CADIZ INC
Form 10-Q
May 09, 2016

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 March 31, 2016
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<br>(State or other jurisdiction of incorporation or organization) | 77-0313235<br>(I.R.S. Employer Identification No.) |
| 550 South Hope Street, Suite 2850<br>Los Angeles, California<br>(Address of principal executive offices) | 90071<br>(Zip Code) |

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes √ No

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

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

Yes No √

As of April 27, 2016, the Registrant had 17,946,973 shares of common stock, par value $0.01 per share, outstanding.

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Cadiz Inc.

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

| ($ in thousands except per share data) | For the Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Revenues | $75 | $18 |
| Costs and expenses: | | |
| Cost of sales | - | - |
| General and administrative | 2,355 | 2,675 |
| Depreciation | 73 | 61 |
| Total costs and expenses | 2,428 | 2,736 |
| Operating loss | (2,353) | (2,718) |
| Interest expense, net | (4,191) | (2,193) |
| Loss on extinguishment of debt and debt refinancing | (2,250) | - |
| Other income | - | 70 |
| Loss before income taxes | (8,794) | (4,841) |
| Income tax provision | 1 | 1 |
| Net loss and comprehensive loss applicable to common stock | $(8,795) | $(4,842) |
| Basic and diluted net loss per common share | $(0.49) | $(0.27) |
| Basic and diluted weighted average shares outstanding | 17,897 | 17,707 |

See accompanying notes to the consolidated financial statements.

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Cadiz Inc.

Consolidated Balance Sheets (Unaudited)

| ($ in thousands except share data) | March 31, 2016 | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,103 | $ 2,690 |
| Accounts receivable | 38 | 187 |
| Prepaid expenses and other | 562 | 309 |
| Total current assets | 2,703 | 3,186 |
| Property, plant, equipment and water programs, net | 44,401 | 44,474 |
| Goodwill | 3,813 | 3,813 |
| Other assets | 3,588 | 3,317 |
| Total assets | $ 54,505 | $ 54,790 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | $ 504 | $ 309 |
| Accrued liabilities | 2,379 | 1,665 |
| Current portion of long-term debt | 49 | 49 |
| Total current liabilities | 2,932 | 2,023 |
| Long-term debt, net | 100,983 | 107,592 |
| Long-term lease obligations, net | 11,633 | - |
| Deferred revenue | 750 | 750 |
| Other long-term liabilities | 3,173 | 923 |
| Total liabilities | 119,471 | 111,288 |
| Stockholders' deficit: | | |
| Common stock - $.01 par value; 70,000,000 shares authorized; shares issued and outstanding – 17,934,223 at March 31, 2016 and 17,876,016 at December 31, 2015 | 179 | 179 |
| Additional paid-in capital | 327,182 | 326,855 |
| Accumulated deficit | (392,327) | (383,532) |
| Total stockholders' deficit | (64,966) | (56,498) |
| Total liabilities and stockholders' deficit | $ 54,505 | $ 54,790 |

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)

| ($ in thousands) | For the Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (8,795) | $ (4,842) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | |
| Depreciation | 73 | 61 |
| Amortization of debt discount and issuance costs | 1,949 | 222 |
| Interest expense added to loan principal | 2,182 | 1,971 |
| Loss on early extinguishment of debt | 2,250 | - |
| Compensation charge for stock and share option awards | 165 | 260 |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 149 | 170 |
| Increase in prepaid expenses and other | (253) | (478) |
| Increase in other assets | (271) | (272) |
| Increase in accounts payable | 195 | 315 |
| Increase (decrease) in accrued liabilities | 876 | (43) |
| Net cash used for operating activities | (1,480) | (2,636) |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | - | (19) |
| Net cash used for investing activities | - | (19) |
| Cash flows from financing activities: | | |
| Up-front payment related to lease liability | 11,509 | - |
| Debt Issuance costs | (102) | - |
| Principal payments on long-term debt | (10,514) | (3) |
| Net cash provided by (used for) financing activities | 893 | (3) |
| Net decrease in cash and cash equivalents | (587) | (2,658) |
| Cash and cash equivalents, beginning of period | 2,690 | 16,206 |
| Cash and cash equivalents, end of period | $ 2,103 | $ 13,548 |

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Stockholders' Deficit (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, 2015 | 17,876,016 | $ 179 | $ 326,855 | $ (383,532) | $ (56,498) |
| Stock-based compensation expense | 58,207 | - | 327 | - | 327 |
| Net loss and comprehensive loss | - | - | - | (8,795) | (8,795) |
| Balance as of March 31, 2016 | 17,934,223 | $ 179 | $ 327,182 | $ (392,327) | $ (64,966) |

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

The Consolidated Financial Statements have been prepared by Cadiz Inc., 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, 2015.

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 three months ended March 31, 2016, are not necessarily indicative of results for the entire fiscal year ending December 31, 2016.

Liquidity

The Consolidated 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 $8.8 million for the three months ended March 31, 2016, and $4.8 million for the three months ended March 31, 2015. The Company had a working capital deficit of $229 thousand at March 31, 2016, and used cash in operations of $1.5 million for the three months ended March 31, 2016, and $2.6 million for the three months ended March 31, 2015.

Cash requirements during the three months ended March 31, 2016, primarily reflect certain administrative and litigation costs related to the Company's water project development efforts. Currently, the Company's sole focus is the development of its land and water assets.

On February 8, 2016, the Company entered into a Second Amendment to the Credit Agreement with its senior lenders to (i) provide for the application of $10.5 million of a $12 million payment pursuant to the Amended and Restated Fenner Valley Farm Lease (see Note 2) which satisfied a repayment condition of the First Amendment to extend the maturity date; (ii) to require Cadiz to pay 50% of all future quarterly interest payments in cash, rather than in accretion to principal, beginning with the quarterly interest payment due June 5, 2016; and (iii) to provide for certain related matters. On February 25, 2016, the Company exercised its right to extend the maturity date of the First Mortgage and, at that time, incurred an additional extension fee of $2.25 million which is to be paid at the election of the lenders in either additional debt or Cadiz common stock to be issued at a predetermined price. On March 4, 2016, Cadiz entered into a Third Amendment to the Credit Agreement which provides the lenders an additional 90 days to make their election to receive the extension fee in additional debt or Cadiz common stock in exchange for extending the due date of the Senior Secured Debt from June 30, 2017 to September 28, 2017. Interest on the Senior Secured Debt will continue to accrue at 8% per annum.

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On April 28, 2016, the Company entered into agreements with new and existing investors ("Investors") in a private placement offering pursuant to which the Company issued $10 million in aggregate principal and accrued interest of its 2020 Convertible Notes ("Convertible Note Financing"). The proceeds from the Convertible Note Financing were approximately $8 million before fees and expenses, and will be used for general working capital purposes.

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 the Company's ability to incur additional indebtedness, incur liens, pay dividends or make restricted payments, dispose of assets, make investments and merge or consolidate with another person. However, while there are affirmative covenants, there are no financial maintenance covenants and no restrictions on the Company's ability to issue additional common stock to fund future working capital needs. The debt covenants associated with the new loans were negotiated by the parties with a view towards the Company's operating and financial condition as it existed at the time the agreements were executed. At March 31, 2016, the Company was in compliance with its debt covenants.

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. After consideration of the Convertible Note Financing in April 2016, the Company currently expects its sources of capital to be sufficient to meet its liquidity needs through March 2017. To meet its cash needs beyond March 2017, the Company plans to increase liquidity through a variety of means, including equity or debt placements, through the lease, sale or other disposition of assets or reductions in operating costs. Equity placements, if made, 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.

Supplemental Cash Flow Information

The Company is required to pay 50% of all future quarterly interest payments in cash on the corporate secured debt, rather than in accretion to principal, beginning with the quarterly interest payment due June 5, 2016. No other payments are due on the corporate secured debt or convertible notes prior to their maturities.

The Company recorded $60 thousand in non-cash rental revenue related to the Amended and Restated Fenner Valley Farm Lease (see Note 2).

Recent Accounting Pronouncements

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. On July 9, 2015, the FASB approved a one-year deferral, updating the effective date to January 1, 2018. The Company is currently evaluating this new guidance and cannot determine the impact of this standard at this time.

In August 2014, the FASB issued an accounting standards update requiring an entity's management to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).  The Company is currently evaluating this new guidance which is effective for its 2016 Form 10-K filing, and believes this guidance will have an impact as there is currently substantial doubt about the Company's ability to continue as a going concern.

On February 25, 2016, the FASB issued an accounting standards update related to lease accounting including enhanced disclosures. Under the new standard, a lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified assets for a period of time in exchange for consideration. Lessees will classify leases with a term of more than one year as either operating or finance leases and will need to recognize a right-of-use asset and a lease liability. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. This guidance is effective January 1, 2019 but early adoption is permitted. The Company is currently evaluating this new guidance and cannot determine the impact of this standard at this time.

On March 30, 2016, the FASB issued an accounting standards update to simplify the accounting for share-based payments. Under this new guidance, the tax effects related to share based payments will be recorded through the income statement. Currently, tax benefits in excess of compensation cost ("windfalls") are recorded in equity, and tax deficiencies ("shortfalls") are recorded in equity to the extent of previous windfalls, and then to the income statement. This guidance is effective January 1, 2017 but early adoption is permitted. The new standard also revised reporting on the statement of cash flows.  The Company is currently evaluating this new guidance and cannot determine the impact of this standard at this time.

Accounting Guidance Adopted

On April 7, 2015, the FASB issued an accounting standards update that requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. Previously, accounting guidance required these costs to be presented as a deferred charge asset. The Company adopted this guidance in the first quarter of 2016. At March 31, 2016, the amount of debt issuance costs that are reflected as a deduction of "Long-term debt" was $671 thousand. At December 31, 2015 the amount of debt issuance costs that have been reclassified from "Other long-term assets" as a deduction of "Long-term debt" was $626 thousand.

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.

In November 2015, the Company entered into a First Amendment to the Credit Agreement ("First Amendment") with its senior lenders which granted it the right to extend the maturity date of the first tranche of its Senior Secured Debt ("First Mortgage") from March 2016 to June 2017, which is concurrent with the existing due date of the second tranche of the Senior Secured Debt. In consideration of this right, the Company paid its senior lenders an amendment fee of $2.25 million in additional debt.

On February 8, 2016, the Company entered into a lease agreement with Fenner Valley Farms LLC ("FVF") (the "lessee"), a subsidiary of Water Asset Management LLC, a related party, pursuant to which FVF will lease, for a 99-year term, 2,100 acres owned by Cadiz in San Bernardino County, California, to be used to plant, grow and harvest agricultural crops ("FVF Lease Agreement"). As consideration for the lease, FVF paid the Company a one-time payment of $12 million upon closing.

Under the FVF Lease Agreement, the Company has a repurchase option to terminate the lease at any time during the twenty (20) year period following the effective date of the lease ("Termination Option Period") upon (1) repayment of the one-time $12 million lease payment plus a ten percent (10%) compounded annual return (provided that the amount of such payment shall be not less than $14,400,000), (2) reimbursement of water related infrastructure on the leased property plus 8% per annum as well as the actual costs of any farming related infrastructure incurred on the leased property and (3) reimbursement of certain pipeline related development expenses, working in coordination with Cadiz, not to exceed $3,000,000 (such payments, the "Termination Payments"). If (x) Cadiz does not exercise its termination right within such 20-year period or (y) the Agent under Cadiz's credit agreement declares an event of default under Cadiz's senior secured indebtedness and accelerates the indebtedness due and owing thereunder by Cadiz (or such indebtedness automatically accelerates under the terms of Cadiz's senior secured indebtedness), then the lessee may purchase the leased property for $1.00. The Company has recorded the one-time payment of $12 million, before legal fees, paid by FVF as long-term lease liability. The Company's consolidated statement of operations will reflect a net charge equal to a 10% finance charge compounding annually over the 20-year Termination Option Period. The net charge to the consolidated statement of operations reflects (1) rental income associated with the use of the land by FVF over the 20-year termination option period and (2) interest expense at a market rate reflective of a 20 year secured loan transaction. As a result of this transaction, the Company incurred approximately $490 thousand of legal fees which was recorded as a debt discount and is being amortized over the 20-year Termination Option Period.

Also on February 8, 2016, the Company entered into a Second Amendment to the Credit Agreement with its senior lenders (i) to provide for the application of $10.5 million of the $12 million payment pursuant to the FVF Lease Agreement which satisfied the repayment condition of the First Amendment to extend the maturity date; (ii) to require Cadiz to pay 50% of all future quarterly interest payments in cash, rather than in accretion to principal, beginning with the quarterly interest payment due June 5, 2016; and (iii) to provide for certain related matters. On February 25, 2016, the Company exercised its right to extend the maturity date of its First Mortgage and, at that time, incurred an additional extension fee of $2.25 million which is to be paid at the election of the lenders in either additional debt or Cadiz common stock at a predetermined price. The Second Amendment to the Credit Agreement does not constitute a troubled debt restructuring and was accounted for as a debt extinguishment. The fair value of the credit facility was recorded at face value. The Company recorded a loss on extinguishment in the amount of $2.25 million which consisted of the additional extension fee. On March 4, 2016, the Company entered into a Third Amendment to the Credit Agreement which provides the lenders an additional 90 days to make the election to receive the extension fee in additional debt or Cadiz common stock in exchange for extending the due date of its Senior Secured Debt from June 30, 2017 to September 28, 2017. As of March 31, 2016, the Company had an accrued liability recorded in the amount of $2.25 million for the additional extension fee. Once the lenders make the election to receive the extension fee in additional debt or Cadiz common stock as described above, the Company will reclassify the liability accordingly. Interest on the Senior Secured Debt will continue to accrue at 8% per annum.

NOTE 3 – STOCK-BASED COMPENSATION PLANS AND WARRANTS

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

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. As of March 31, 2016, 507,500 common stock options remain outstanding under this plan.

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. Of the 162,500 restricted stock units granted on July 1, 2014 pursuant to these employment agreements, 113,750 shares are vested as of March 31, 2016.

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 January 31 in the year following 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 507,500 shares were unexercised and outstanding on March 31, 2016, under the two equity incentive plans.

The Company recognized no stock option related compensation costs in each of the three months ended March 31, 2016 and 2015. Additionally, no options were exercised during the three months ended March 31, 2016.

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. 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 March 31, 2016. 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, 146,160 shares have been awarded to the Company directors, consultants and employees as of March 31, 2015. Of the 146,160 shares awarded, 11,850 shares were awarded to the Company's directors for services performed during the plan year ended June 30, 2015. These shares became effective on that date and vested on January 31, 2016.

The Company recognized stock-based compensation costs of $165,000 and $260,000 for the three months ended March 31, 2016 and 2015, respectively.

NOTE 4 – INCOME TAXES

As of March 31, 2016, the Company had net operating loss ("NOL") carryforwards of approximately $238 million for federal income tax purposes and $145 million for California state income tax purposes. Such carryforwards expire in varying amounts through the year 2035. Use of the carryforward amounts is subject to an annual limitation as a result of ownership changes.

As of March 31, 2016, the Company possessed unrecognized tax benefits totaling approximately $2.8 million. None of these, if recognized, would affect the Company's effective tax rate because the Company has recorded a full valuation allowance against its net deferred tax assets.

The Company's tax years 2012 through 2015 remain subject to examination by the Internal Revenue Service, and tax years 2011 through 2015 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.

## 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 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 10,142,000 and 8,597,000 for the three months ended March 31, 2016 and 2015, respectively.

## NOTE 6 – CONTINGENCIES

On April 24, 2015, a putative class action lawsuit, entitled Van Wingerden v. Cadiz Inc., et al., No. 2:15-cv-03080-JAK-JEM, was filed against Cadiz and certain of its directors and officers (“Defendants”) in the United States District Court for the Central District of California purporting to assert claims for violation of §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint, which purports to be brought on behalf of all Cadiz shareholders, alleges that the Company’s public disclosures were inadequate in relation to the Cadiz Valley Water Conservation, Recovery and Storage Project (the “Water Project”). The complaint seeks unspecified monetary damages and other relief. The Company believes that the claims alleged in the purported class action lawsuit are baseless and without merit and Cadiz intends to vigorously defend against the action. On December 2, 2015, Defendants filed a Motion to Dismiss the lawsuit and a hearing on the motion was held in late February 2016. The Judge has not yet issued a ruling and the Company cannot predict with certainty the outcome of this proceeding.

On February 6, 2016, a shareholder derivative lawsuit, entitled Herman Boschken v. Keith Brackpool et. al., was filed against certain Cadiz directors and officers (“Derivative Defendants”) in State of California County of Los Angeles Superior Court purporting to assert claims for breach of fiduciary duty, corporate waste, gross mismanagement, and unjust enrichment. The Complaint, which purports to be brought on behalf of all Cadiz shareholders, alleges that the Derivative Defendants made false and misleading statements regarding the Company’s business and prospects. This complaint was filed in the wake of Van Wingerden v. Cadiz, Case No. 2:15-cv-03080-JAK-JEM (C.D.C.A. Apr. 24, 2015), described above, and mirrors many of its factual allegations. Among other things, the Complaint seeks unspecified monetary damages and certain changes to corporate governance policies. The Company believes that the lawsuit is without merit and will vigorously defend the action. No case related activity has yet occurred before the Court.

While the Company believes that the purported class action lawsuit is without merit, pursuant to applicable accounting requirements, the Company will evaluate this matter on an ongoing basis and record accruals for contingencies if the Company concludes that it is probable that a material loss will be incurred and the amount of the loss can be reasonably estimated. In many situations, including the purported class action, in which such matters are being contested, the outcome is not predictable and any potential loss is not estimable.

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.

NOTE 7 – SUBSEQUENT EVENTS

On April 26, 2016, the Company entered into a note purchase agreement with new and existing investors (the "Investors"). On April 28, 2016, pursuant to the agreement, the Company issued approximately $10.0 million in aggregate principal and accrued interest of its 7.00% Convertible Senior Notes due 2020 ("2020 Notes"). The proceeds from the issuance of the 2020 Notes to the Investors (such 2020 Notes, the "New Notes"), approximately $8.0 million before fees and expenses, will be used for general working capital purposes.

The 2020 Notes accrue interest at 7.00% per year, with no principal or interest payments due prior to maturity on March 5, 2020. The 2020 Notes, including original principal and accrued interest, are convertible at any time into the Company's common stock at a price of approximately $6.75 per share, pursuant to the terms of the Indenture dated as of December 10, 2015, by and between the Company and U.S. Bank National Association (the "Indenture"), under which the New Notes were issued.

In connection with issuing the New Notes, the Company entered into a First Supplemental Indenture to the Indenture, dated as of April 28, 2016, by and between the Company and U.S. Bank National Association.

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, 2014.

Overview

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”), a major source of imported water for Southern California. Our properties are suitable for various uses, including large-scale agricultural development, groundwater storage and water supply projects. Our main objective is to realize the highest and best use of these land and water resources in an environmentally responsible way.

We believe that the long-term highest and best use of our land and water assets can best be realized through the development of a combination of water supply and storage projects at our properties. Therefore, the Company has been primarily focused on the development of the Cadiz Valley Water Conservation, Recovery and Storage Project (the “Water Project” or “Project”), which will capture and conserve millions of acre-feet[1] of native groundwater currently being lost to evaporation from the aquifer system beneath our 34,000-acre property in the Cadiz and Fenner valleys of eastern San Bernardino County (the “Cadiz/Fenner 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 provide a significant source of future cash flow.

The primary factor driving the value of such projects is ongoing pressure on water supplies throughout California, which has led Southern California water providers to actively seek new, reliable supply solutions to plan for both short and long-term water needs. Available supply is constrained by environmental and regulatory restrictions on each of the State’s three main water sources: the State Water Project, which provides water supplies from Northern California to the central and southern parts of the state, 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.

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1 One acre-foot is equal to approximately 326,000 gallons or the volume of water that will cover an area of one acre to a depth of one-foot. An acre-foot is generally considered to be enough water to meet the annual water needs of one average California household.

Availability of supplies in California also differs greatly from year to year due to natural hydrological variability. Over the last several years, California has struggled through an historic drought featuring record-low winter precipitation and reservoir storage levels. In 2015, for the first time in the state's history, California Governor Jerry Brown mandated rationing of 25% statewide in an effort to curtail urban demand. An "El Nino" weather pattern developed at the end of 2015 and brought wet conditions to California, yet snowpack and precipitation remain average for the year, especially in Southern California. According to the US Drought Monitor, as of April 2016, more than 95% of California remains abnormally dry. Meteorologists are also expecting a much drier "La Nina" weather pattern to form over the Pacific Ocean this summer, raising the likelihood of a fifth drought year. The Water Project is one of the few nearly "shovel-ready" supply options in Southern California that could help alleviate the region's water supply challenges (see "Water Resource Development" below).

In addition to an urgent need in California for new, reliable water supplies, demand for agricultural land with water rights is also at an all-time high. Therefore, in addition to our Water Project proposal, we are pursuing ways in which the groundwater currently being lost to evaporation from the aquifer system at the Cadiz/Fenner Property can be immediately put to beneficial use through sales, leasing, or agricultural joint ventures that are complementary to the Water Project.

We have farmed portions of the Cadiz/Fenner Property since the late 1980s relying on groundwater from the aquifer system for irrigation and we believe the site is well suited for various permanent and seasonal crops. In 1993, we secured permits to develop agriculture on up to 9,600 acres of the property and withdraw groundwater from the underlying aquifer system for irrigation. We initially developed 1,900 acres of agriculture at the Property, including a well-field and manifold system and maintained that level as we focused on developing the Water Project. Today, there is significant interest in expanding agricultural activity onto the entire 9,600 acres, and in February 2016 we completed arrangements to lease up to 9,600 acres of the Cadiz/Fenner Property for agricultural development. Under the arrangements, 2,100 acres, which include our initially developed 1,900 acres, will be further developed and our farming partners hold rights to lease the additional 7,500 acres prior to December 2016 (see "Agricultural Development" below).

As part of the agricultural expansion to be conducted under the lease arrangements, the groundwater production capacity of the property's existing well-field is expected to be increased, which will provide additional infrastructure that is complementary to the Water Project. As a result of work completed in 2015, including the drilling of three additional exploratory wells, we have now identified suitable locations for the drilling of high-production wells powered by natural gas that could produce all of the water allowable under our existing permit for implementation of the Water Project or alternatively to supply irrigation water for all of the agricultural land. While any additional well-field development for agricultural use would be financed by our agricultural partners as provided under our agricultural arrangements, the Company retained a call feature that allows us, at any time in the initial 20 years, to acquire the well-field and integrate any new agricultural well-field infrastructure developed into the Water Project's facilities.

Our 2016 working capital requirements relate largely to the final development activities associated with the Water Project and those activities consistent with the Water Project related to further development of our land and agricultural assets. While we continue to believe that the ultimate implementation of the Water Project will provide the primary source of our future cash flow, we also believe there is significant additional value in our underlying agricultural assets.

We also continue to explore additional uses of our land and water resource assets, including the marketing of our approved desert tortoise land conservation bank, which is located on our properties outside the Water Project area, solar-energy development, and other long-term legacy uses of our properties, such as habitat conservation and cultural development.

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 underground storage capacity that can be used to hold 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 Project participants; and
- An energy source to provide power to the well-field, pipeline and pumping plant.

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 of up to 99 years. The buried pipeline would be constructed parallel to the railroad tracks and be used to convey water between our Cadiz/Fenner Property and the CRA in Freda, California.

Our lease agreement with the ARZC also expressly requires that the Project further several railroad purposes and, under the terms of the lease agreement, the ARZC reserved water supplies from the Project for its operational needs as well as access to Project facilities, such as roads and power appurtenances, for the benefit of its railroad operation. In September 2013, we also 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 pipeline route was fully analyzed in the Water Project's Final Environmental Impact Report ("EIR") as part of the CEQA environmental review process completed in 2012 and was found to be the environmentally preferred route for the pipeline. As an existing transportation corridor, the route avoids sensitive habitats. Our plan to construct the Project pipeline within the railroad right-of-way is similar to, and modeled after, the thousands of other existing longitudinal uses of rail corridors across the United States today, such as telecommunications lines, natural gas and petroleum product lines and other water lines. Under the General Railroad Right-of-Way Act of March 3, 1875 ("1875 Act"), according to which many of these railroad corridors were established, a railroad right-of-way can be used for third party uses so long as the use also derives from or furthers railroad purposes, at least in part. This interpretation of the 1875 Act was confirmed by Memorandum Opinion M-37025 issued by the Solicitor of the US Department of the Interior on November 4, 2011 ("2011 M-Opinion").

The Project includes the following features provided in furtherance of railroad purposes:

- A new access road along the entire pipeline route to enable maintenance, emergency access and shorten routes for crew-changes,
    - Remotely operated fire-suppression systems at each of the existing creosote-treated wooden trestles,
- Inline power generation for crossing operations and lighting, heating and cooling for existing railroad transloading operations,
- Fiber optic information transmission to convey track-speed and cameras in aid of emergency and to discourage vandalism; and
- The distribution of water for the operation of a steam powered locomotive, fire-suppression and other miscellaneous uses.

In August 2014, the U.S. Bureau of Land Management issued guidance (Instruction Memorandum No. 2014-122) to its field offices requiring the evaluation of ALL existing and proposed uses of 1875 Act railroad rights-of-way to ensure consistency with the M-Opinion. While there are thousands of existing uses of 1875 Act railroad right-of-ways across the US, the Water Project conveyance pipeline was chosen to be the first evaluated by the BLM under the 2011 M-Opinion and Instruction Memorandum No. 2014-122. After numerous meetings, discussion and our submission of support documentation, the Company received notification from the BLM California Office in April 2015 that it was analyzing the Project's proposed use of the ARZC right-of-way and expected to provide the results of this evaluation to the BLM Washington D.C. office by the end of summer 2015.

Without any further consultation, on October 2, 2015, the retiring Director of the California Office of the BLM signed a letter that would later be sent to ARZC and the Company summarizing that the Project pipeline is outside the scope of the ARZC right-of-way and would therefore require a new federal right-of-way permit prior to construction. This guidance disregards the framework established by the 2011 M-Opinion and the IM No. 2014-122, as its underlying premise is that while the Project's proposed use may further railroad purposes, these purposes derive from a pipeline which is not an original railroad purpose. We believe this finding strays from framework provided for in the binding 2011 M-Opinion, which states in relevant part:

"Within an 1875 Act ROW, a railroad's authority to undertake or authorize activities is limited to those activities that derive from or further a railroad purpose, which allows a railroad to undertake, or others to undertake, activities that have both railroad and commercial purposes, but does not permit a railroad to authorize activities that bear no relationship to the construction and operation of a railroad." (Emphasis added, M-37025)

The retiring Director of the California Office of the BLM noted in his letter that this guidance was not a final agency action and is subject to reconsideration upon the presentation of new information and in the public interest. Therefore, the Company and its partners are presently pursuing a reconsideration of the BLM guidance.

Immediately after the receipt of the October 2015 guidance, the Company sent a letter to the Director of the BLM National Office, Neil Kornze, outlining our objections to its findings and seeking its reconsideration. Several Members of Congress also raised concerns about the guidance and its inconsistencies with existing federal policy governing third party railroad right-of-way use, issuing public statements to the press. In November 2015, a bipartisan group of House Members from California met in person with Director Kornze to further express concern. Then, in December 2015, nine House Members joined in a letter to Director Kornze formally objecting to the BLM California guidance and seeking its reconsideration or reversal.

In February 2016, Director Kornze responded to our October 2015 letter as well as the December 2015 letter from the House Members and advised that the guidance, while fixed at the time issued, was not a final action and could be reconsidered upon presentation of additional information. Kornze also reported that he has asked the newly appointed California State Office Director, Jerome Perez, to meet with Project representatives to "review the issue."

In March 2016, Cadiz, ARZC and SMWD met with the Director Perez and BLM California staff. The meeting concluded with Perez requesting that the Project proponents submit any new information about the proposed uses of the ROW and a brief describing the Company's legal concerns with the October 2015 guidance. We continue to pursue a reconsideration of this guidance.

(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.

Following CEQA certification, SMWD was the first participant to convert its option agreement and 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, plus a 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. Under the terms of the option agreements with the other five water providers named above, each agency has the right to acquire an annual supply of 5,000 acre-feet of water at $775 per acre-foot (2010 dollars), which is competitive with their incremental cost of new water. In addition, these agencies have options to acquire storage rights in the Water Project to allow for the management of their Water Project supplies in complement with their other water resources. Up to 150,000 acre-feet of carry-over storage is available for reservation by the agencies prior to construction commencement. Participants that elect to achieve year-to-year flexibility in their use of Project water by utilizing carry-over storage will reserve storage capacity for $1,500 per AF prior to construction.

In 2014, we also executed Letters of Intent ("LOIs") with two California water providers and two California agricultural entities reserving up to 20,000 acre-feet of water per year from the Water Project at $960/acre-foot (2014 dollars) delivered to the Colorado River Aqueduct. The delivery of Project water to agricultural entities will be subject to an exchange with an eligible State Water Project contractor. The terms of any exchange would be finalized prior to commencement of Project construction.

We have executed LOIs, option agreements and purchase agreements that are in excess of Water Project capacity and are working collaboratively with the participating water providers to account for any oversubscription in the final definitive Purchase and Sale Agreements("PSAs"). Final definitive PSAs would be entered into prior to completing construction finance arrangements.

(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 ("MOU") 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.

CEQA review

As discussed in (2), above, we entered into environmental cost-sharing agreements with all participating water providers creating a framework for funds to be committed by each participant to share in the costs associated with the CEQA review work. SMWD served as the lead agency for the review process, which began in February 2011 with SMWD's issuance of a Notice of Preparation ("NOP") of a Draft Environmental Impact Report ("Draft EIR").

Following two NOP public scoping meetings, SMWD released the Draft EIR in December 2011. The Draft EIR analyzed potential impacts to environmental resources at the Water Project area, including critical resources of the desert environment such as vegetation, mountain springs, and water and air quality. The analysis of the Water 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 held a 100-day public comment period for the Draft EIR, during which SMWD hosted two public comment meetings and an informational workshop.

In May 2012, SMWD, Cadiz and the County of San Bernardino also entered into a Memorandum of Understanding creating the framework for finalizing the GMMMP in accordance with the County's desert groundwater ordinance.

In 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 and approved the Project.

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.

CEQA Litigation

Third parties in California have the ability to challenge CEQA approvals in State Court and, 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. Trial in the six remaining cases, which were brought by two petitioners, began in December 2013 and concluded in February 2014. In September 2014, the Court issued final signed judgments ("Judgments") formally denying all claims brought in the six lawsuits. The Judgments upheld the environmental review and approvals of the Water Project and also awarded costs to SMWD, the County, Cadiz and Fenner Valley Mutual Water Company as the prevailing parties in the cases.

During the fourth quarter of 2014, the petitioners filed independent appeals of the six Judgments in the California Court of Appeals, Fourth District. Since that time, the appeals cases have been fully briefed, including the filing of 11 Amicus Curiae "Friend of the Court" briefs in support of the Project's approvals. Oral argument before the Appeals Court was held in late March 2016. A ruling is expected prior to the conclusion of the second quarter of 2016.

Metropolitan Water District of Southern California Conveyance Terms

In addition, prior to construction of the Project, the Metropolitan Water District of Southern California ("MWD"), which owns and controls the CRA, must take action as a responsible agency under CEQA regarding the terms and conditions of the Water Project's use of the CRA to transport water to its participating agencies. Water Project supplies entering the CRA will comply with MWD's published engineering, design and water quality standards and will be subject to all applicable fees and charges routinely established by MWD for the conveyance of water within its service territory. Any agreement as to the terms and conditions of the Water Project's use of the CRA will be negotiated between and entered into by MWD and the Project participating agencies, not the Company.

(4) Construction and Working Capital

As part of the Water Purchase and Sale Agreement with SMWD, referred to in (2), above, SMWD is further authorized to continue next steps with the Company, which includes final permitting, design and construction.

As described above, construction of Phase I of the Water Project would primarily consist of wellfield facilities at the Project site, a conveyance pipeline extending approximately 43 miles along the right-of-way described in (1), above, from the wellfield 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, which we expect would cost between $225 – $250 million, will require capital financing that we expect to be secured by the proceeds of our definitive Purchase and Sale Agreements described above and the new facility assets. Of this amount, approximately $35 million would be necessary for construction of the well-field. The Company's existing corporate term debt provides us the flexibility to incorporate Water Project construction financing up to $300 million within our current debt structure.

Existing Pipeline Asset

We currently hold ownership rights to a 96-mile existing idle natural gas pipeline from the Cadiz/Fenner Property to Barstow, California that would be converted for the transportation of water.

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 approximately 220-miles of 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 nearest points on the California State Water Project infrastructure system.  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 provided that if EPNG filed for regulatory approval of any use of the 124-mile western segment by December 2015, a further $10 million payment to the Company would be required, or alternatively, the Company would have a further three-year option to acquire the 124-mile western segment for $20 million.  The filing for regulatory approval was not made by December 2015, and accordingly, the Company now holds an option to acquire the 124-mile western segment for $20 million.  This option expires in December 2018.

The 96-mile Cadiz Barstow pipeline and the further 124-mile optioned segment (together, the "Northern Pipeline Routes") create significant opportunities for our water resource development efforts.  Once converted to water use, the Northern Pipeline Routes can be used to directly connect the Cadiz area to northern and central California water sources, serving a diverse group of urban and agricultural water users in need of supply and storage south of the Bay Delta region.

If the Northern Pipeline Routes become operational, then the Water Project would link the two major water delivery systems in California providing flexible opportunities for both supply and storage.  If access to the 43-mile route within the railroad right-of-way is delayed by federal policy, then the Northern Pipeline Routes offer an alternative means to deliver Phase I supplies, either directly or via exchange, to existing and potential customers of Phase I of the Project.  The pipeline can also be used to offer groundwater storage south of the Bay Delta region, currently being contemplated as part of Phase II of the Water Project.

The 96-mile pipeline was evaluated in the Water Project's EIR during the CEQA process. 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) and potentially federal environmental permitting.

The Northern Pipeline Routes also represent new opportunities for the Company independent of the Water Project to offer water transportation to locations along the pipeline route that are not presently interconnected by existing water infrastructure. The entire 220-mile pipeline crosses California's major water infrastructure as well as urban and agricultural centers and can be utilized to transport water between users who presently lack direct interconnections along the pipeline route. We are presently engaged in discussions with parties that may be interested in such transportation, not related to the Water Project.

Agricultural Development

Within the Cadiz/Fenner Property, all of the existing 34,000 acres are currently zoned for agriculture. Within this total, 9,600 acres are currently designated under a conditional use permit, of which the Company has developed a total of 1,900 acres of the property for agricultural operations. Additionally, there are housing and kitchen facilities that support up to 300 employees. The underlying groundwater, fertile soil, and desert temperatures are well suited for a wide variety of fruits and vegetables.

During 2015, one hundred and sixty of these acres consisted of vineyard that was farmed by the Company to produce dried-on-the-vine organic raisins. Three hundred and forty of these acres were farmed to lemons under a 2013 lease agreement with Limoneira Company ("Limoneira"). The remaining acres were fallow.

During 2015, we derived 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 was farmed by the Company and we incurred all of the costs required to produce and harvest the crop. The harvested raisins were then sold in bulk to a raisin processing facility.

In February 2016, we entered into a lease agreement with Fenner Valley Farms LLC ("FVF"), a subsidiary of Water Asset Management LLC, a related party, pursuant to which FVF will lease, for a 99-year term, 2,100 acres at the Cadiz/Fenner property to be used to plant, grow and harvest agricultural crops. As consideration for the lease, FVF paid the Company a one-time payment of $12,000,000 in February 2016 upon closing. The acreage that was historically farmed by the Company and the acreage that is leased to Limoneira was included within the leased acreage. FVF also assumed the Limoneira lease as part of the transaction.

Under the FVF Lease, FVF has the option to lease up to an additional 7,500 acres of the Cadiz/Fenner Property according to the following payment and schedule: an additional 2,093 acres for $12,000,000 if notice is provided by June 1, 2016; an additional 2,093 acres for $12,000,000 if notice is provided by September 1, 2016; and an additional 3,314 acres for $19,000,000 if notice is provided by December 22, 2016. If FVF elects to exercise these options, then a total of 9,600 acres will be leased for agricultural development.

The agricultural expansion will allow us to immediately realize underlying value associated with our land and water assets while we continue to progress Water Project implementation. Additional well-field will be necessary to be constructed byFVF to fully irrigate the agricultural property under the lease. Any new well-field infrastructure will be compatible with the Water Project, once it is implemented. Further, the FVF Lease also provides the Company a call feature, in the initial 20 years, to redirect the beneficial use of groundwater at the Property from agriculture to the Water Project and integrate the agricultural infrastructure into the Water Project facilities.

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 in Ward Valley, 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

Approximately 10,000 acres of our properties outside of the Cadiz/Fenner Valley area are located within terrain designated by the federal government as Critical Desert Tortoise Habitat and/or Desert Wilderness Areas and have limited development opportunities. In February 2015, the California Department of Fish and Wildlife approved our establishment of the Fenner Valley Desert Tortoise Conservation Bank (“Fenner Bank”), a land conservation bank that makes available approximately 7,500 acres of our properties located within Critical Desert Tortoise Habitat for mitigation of impacts to tortoise and other sensitive species that would be caused by development in the Southern California desert. Under its enabling documents, the Fenner Bank will offer credits that can be acquired by entities that must mitigate or offset impacts linked to planned development. For example, this bank can service the mitigation requirements of renewable energy, military, residential and commercial development mitigation requirements for projects being considered throughout the desert. Credits sold by the Fenner Bank will fund our permanent preservation of the land as well as research by outside entities, including San Diego Zoo Global, into desert tortoise health and species protection.

Other Opportunities

Other opportunities in the water and agricultural or related infrastructure business complementary to our current objectives could provide new opportunities for our Company.

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.

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.

Results of Operations

Three Months Ended March 31, 2016, Compared to Three Months Ended March 31, 2015

We have not received 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 $75 thousand for the three months ended March 31, 2016, and $18 thousand for the three months ended March 31, 2015. We incurred a net loss of $8.8 million in the three months ended March 31, 2016, compared with a $4.8 million net loss during the three months ended March 31, 2015. The higher net loss during the quarter ended March 31, 2016 was a result of the expensing of two fees associated with the extension of the first mortgage. The first $2.25 million fee for the right to extend that was paid in November 2015 was fully amortized during the current quarter with a charge of $1.42 million within the Amortization of debt discount reflected in interest expense, below, and the $2.25 million fee for extending the first mortgage was fully expensed during the current quarter reflected in Loss on extinguishment of debt and debt refinancing.

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 Revenue totaled $75 thousand during the three months ended March 31, 2016, compared to $18 thousand during the three months ended March 31, 2015. The increase in revenue in 2016 is primarily due to an increase in rental income related to the FVF Lease (see “Agricultural Development”, above).

Cost of Sales Cost of sales were zero for each of the three months ended March 31, 2016 and 2015.

General and Administrative Expenses General and Administrative Expenses, exclusive of stock-based compensation costs, totaled $2.2 million and $2.4 million for the three months ended March 31, 2016 and 2015, respectively. The decrease in general and administrative expenses in 2016 was primarily related to lower litigation costs related to the Water Project due to the timing of the appellate litigation (see “Water Resource Development – (3) Environmental/Regulatory Permits”, above).

Compensation costs from stock and option awards for the three months ended March 31, 2016, were $166 thousand, compared with $260 thousand for the three months ended March 31, 2016. The higher 2015 expense primarily reflects the vesting schedules of stock awards under the 2014 equity incentive plan.

Depreciation Depreciation expense totaled $73 thousand for the three months ended March 31, 2016 and $61 thousand for the three months ended March 31, 2015.

Interest Expense, net Net interest expense totaled $4.2 million during the three months ended March 31, 2016 compared to $2.2 million during the same period in 2015. The following table summarizes the components of net interest expense for the two periods (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Interest on outstanding debt | $ 2,242 | $ 1,971 |
| Amortization of debt discount | 1,892 | 164 |
| Amortization of deferred loan costs | 57 | 58 |
| | $ 4,191 | $ 2,193 |

See Note 2 to the Consolidated Financial Statements – “Long-term Debt”.

Liquidity and Capital Resources

Current Financing Arrangements

As we have not received significant revenues from our development activities to date, we have been required to obtain financing to bridge the gap between the time water resource and other development expenses are incurred and the time that revenue will commence. Historically, we have addressed these needs primarily through secured debt financing arrangements, private equity placements and the exercise of outstanding stock options and warrants. 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.

On February 8, 2016, we entered into a Second Amendment to the Credit Agreement with our senior lenders to (i) provide for the application of $10.5 million of the $12 million payment pursuant to the Amended and Restated Fenner Valley Farm Lease (see “Agricultural Development” above) which satisfied a repayment condition of the First Amendment to extend the maturity date; (ii) to require Cadiz to pay 50% of all future quarterly interest payments in cash, rather than in accretion to principal, beginning with the quarterly interest payment due June 5, 2016; and (iii) to provide for certain related matters. On February 25, 2016, we exercised our right to extend the maturity date of our First Mortgage and, at that time, incurred an additional extension fee of $2.25 million which is to be paid at the election of the lenders in either additional debt or Cadiz common stock to be issued at a predetermined price. On March 4, 2016, we entered into a Third Amendment to the Credit Agreement which provides the lenders an additional 90 days to make their election to receive the extension fee in additional debt or Cadiz common stock in exchange for extending the due date of our Senior Secured Debt from June 30, 2017 to September 28, 2017. Interest on the Senior Secured Debt will continue to accrue at 8% per annum.

On April 28, 2016, the Company entered into agreements with new and existing investors (“Investors”) in a private placement offering pursuant to which the Company issued $10 million in aggregate principal and accrued interest of its 2020 Convertible Notes (“Convertible Note Financing”). The proceeds from the Convertible Note Financing were approximately $8 million before fees and expenses, and will be used for general working capital purposes.

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 March 31, 2016, we were in compliance with our debt covenants.

Limitations on our liquidity and ability to raise capital may adversely affect us. Sufficient liquidity is critical to meet our resource development activities. After consideration of the Convertible Note Financing in April 2016, we currently expect our sources of capital to be sufficient to meet our liquidity needs through March 2017. To meet our cash needs beyond March 2017, we plan to increase liquidity through a variety of means, including equity or debt placements, through the lease, sale or other disposition of assets or reductions in operating costs. Equity placements, if made, would be undertaken only to the extent necessary, so as to minimize the dilutive effect of any such placements upon our existing stockholders.

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 development activities.

At March 31, 2016, we had no outstanding credit facilities other than the Senior Secured Debt and the convertible notes.

Cash Used for Operating Activities. Cash used for operating activities totaled $1.5 million and $2.6 million for the three months ended March 31, 2016 and 2015, respectively. The cash was primarily used to fund general and administrative expenses related to our water development efforts and litigation costs for the three month periods ended March 31, 2016 and 2015.

Cash Used for Investing Activities. Cash used for investing activities during the three months ended March 31, 2016 was zero compared with $19 thousand during the same period in 2015.

Cash Provided By (Used for) Financing Activities. Cash provided by financing activities for the three month period ended March 31, 2016 was $893 thousand compared to $3 thousand in cash used for the three months ended March 31, 2015.

Outlook

Short-Term Outlook. Our cash resources of $2.1 million as of March 31, 2016, together with the approximately $8 million in additional working capital raised in April 2016 provide us with sufficient funds to meet our expected working capital needs through March 2017. 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 are evaluating 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.

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 March 31, 2016, all of the Company's indebtedness bore interest at fixed rates; therefore, the Company is not exposed to market risk from changes in interest rates on long-term debt obligations.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

The Company established disclosure controls and procedures to ensure that material information related to the Company, including its consolidated entities, is accumulated and communicated to senior management, including the 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 March 31, 2016, the Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and such information is accumulated and communicated to management, including the principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

There have been no material developments in any legal proceedings previously reported by the Company.

ITEM 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our 2015 Annual Report on Form 10-K.

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.

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

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.

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| By: | /s/ Scott S. Slater<br>Scott S. Slater<br>Chief Executive Officer and President<br>(Principal Executive Officer) | May 9, 2016<br>Date |
| By: | /s/ Timothy J. Shaheen<br>Chief Financial Officer and Secretary<br>(Principal Financial Officer) | May 9, 2016<br>Date |