Company's current resources do not provide the capital necessary to fund a water or real estate development project should the Company be required to do so. There is no assurance that additional financing (public or private) will be available on acceptable terms or at all. If the Company issues additional equity 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 further substantial reductions in its operating expenses, which could adversely affect its ability to implement its current business plan and ultimately its viability as a company. These financial statements do not include any adjustments that might result from these uncertainties.

In part due to Metropolitan's actions in 2002, the Company's wholly-owned agricultural subsidiary, Sun World International Inc. ("SunWorld"), filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code on January 30, 2003. Sun World's reorganization plan became effective in 2005, and the Company has no further liabilities related to the business or operations of Sun World. From the effective date of the plan through June 30, 2007, the Company has incurred losses of approximately \$23.8 million and used cash in operations of \$9.2 million.

Principles of Consolidation

In December 2003, the Company transferred substantially all of its assets with the exception of its office sublease, certain office furniture and equipment and the investment in Sun World 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.

Marketable Securities

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash and cash equivalents. Marketable securities consist of auction rate securities. Auction rate securities are long-term municipal bonds and preferred stock with interest rates that reset periodically through an auction process, which occurs in 7-, 28-, 35-, or 90-day periods. There are no cumulative gross unrealized holding gains or losses associated with these investments and all income is recorded as interest income.

Goodwill

The Company has \$3.8 million of goodwill which resulted from a merger in May 1988 between two companies, which eventually became known as Cadiz Inc. Goodwill is not amortized but is tested for impairment annually in the first quarter, or earlier if events occur which require an impairment analysis to be performed. The Company performed an impairment test of its goodwill at December 31, 2006 and determined that its goodwill was not impaired.

Series F Convertible Preferred Stock

100,000 shares of Series F convertible preferred stock were issued to ING Capital LLC (“ING”) in a December 2003 financing transaction, of which 1,000 shares remained outstanding on December 31, 2006. In June 2007, ING elected to convert the preferred shares into 17,289 shares of common stock. No Series F Preferred Shares were outstanding on June 30, 2007.

Recent Accounting Pronouncements

In June 2006, the FASB issued FSP FIN 48 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. This Interpretation also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is to determine if it is more likely than not that a tax position will be sustained upon examination and should therefore be recognized. The second step is to measure a tax position that meets the more likely than not recognition threshold to determine the amount of benefit to recognize in the financial statements. Effective January 1, 2007, the Company’s financial statements reflect FSP FIN 48. The adoption of FSP FIN 48 did not have a material impact on the Company’s financial statements.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 157 (“SFAS No. 157”), “Fair Value Measurements”. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 clarifies the exchange price notion in the fair value definition to mean the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). This statement also clarifies that market participant assumptions should include assumptions about risk, should include assumptions about the effect of a restriction on the sale or use of an asset and should reflect its nonperformance risk (the risk that the obligation will not be fulfilled). Nonperformance risk should include the reporting entity’s credit risk. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 157 on January 1, 2008, as required, and management is still evaluating the impact on the Company’s consolidated financial statements.

In February 2007, the FASB released Statement of Financial Accounting Standards No. 159 (“SFAS No. 159), “The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115”. SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value and is effective for the first fiscal year beginning after November 15, 2007. The Company will adopt SFAS No. 159 on January 1, 2008, as required, and management is still evaluating the impact on the Company’s consolidated financial statements.

See Note 2 to the Consolidated Financial Statements included in the Company’s Form 10-K for further discussion of the Company’s accounting policies.

NOTE 2 - PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

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

	June 30, <u>2007</u>	December 31, <u>2006</u>
Land and land improvements	\$ 22,024	\$ 21,986
Water programs	14,274	14,274
Buildings	1,191	1,191
Machinery and equipment	864	726
	38,353	38,177
Less accumulated depreciation	(3,063)	(2,987)
	\$ 35,290	\$ 35,190

Depreciation expense totaled \$39 thousand during the three months ended June 30, 2007 and was the same amount during the prior year period. Depreciation expense totaled \$76 thousand and \$79 thousand for the six months ended June 30, 2007 and 2006, respectively.

NOTE 3 - LONG-TERM DEBT

At June 30, 2007 and December 31, 2006, the carrying amount of the Company's outstanding debt is summarized as follows (dollars in thousands):

	June 30, <u>2007</u>	December 31, <u>2006</u>
Zero coupon secured convertible term loan due June 29, 2011. Interest accruing at 5% per annum until June 29, 2009 and at 6% thereafter	\$ 38,254	\$ 37,316
Other loans	27	31
Debt Discount	(10,591)	(11,457)
	27,690	25,890
Less current portion	9	9
	\$ 27,681	\$ 25,881

In June 2006, the Company entered into a \$36.4 million five year zero coupon convertible term loan with Peloton Partners LLP, as administrative agent for the loan, and with an affiliate of Peloton and another investor, as lenders. Certain terms of the loan were

subsequently amended pursuant to Amendment #1 to the Credit Agreement, which was effective September 29, 2006. Under the terms of the loan, interest accrues at a 5% annual rate for the first 3 years and 6% thereafter, calculated on the basis of a 360-day year and actual days elapsed. The entire amount of accrued interest is due at the final maturity of the loan in June, 2011. The term loan is collateralized by substantially all 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, 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.

At the lender's option, principal plus accrued interest is convertible into the Company's \$0.01 par value common stock. The loan is divided into two tranches: the \$10 million Tranche A is convertible at \$18.15 per share, and the \$26.4 million Tranche B is convertible at \$23.10 per share. A maximum of 2,221,909 shares are issuable pursuant to these conversion rights, with this maximum number applicable if the loan is converted on the final maturity date. The Company has more than sufficient authorized common shares available for this purpose and has filed a registration statement on Form S-3 covering the resale of all the securities issuable upon conversion of the loan.

In the event of a change in control, the conversion prices are adjusted downward by a discount that declines over time such that, under a change in control scenario, both the Tranche A and Tranche B conversion prices were initially \$16.50 per share and increase in a linear manner over time to the full \$18.15 Tranche A conversion price and \$23.10 Tranche B conversion price on the final maturity date. In no event does the maximum number of shares issuable to lenders pursuant to these revised conversion formulas exceed the 2,221,909 shares that would be issued to lenders pursuant to a conversion in full on the final maturity date in the absence of a change in control.

On or after June 29, 2007, principal and interest accrued on each of the two loan tranches can be prepaid on 30 days notice either if the price of the Company's stock on the NASDAQ Global Market exceeds the tranche's conversion price by 40% for 20 consecutive trading days in a 30 trading day period or if the Company completes the Cadiz Water Program entitlement process, secures a right-of-way for the project pipeline and arranges sufficient financing to repay the loan and build the Cadiz Project. The \$10 million Tranche A prepayment option would become available at a share price above \$25.41 per share and the Tranche B prepayment option would become available at a share price above \$32.34 per share.

The Company has analyzed all of the above provisions of the convertible loan and related agreements for embedded derivatives under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities and related Emerging Issues Task Force (EITF) interpretations and SEC rules. The Company concluded that certain provisions of the convertible loan agreement, which were in effect prior to the first amendment date, may be deemed to be derivatives for purposes of the application of FASB Statement No. 133 and EITF 00-19: Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. Therefore, in accordance with FASB Statement No. 133, these embedded instruments were bifurcated from the host debt instrument and classified as a liability

in the Company's financial statements. The Company prepared valuations for each of the deemed derivatives using a Black-Scholes option pricing model and recorded a liability of approximately \$12.2 million on the June 30 loan funding date, with an offsetting discount to the convertible term loan.

On June 30, 2006, the derivative liability was classified and recorded as part of long term debt in the balance sheet. The debt discount will be amortized to interest expense over the life of the loan using the effective interest amortization method. The principal valuation assumptions are as follows:

Loan balance available for conversion:	\$36.4 million
Expected term:	5 years
Cadiz common share price:	\$17.01
Volatility:	46%
Risk-free Interest Rate:	5.18%
Change in control probability:	10%

On September 29, 2006 the terms of the loan were amended to modify the repayment and conversion options available to lenders upon a change in control of the Company, to clarify that the conversion feature was an unsecured obligation of the Company and to specifically limit the maximum number of shares to be issued upon conversion of the loan. With these modifications, it was determined that the requirement for bifurcation under SFAS 133 was no longer met and that the carrying value of the embedded derivatives should be reclassified to stockholder's equity under EITF 06-7. The derivative liability was adjusted to fair value on the amendment date, and the \$2,919,000 increase in fair value was recorded as an "Other Expense" item in the Consolidated Statement of Operations. The \$15.2 million fair value of the derivative liability was then transferred to the Additional Paid-in Capital component of Stockholder's Equity

The Company incurred \$408,000 of outside legal expenses related to the negotiation and documentation of the loan, which will be amortized over the life of the loan using the interest amortization method.

The proceeds of the Peloton Loan were applied to repay in full the Company's term loan facility with ING. As a result, ING retained the \$762,000 remaining balance of the prepaid interest credit account, and the write-off of this asset was reflected in the "Other Expense" caption of the Statement of Operations in the fiscal quarter ended June 30, 2006. The write-off of \$106,000 of unamortized debt issuance costs related to the ING loan was also reflected under "Other Expense" in the same fiscal period. No balance was outstanding after the ING loan repayment in June 2006.

At June 30, 2007 the Company was in compliance with its debt covenants under the Peloton Loan.

NOTE 4 - STOCK-BASED COMPENSATION PLANS AND WARRANTS

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

The 2007 Management Equity Incentive Plan was approved by stockholders at the June 15, 2007 Annual Meeting. The plan provides for the grant and issuance of up to 1,050,000 shares and options to the Company's employees and consultants. The plan became effective when the Company filed a registration statement on Form S-8 on July 25, 2007, and grants of 950,000 shares of common stock and options to purchase 7,661 shares of common stock became effective on that date. As discussed below, all grants are subject to vesting conditions, and certain grants are subject to additional market conditions.

Stock Options Issued under the 2003 and 2007 Management Equity Incentive Plans

The 2003 Management Equity Incentive Plan provides for the granting of options for the purchase of 377,339 shares of common stock. Options issued under the Management Equity Incentive Plan were granted during 2005 and 2006. The options have a ten year term with vesting periods ranging from issuance date to three years. Certain of these options had strike prices that were below the fair market value of the Company's common stock on the date of grant. All options have been issued to officers, employees and consultants of the Company. 365,000 options were granted under the plan during 2005, and the remaining 12,339 options were granted in 2006. Options to purchase 367,339 shares were unexercised and outstanding on June 30, 2007.

The Company recognized stock option related compensation costs of \$75,000 and \$443,000 in the six months ended June 30, 2007 and June 30, 2006, respectively. On June 30, 2007, the unamortized compensation expense related to these options amounted to \$69,000 and is expected to be recognized in 2007 and 2008. Options to purchase 10,000 shares of stock for \$13.95 per share were exercised during the six months ended June 30, 2007.

The Company granted options to purchase 7,661 common shares at a price of \$20.00 per share under the 2007 Management Equity Incentive Plan in July 2007. The options have a ten year term with vesting periods ranging from issuance date to two years.

Stock Awards to Directors, Officer, Consultants and Employees

The Company has granted stock awards pursuant to its 2003 Management Equity Incentive Plan and Outside Director Compensation Plan. All of the shares issuable under the 2003 Management Equity Incentive Plan were awarded in May 2005.

14,701 shares were awarded under the Outside Director Compensation Plan on November 14, 2006. 10,416 shares related to service in the plan years ending June 30, 2004 and 2005 were issued immediately. 4,285 shares related to service in the plan year ending June 30, 2006 were issued on January 31, 2007. A 4,599 share grant for service during the plan year ending June 30, 2007 became effective on that date. The award will vest on January 31, 2008.

The compensation cost of stock grants is measured at the quoted market price of the Company's stock at the date of grant. The accompanying consolidated financial statements include \$616,000 of stock based compensation expense related to stock based awards in the six months ended June 30, 2006. There was \$27,000 of stock base compensation expense related to stock awards during the six months ending June 30, 2007, and there was no unamortized compensation expense relating to stock awards on that date.

A grant of 950,000 shares under the 2007 Management Equity Incentive Plan became effective on July 25, 2007. The grant consists of 3 separate awards:

- A 150,000 share award that vests in 3 equal installments on January 1, 2008, January 1, 2009 and January 1, 2010.
- A 400,000 share award that is available if the trading price of the Company's stock is at least \$28 per share for 10 trading days within any period of 30 consecutive trading days on or before March 12, 2009. This award would vest in 4 equal installments on January 1, 2008, January 1, 2009, January 1, 2010 and January 1, 2011.
- A 400,000 share award that is available if the trading price of the Company's stock is at least \$35 per share for 10 trading days within any period of 30 consecutive trading days on or before March 12, 2009. This award would also vest in 4 equal installments on January 1, 2008, January 1, 2009, January 1, 2010 and January 1, 2011.

Stock Purchase Warrants Issued to Non-Employees

The Company accounts for equity securities issued to non-employees in accordance with the provisions of SFAS 123R and Emerging Issues Task Force 96-18. On November 30, 2004 the Company completed a private placement of 400,000 units, each Unit consisting of five (5) shares of the Company's common stock and one (1) common stock purchase warrant. Each of the 400,000 warrants entitle the holder to purchase one (1) share of common stock at an exercise price of \$15.00 per share. An additional 5,440 warrants were issued to an individual who assisted the company in identifying participants in the November 30, 2004 private placement and elected to receive a commission for the services in stock rather than cash. Each Warrant has a term of three (3) years and was callable at the Company's option.

During September 2006, certain warrant holders exercised their rights to purchase 70,000 shares, and the Company received \$1,050,000 from the sale of that common stock. In 2007, the Company exercised a right to terminate the remaining warrants on March 2, 2007, subject to a 30-day notice period. In response, the remaining warrant holders exercised their rights to purchase 335,440 shares of the Company's common stock during the notice period, and the Company received \$5.0 million from the sale of these shares. Following this exercise, no Warrants remain outstanding.

NOTE 5 - INCOME TAXES

As of June 30, 2007, the Company had net operating loss (NOL) carryforwards of approximately \$74.4 million for federal income tax purposes and \$25.0 million for California state income tax purposes. Such carryforwards expire in varying amounts through the year 2026. These amounts reflect the effective reduction of the NOL carryforwards as a result of ownership change annual limitation amounts.

In addition, on August 26, 2005, a Settlement Agreement between Cadiz, on one hand, and Sun World and three of Sun World's subsidiaries, on the other hand, was approved by the U.S. Bankruptcy Court, concurrently with the Court's confirmation of the amended Plan. The Settlement Agreement provides that following the September 6, 2005 effective date of Sun World's plan of reorganization, Cadiz will retain the right to utilize the Sun World net operating loss carryovers (NOLs). Sun World Federal NOLs are estimated to be approximately \$57.8 million. If, in any year from calendar year 2005 through calendar year 2011, the utilization of such NOLs results in a reduction of Cadiz' tax liability for such year, then Cadiz will pay to the Sun World bankruptcy estate 25% of the amount of such reduction, and shall retain the remaining 75% for its own benefit. There is no requirement that Cadiz utilize these NOLs during this reimbursement period, or provide any reimbursement to the Sun World bankruptcy estate for any NOLs used by Cadiz after this reimbursement period expires. The Company has not recognized any tax benefits to these NOLs.

Section 382 of the Internal Revenue Code imposes an annual limitation on the utilization of net operating loss carryforwards based on a statutory rate of return (usually the "applicable federal funds rate", as defined in the Internal Revenue Code) and the value of the corporation at the time of a "change of ownership" as defined by Section 382. Due to past equity issuances and equity issuances in 2005, and due to the Chapter 11 filing by Sun World, the Company's ability to utilize net operating loss carryforwards is limited to approximately \$6.6 million annually, potentially adjusted by built-in gain items.

The Company is required to include certain financial statement disclosures with the interim period report for the quarter in which FSP FIN 48 is adopted. These disclosures reflect specific Company policies and amounts related to its accounting for uncertain tax positions.

As of the January 1, 2007, adoption of FIN 48, 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 a total of \$200,000 for state taxes, interest and penalties related to income tax positions in prior returns. In connection with the adoption of FIN 48, the Company elected to classify income tax penalties and interest as general and administrative expenses. For the three months ended June 30, 2007, general and administrative expenses included approximately \$40,000 of income tax penalties and interest.

The Company does not expect that the unrecognized tax benefits will significantly increase or decrease in the next 12 months.

The Company's tax years 2003 through 2006 remain subject to examination by the Internal Revenue Service, and tax years 2002 through 2006 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 recorded in the accompanying balance sheet.

NOTE 6 - NET LOSS PER COMMON SHARE

Basic earnings per share (EPS) is computed by dividing the net loss, after deduction for preferred dividends either accrued or imputed, if any, by the weighted-average common shares outstanding. Options, deferred stock units, warrants, convertible debt, and preferred stock that are convertible into 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 2,125,000 and 927,000 shares for the three months ended June 30, 2007 and 2006, respectively. For the six months ended June 30, 2007 and 2006, weighted averaged shares outstanding would have increased by approximately 2,115,000 and 917,000 shares, respectively.

15

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 "Certain Trends and Uncertainties" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2006.

Overview

The Company's primary assets are 45,000 acres of land in three areas of eastern San Bernardino County, California. Virtually all of this land is underlain by high-quality groundwater resources with demonstrated potential for recreational, residential, and agricultural development. The properties are also located in proximity to the Colorado River and the Colorado River Aqueduct, the major source of imported water for southern California. The aquifer systems underlying the properties contain large amounts of water and are suitable for water storage and supply programs.

The value of these assets derives from a combination of projected population increases and limited water supplies throughout southern California. In addition, most of the major population centers in southern California are not located where significant precipitation occurs, requiring the importation of water from other parts of the state. The Company therefore believes that a competitive advantage exists for companies that can provide high quality, reliable, and affordable water to major population centers.

In 1993 the Company secured permits for up to 9,600 acres of agricultural development in the Cadiz Valley and the withdrawal of more than 1 million acre-feet of ground water from the aquifer system underlying the property. In 1997, the Company entered into the first of a series of agreements with the Metropolitan Water District of Southern California ("Metropolitan") to jointly design, permit and build an aquifer storage and supply program on the Company's land in the Cadiz and Fenner Valleys (the "Cadiz Project" or the "Project"). Under the Cadiz Project, surplus water from the Colorado River would be stored in the aquifer system underlying our land during wet years. When needed, the stored water and temporary withdrawals of indigenous groundwater, could be distributed through the Colorado River Aqueduct to Metropolitan's member agencies throughout six southern California counties.

Between 1997 and 2002, Metropolitan and the Company received substantially all of the various state and federal approvals required for permits to construct and operate the project and received a federal *Record of Decision* ("ROD") from the U.S. Department of the Interior, which endorsed the Cadiz Project and offered a right of way grant for the construction of project facilities. The federal government also approved a Final Environmental Impact Statement ("FEIS") in compliance with the National Environmental Policy Act ("NEPA").

Despite the significant progress made in the federal environmental review process, in October 2002 Metropolitan's Board voted not to accept the right of way grant offered by the U.S. Department of the Interior and refused to consider whether or not to certify the Final Environmental Impact Report ("FEIR"), which was a necessary action to authorize implementation of the Cadiz Project in accordance with the California Environmental Quality Act ("CEQA").

When Metropolitan's Board declined to proceed with the Cadiz Project, the FEIR was awaiting certification at a hearing scheduled for late October 2002. It is the Company's position that actions by Metropolitan breached various contractual and fiduciary obligations to the Company, and interfered with the economic advantage it would have obtained from the Cadiz Project. In April 2003 the Company filed a claim against Metropolitan seeking compensatory damages. When settlement negotiations failed to produce a resolution, the Company filed a lawsuit against Metropolitan in Los Angeles Superior Court on November 17, 2005. The claims for breach of fiduciary duty, breach of express contract, promissory estoppel, breach of implied contract and specific performance have all been allowed by the Court in its ruling on Metropolitan's motion for demurrer. The Court is scheduled to hear motions for summary judgment brought by the Company and Metropolitan on August 30, 2007. The case is currently scheduled for trial in late 2007.

Meanwhile, the need for water storage and supply programs has not abated. Moreover, the advantages of underground water storage facilities are increasingly evident. These include minimal surface environmental impacts, lower capital investment, protection from airborne contaminants and minimal evaporative water loss. Therefore the Company continues to pursue the completion of the environmental review process for the Cadiz Project.

To address concerns expressed by certain elected officials and environmental groups, certain elements of the Project have been restructured. These operational changes concentrate on public concerns regarding the potential transfer and sale of indigenous groundwater and the potential replenishment of temporary withdrawals of indigenous groundwater. No changes are proposed to any of the physical facilities required to implement and operate the Cadiz Project.

To that end, the County of San Bernardino has agreed to serve as the CEQA lead agency for the completion of the environmental review of the Cadiz Project and issue any permits required under California law once the review is completed. The Company is also working with the U.S. Department of the Interior to have the permits that were approved during the federal environmental review process, including the right of way granted in the ROD, issued directly to the Company for the benefit of any participating public agency. Additionally, the Company is in discussions with several other public agencies regarding their interest in participating in the Cadiz Project. These agencies have access to sources of water that can be stored in the Cadiz Project.

In addition to agriculture and water development, the rapid growth of nearby desert communities in southern California, Nevada and Arizona indicates that the Company's land holdings may be suitable for other types of development. To this end, the Company has conducted a detailed analysis of the Company's land assets to assess the opportunities for these properties. Based on this analysis, the Company believes that its properties have significant long-term potential for residential and commercial development. The Company is continuing to explore alternative land uses to maximize the value of its properties.

In 2006, the Company refinanced its long term debt with a new \$36.4 million zero coupon senior secured convertible term loan that matures on June 29, 2011. The Company also received \$1.1 million in 2006 when certain holders of warrants issued in 2004 exercised their right to purchase 70,000 common shares at \$15.00 per share. In 2007, the Company exercised its right to terminate the remaining warrants on March 2, 2007, subject to a 30 day notice period. In response, the remaining warrant holders exercised their right to purchase 335,440 shares of the Company's common stock during the notice period, and the Company received an additional \$5.0 million from the sale of these shares. Following this exercise, no Warrants remain outstanding.

We issued 100,000 shares of Series F convertible preferred stock to ING as part of our agreements in December 2003, of which 1,000 shares remained outstanding on December 31, 2006. In June 2007, ING elected to convert the preferred shares into 17,289 shares of common stock. No Series F Preferred Shares were outstanding on June 30, 2007.

The Company remains committed to its land and water assets and continues to explore all opportunities for development of these assets. The Company cannot predict with certainty which of these various opportunities will ultimately be utilized.

Results of Operations

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

We have not received significant revenues from our water resource activity to date. As a result, we have historically incurred a net loss from operations. We had revenues of \$5 thousand for the three months ended June 30, 2007 and \$157 thousand for the three months ended June 30, 2006. We incurred a net loss of \$2.2 million in the three months ended June 30, 2007 compared with a \$3.2 million net loss during the three months ended June 30, 2006. The lower loss in the 2007 period primarily related to lower non-cash stock compensation costs related to stock and option awards made under the Company's stock-based compensation plans.

Our primary expenses are our ongoing costs to develop our water and real estate assets and to secure the remaining entitlements needed to continue developing the Cadiz Program. These costs consist primarily of project management, legal, consulting, engineering and administrative expenses, which are characterized as general and administrative expenses for financial statement reporting purposes. We also have expenses related to the limited farming activities that we conduct at the Cadiz Ranch. Other costs include interest expense and compensation costs resulting from the grant of stock and options under the Cadiz 2003 Management Equity Incentive Plans and the Outside Director Compensation Plan.

Revenues Cadiz had revenues of \$5 thousand for the three months ended June 30, 2007 and \$157 thousand for the three months ended June 30, 2006. Lower revenues resulted primarily from the timing of the sale of citrus crops, as the smaller 2006 lemon harvest started later in the year and was substantially complete by year-end. All the related revenues were recognized during first quarter of 2007.

Cost of Sales Cost of Sales totaled \$130 thousand during the three months ended June 30, 2006 and reflected the production, harvesting and marketing costs associated with citrus crop sales during the period. There were no citrus crop revenues during the three months ended June 30, 2007, so there was no related cost of sales.

General and Administrative Expenses General and administrative expenses during the three months ended June 30, 2007 totaled \$1.4 million compared to \$1.8 million for the three months ended June 30, 2006. 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, 2007 were \$37 thousand, compared with \$529 thousand for the three months ended June 30, 2006. The expenses primarily relate to stock and options issued under the Cadiz 2003 Management Equity Incentive Plan and the Outside Director Compensation Plan described in Note 4 of Notes to the Consolidated Financial Statements. The declining expense reflects a lower balance of unvested stock and option grants in June 30, 2007. There were no stock or option grants under these plans during the three months ended June 30, 2007. Shares and options issued under the Plans vest over varying periods from the date of issue to December 2008. We expect to incur additional non-cash expenses in connection with grants under the 2007 Management Equity Incentive Plan, which became effective in July 2007. See Note 4 of the Notes to the Consolidated Financial Statements - Stock Based Compensation Plans and Warrants.

Other General and Administrative Expenses, exclusive of stock based compensation costs, totaled \$1.3 million in the three months ended June 30, 2007 and \$1.2 million in the three months ended June 30, 2006.

Depreciation and Amortization Depreciation and amortization expense for the three months ended June 30, 2007 and 2006 totaled \$39 thousand in each period, respectively.

Interest Expense, net Net interest expense totaled \$765 thousand during the three months ended June 30, 2007, compared to \$496 thousand during the same period in 2006. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Three Months Ended	
	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Interest on outstanding debt	\$ 483	\$ 528
Amortization of financing costs	15	7
Amortization of debt discount	445	-
Interest income	(178)	(39)
	\$ 765	\$ 496

The increase in net interest expense is primarily due to the amortization of the debt discount related to certain derivatives embedded to the new senior secured convertible term loan. 2007 interest income increased to \$178 thousand from \$39 thousand in the prior year,

due to higher cash balances and higher short-term interest rates. See Notes to the Consolidated Financial Statements: Note 3 - Long-term Debt.

Income Taxes Income tax expense for the three months ended June 30, 2007 was \$3 thousand. There was no income tax expense in the prior year period. See Note 5 of the Notes to the Consolidated Financial Statements - Income Taxes.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

We had revenues of \$357 thousand for the six months ended June 30, 2007 and \$409 thousand for the six months ended June 30, 2006. We incurred a net loss of \$4.7 million in the six months ended June 30, 2007, compared with a \$5.4 million net loss during the six months ended June 30, 2006. The lower loss in the 2007 period primarily related to lower non-cash expenses related to stock and option awards.

Revenues Cadiz had revenues of \$357 thousand for the six months ended June 30, 2007 and \$409 thousand for the six months ended June 30, 2006. Lower revenues resulted primarily from the smaller lemon harvest in the fourth quarter of 2006. 2006 crop yields were lower than the prior year due to unfavorable weather conditions.

Cost of Sales Cost of Sales totaled \$348 thousand during the six months ended June 30, 2007 and \$341 thousand during the six months ended June 30, 2006. The higher cost of sales in 2007 reflects higher production, harvesting and marketing costs associated with citrus crop sales during the period.

General and Administrative Expenses General and administrative expenses during the six months ended June 30, 2007 totaled \$3.1 million compared to \$3.9 million for the six months ended June 30, 2006. 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, 2007 were \$102 thousand, compared with \$1.1 million for the six months ended June 30, 2006. The expenses primarily relate to stock and options issued under the 2003 Management Equity Incentive Plan and the Outside Director Compensation Plan described in Note 4 of Notes to the Consolidated Financial Statements. The declining expense reflects a lower balance of unvested stock and option grants in June 30, 2007. There were no stock or option grants under these plans during the six months ended June 30, 2007. Shares and options issued under the Plans vest over varying periods from the date of issue to December 2008. We expect to incur additional non-cash expenses in connection with grants under the 2007 Management Equity Incentive Plan when that plan became effective in July 2007. See Note 4 of the Notes to the Consolidated Financial Statements - Stock Based Compensation Plans and Warrants.

Other General and Administrative Expenses, exclusive of stock based compensation costs, totaled \$3.0 million in the six months ended June 30, 2007, compared with \$2.8 million for the six months ended June 30, 2006. The increase in expenses is primarily due to higher payroll costs.

Depreciation and Amortization Depreciation and amortization expense for the six months ended June 30, 2007 and 2006 totaled \$76 thousand and \$79 thousand, respectively.

Interest Expense, net Net interest expense totaled \$1.5 million during the six months ended June 30, 2007, compared to \$977 thousand during the same period in 2006. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Six Months Ended	
	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Interest on outstanding debt	\$938	\$1,046
Amortization of financing costs	29	14
Amortization of debt discount	866	-
Interest income	(305)	(83)
	\$1,528	\$977

The increase in net interest expense is primarily due the amortization of the debt discount related to certain derivatives embedded to the new senior secured convertible term loan. 2007 interest income increased to \$305 thousand from \$83 thousand in the prior year, due to higher cash balances and higher short-term interest rates. See Notes to the Consolidated Financial Statements: Note 3 - Long-term Debt.

Other Income During the six month period ended June 30, 2006, one of our stockholders determined that it had, at a time when it was the beneficial holder of more than 10% of our outstanding equity securities, inadvertently engaged in trades which resulted in automatic short swing profit liability to the Company pursuant to Section 16(b) of the Securities Exchange Act of 1934. After becoming aware of the situation, the stockholder promptly made payments totaling \$350,000 to the Company to settle the entire short swing profit liability owed as a consequence of these trades.

Income Taxes Income tax expense for the six months ended June 30, 2007 was \$8 thousand. There was no income tax expense in the prior year period. See Note 5 of the Notes to the Consolidated Financial Statements - Income Taxes.

LIQUIDITY AND CAPITAL RESOURCES

Current Financing Arrangements

As we have not received significant revenues from our water resource and real estate activity to date, we have been required to obtain financing to bridge the gap between the time water resource and real estate 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.

Subsequent to the vote of Metropolitan's Board in October 2002 to not proceed with the Cadiz Project and Sun World's January 2003 bankruptcy filing, we have worked with our primary secured lenders to structure our debt in a way which allows us to continue our

development of the Cadiz Project and minimize the dilution of the ownership interests of common stockholders. We entered into a series of agreements with ING Capital LLC and then refinanced the ING loan with a new \$36.4 million five year zero coupon senior secured convertible term loan with Peloton Partners LLP (through an affiliate) and another lender (the "Peloton Loan") in June 2006. The Peloton loan provided for:

- the repayment in full of our senior secured term loan with ING;
 - a final maturity date of June 29, 2011;
- a zero coupon structure, which requires no cash interest payments prior to the final maturity date; and
- a 5% interest rate for the first three (3) years, with a 6% interest rate thereafter.

At each lender's option, principal plus accrued interest on each of the two loan tranches is convertible into the Company's \$0.01 par value common stock at a fixed conversion price per share. The \$10 million Tranche A conversion price is \$18.15 per share, and the \$26.4 million Tranche B conversion price is \$23.10 per share. The conversion prices are subject to downward adjustment in the event of a change in control.

On or after June 29, 2007, principal and interest accrued on each of the two loan tranches can be prepaid on 30 days notice either if the price of the Company's stock on the NASDAQ Global Market exceeds the tranche's conversion price by 40% for 20 consecutive trading days in a 30 trading day period or if the Company completes the Cadiz Water Program entitlement process, secures a right-of-way for the project pipeline and arranges sufficient financing to repay the loan and build the Cadiz Project. The \$10 million Tranche A prepayment option would become available at a share price above \$25.41 per share and the Tranche B prepayment option would become available at a share price above \$32.34 per share.

The debt covenants associated with the loan were negotiated by the parties with a view towards our operating and financial condition as it existed at the time the agreements were executed. At June 30, 2007, the Company was in compliance with its debt covenants.

In addition to allowing us to repay our former credit facility with ING, the Peloton Loan provided us with \$9.3 million of additional working capital and deferred all interest payments until the June 29, 2011 final maturity date. Furthermore, the Peloton Loan, unlike the ING facility, permitted us to retain the proceeds received from the exercise of certain warrants issued by us in 2004.

A \$24 million private equity placement was completed by the Company in November 30, 2004, and included the issuance of warrants to purchase 405,440 shares of our common stock at an exercise price of \$15.00 per share. During September 2006, holders of 70,000 of the warrants exercised their warrants, resulting in the issuance by us of 70,000 shares of common stock with net proceeds of \$1,050,000. In February 2007, we exercised our right to terminate the remaining warrants upon 30 days notice, and holders of all the remaining 335,440 warrants exercised their warrants. As a result, we issued 335,440 shares of our common stock and received net proceeds of \$5,031,600 during February 2007. Following these exercises, no Warrants remain outstanding.

During February 2007, an employee elected to exercise options to purchase 10,000 shares of our common stock for \$13.95 per share, and we received proceeds of \$139,500.

As we continue to actively pursue our business strategy, additional financing in connection with our water programs will be required. See "Outlook", below. The covenants in the credit facility 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.

We issued 100,000 shares of Series F convertible preferred stock to ING as part of our agreements in December 2003, of which 1,000 shares remained outstanding on December 31, 2006. In June 2007, ING elected to convert the preferred shares into 17,289 shares of common stock. No Series F Preferred Shares were outstanding on June 30, 2007, and, as discussed further in Item 5 of Part II - Other Information, the Series F Preferred Stock was subsequently eliminated from the Company's certificate of incorporation.

At June 30, 2007, we have no outstanding credit facilities other than the Peloton Loan described in our 10K for the year ended December 31, 2006.

Cash Used for Operating Activities. Cash used for operating activities was \$2.6 million for the six months ended June 30, 2007, as compared to \$2.3 million for the six months ended June 30, 2006. The increased cash usage is primarily due to higher general and administrative expenses, which are primarily due to higher payroll expenses.

Cash Used for Investing activities. During the six months ended June 30, 2007, net cash flow used for investing activities was \$8.8 million, reflecting investments in marketable securities and the acquisition of equipment at the Cadiz Ranch. During the six months ended June 30, 2006, net cash flow used for investing activities was \$19 thousand, primarily for the acquisition of plant and equipment at the Cadiz Ranch.

Cash Provided by (Used for) Financing Activities. Cash provided by financing activities totaled \$5.2 million for the six months ended June 30, 2007, compared with \$9.3 million in the six months ended June 30, 2006. The 2007 results reflect \$5.2 million of net proceeds from the exercise of warrants to purchase 335,440 shares of our common stock for \$15.00 per share and the exercise of options to purchase 10,000 shares of our common stock for \$13.95 per share by an employee. The 2006 results reflect the proceeds remaining from the \$36.4 million zero coupon senior secured convertible term loan facility after repayment of the ING credit facility and debt issuance costs in June 2006.

Outlook

Short Term Outlook. The proceeds of our \$36.4 million senior secured convertible term loan and the \$6.2 million received upon the sale of common shares in 2007 and 2006 pursuant to the exercise of certain warrants issued in November 2004 and the exercise of employee stock options provide us with sufficient funds to meet our expected working capital needs for the next 12 months. The Company expects to continue its historical practice of structuring its financing arrangements to match the anticipated needs of its 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 and any payments due under our senior secured convertible term loan at maturity. See “Current Financing Arrangements” above. Payments will be due under the term loan only to the extent that lenders elect not to exercise equity conversion rights prior to the loan’s final maturity date. Our future working capital needs will depend upon the specific measures we pursue in the entitlement and development of our water resources and real estate. 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.

Recent Accounting Pronouncements

In June 2006, the FASB issued FSP FIN 48 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. This Interpretation also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is to determine if it is more likely than not that a tax position will be sustained upon examination and should therefore be recognized. The second step is to measure a tax position that meets the more likely than not recognition threshold to determine the amount of benefit to recognize in the financial statements. Effective, January 1, 2007, the Company’s financial statements reflect FSP FIN 48. The adoption of FSP FIN 48 did not have a material impact on the Company’s financial statements.

In September 2006, the FASB released Statement of Financial Accounting Standards No. 157 (“SFAS No. 157”), “Fair Value Measurements”. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 clarifies the exchange price notion in the fair value definition to mean the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). This statement also clarifies that market participant assumptions should include assumptions about risk, should include assumptions about the effect of a restriction on the sale or use of an asset and should reflect its nonperformance risk (the risk that the obligation will not be fulfilled). Nonperformance risk should include the reporting entity’s credit risk. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 157 on January 1, 2008, as required, and management is still evaluating the impact on the Company’s consolidated financial statements.

In February 2007, the FASB released Statement of Financial Accounting Standards No. 159 (“SFAS No. 159), “The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115”. SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value and is effective for the first fiscal year beginning after November 15, 2007. The Company will adopt SFAS No. 159 on January 1,

2008, as required, and management is still evaluating the impact on the Company's consolidated financial statements.

Certain Known Contractual Obligations

<u>Contractual Obligations</u>	<u>Total</u>	<u>Payments Due by Period</u>			
		<u>1 year or less</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Long term debt obligations	\$ 38,281	\$ 9	\$ 18	\$ 38,254	\$ -
Interest Expense	9,493	1	1	9,491	-
Operating leases	919	164	350	359	46
	\$ 48,693	\$ 174	\$ 369	\$ 48,104	\$ 46

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Information about market risks for the six months ended June 30, 2007 does not differ materially from that discussed under Item 7A of Cadiz' Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information related to the Company, including its consolidated entities, is accumulated and communicated to senior management, including the Chairman and Chief Executive Officer (the "Principal Executive Officer") and Chief Financial Officer (the "Principal Financial Officer") and to our Board of Directors. Based on their evaluation as of June 30, 2007, our Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and such information is accumulated and communicated to management, including the principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

See "Legal Proceedings" included in the Company's latest Form 10-K for a complete discussion.

ITEM 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006.

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

As indicated above under Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations), on June 15, 2007 ING converted its 1,000 remaining shares of Series F Preferred Stock into 17,289 shares of our common stock. Following this conversion, no shares of our Series F Preferred Stock remained outstanding.

The issuance of the common stock upon conversion of the Series F Preferred Stock was not registered under the Securities Act of 1933, as amended (the "Securities Act"), but was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act as the transactions (including the issuance of the Series F Preferred Stock) did not involve public offerings, the number of investors was limited, the investors were provided with information about us, and we placed restrictions on the resale of the securities.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

The Company's current report on Form 8-K dated June 15, 2007 and filed on June 29, 2007 is incorporated by reference as part of this quarterly report on Form 10-Q.

ITEM 5. Other Information

On August 3, 2007 we filed a Certificate of Elimination of Series F Preferred Stock with the State of Delaware. We made this filing inasmuch as, with the conversion by ING of all remaining outstanding Series F Preferred Stock as noted in Item 2 above, we have no shares of Series F Preferred Stock outstanding and no shares of Series F Preferred Stock will be issued in the future. The effect of this filing was to eliminate from our Certificate of Incorporation all matters set forth in the certificate of designation previously filed by us with respect to the Series F Preferred Stock.

ITEM 6. Exhibits

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

3.1 Certificate of Elimination of Series F Preferred Stock of Cadiz Inc. (as filed August 3, 2007)

10.1 2007 Management Equity Incentive Plan ⁽¹⁾

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 O'Donnell Iselin II, 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 O'Donnell Iselin II, 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

⁽¹⁾ Previously filed as appendix A to our definitive proxy dated April 27, 2007 as filed April 27, 2007.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cadiz Inc.

By: /s/ Keith Brackpool

Keith Brackpool

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

August 6, 2007

Date

By: /s/ O'Donnell Iselin II

O'Donnell Iselin II

Chief Financial Officer and Secretary (Principal Financial Officer)

August 6, 2007

Date