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## **FORM 10-K**

**CADIZ INC - CDZI**

**Filed: March 15, 2012 (period: December 31, 2011)**

Annual report with a comprehensive overview of the company

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended December 31, 2011

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from ..... to .....

Commission File Number 0-12114

**CADIZ INC.**

(Exact name of registrant specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**77-0313235**

(I.R.S. Employer  
Identification No.)

**550 S. Hope Street, Suite 2850  
Los Angeles, CA**

(Address of principal executive offices)

**90071**

(Zip Code)

**(213) 271-1600**

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

**Common Stock, par value \$0.01 per share**

(Title of Each Class)

**The NASDAQ Global Market**

(Name of Each Exchange on Which Registered)

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in rule 405 under the Securities Act of 1933.

Yes \_\_\_ No

Indicate by a check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes \_\_\_ No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§220.405 of this chapter) is not contained herein, and will not be contained to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Exchange Act Rule 12b-2).

**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

The aggregate market value of the common stock held by nonaffiliates as of June 30, 2011 was approximately \$136,070,739 based on 12,529,534 shares of common stock outstanding held by nonaffiliates and the closing price on that date. Shares of common stock held by each executive officer and director and by each entity that owns more than 5% of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of March 7, 2012, the Registrant had 15,438,961 shares of common stock outstanding.

## Documents Incorporated by Reference

The Registrant is not incorporating by reference any other documents within this Annual Report on Form 10-K except those footnoted in Part IV under the heading "~~Item 15. Exhibits, Financial Statement Schedules~~".

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**PART I****ITEM 1. Business**

This Form 10-K presents forward-looking statements with regard to financial projections, proposed transactions such as those concerning the further development of our land and water assets, information or expectations about our business strategies, results of operations, products or markets, or otherwise makes statements about future events. Such 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, the cautionary statements under the caption “Risk Factors”, as well as other cautionary language contained in this Form 10-K. These cautionary statements identify important factors that could cause actual results to differ materially from those described in the forward-looking statements. When considering forward-looking statements in this Form 10-K, you should keep in mind the cautionary statements described above.

**Overview**

Our primary asset consists of 45,000 acres of land in three areas of eastern San Bernardino County, California. Virtually all of this land is underlain by high-quality, naturally recharging groundwater resources, and is situated in proximity to the Colorado River and the Colorado River Aqueduct, the major source of imported water for Southern California. Our main objective is to realize the highest and best use of these land and water resources in an environmentally responsible way.

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

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

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

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

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

**(a) General Development of Business**

We are a Delaware corporation formed in 1992 to act as the surviving corporation in a Delaware reincorporation merger with Pacific Agricultural Holdings, Inc., a California corporation formed in 1983.

As part of our historical business strategy, we have conducted our land acquisition, water development activities, agricultural operations, and real estate development initiatives to maximize the long-term value of our properties and future prospects (see “Narrative Description of Business”).

Our initial focus was on the acquisition of land and the assembly of contiguous land holdings through property exchanges to prove the quantity and quality of water resources in the Mojave Desert region of eastern San Bernardino County. We subsequently established agricultural operations on our properties in the Cadiz Valley and sought to develop the water resources underlying that site.

In 1993, we secured permits for up to 9,600 acres of agricultural development in the Cadiz Valley and the withdrawal of more than one million acre-feet of groundwater from the underlying aquifer system. Once the agricultural development was underway, we identified that the location, geology, and hydrology of this property is also uniquely suited to support a water project that could offer additional water supplies and water storage opportunities in Southern California.

In 1997, we entered into the first of a series of agreements with the Metropolitan Water District of Southern California (“Metropolitan”) to jointly design, permit, and build such a project (the “Water Project” or “Project”). Between 1997 and 2002, we and Metropolitan received substantially all of the state and federal approvals required for the permits necessary to construct and operate the Project, including a Record of Decision (“ROD”) from the U.S. Department of the Interior, which endorsed the Project and offered a right-of-way for construction of Project facilities, including a water conveyance pipeline from the Cadiz Valley property to the Colorado River Aqueduct (“CRA”) across federal lands. In October 2002, Metropolitan’s staff brought the right-of-way matter before the Metropolitan Board of Directors. By a very narrow margin, the Metropolitan Board voted not to accept the right-of-way grant and not to proceed with the Project.

Following Metropolitan’s decision, the Company began to pursue new partnerships and redesign the Project to meet the changing needs of Southern California’s water providers. We invested in significant scientific and technical analysis of the groundwater resources at the Project area as part of this effort, and focused on the safe and sustainable management of the aquifer system beneath the Cadiz Valley property with the goal of providing a reliable water supply. Since June 2010, we have entered into option agreements with six Southern California water providers interested in participating in the redesigned Project.

As part of these agreements, we began a new environmental review and permitting process for the Project in accordance with the California Environmental Quality Act (“CEQA”) led by Santa Margarita Water District (“SMWD”), one of the Project participants. SMWD issued a Notice of Preparation of a Draft Environmental Impact Report (“Draft EIR”) in February 2011 and released the Draft EIR for public review and comment in December (see “Water Resource Development”, below, for a full description of the Water Project). The public comment period closed on March 14, 2012.

**(b) Financial Information about Industry Segments**

Our primary business is to acquire and develop land and water resources. Our agricultural operations are confined to limited farming activities at the Cadiz Valley property. As a result, our financial results are reported in a single segment. See Consolidated Financial Statements. See also Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

**(c) Narrative Description of Business**

Our business strategy is to pursue the development of our landholdings for their highest and best uses. At present, our development activities include land, water resource and agricultural development.

***Water Resource Development***

Our portfolio of water resources is located in proximity to the Colorado River and the Colorado River Aqueduct (“CRA”), the principal source of imported water for Southern California, and provides us with the opportunity to participate in a variety of water supply, water storage, and conservation programs with public agencies and other partners.

## **The Cadiz Valley Water Conservation, Recovery and Storage Project**

We own approximately 34,000 acres of land and the subsurface strata, inclusive of the unsaturated soils and appurtenant water rights in the Cadiz and Fenner valleys of eastern San Bernardino County (the “Cadiz/Fenner Property”). The aquifer system underlying this property is naturally recharged by precipitation (both rain and snow) within a watershed of approximately 1,300 square miles. See Item 2, “Properties – The Cadiz/Fenner Valley Property”.

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

Water Project facilities would include, among other things:

- High yield wells designed to efficiently recover available native groundwater from beneath the Water Project area;
- A 43-mile conveyance pipeline to connect the well field to the CRA;
- A pumping plant to pump water through the conveyance pipeline from the CRA to the Project well-field, if an imported water storage component of the project is ultimately implemented;
- An energy source to provide power to the well-field, pipeline and pumping plant; and
- Spreading basins, which are shallow settling ponds that will be configured to efficiently percolate water from the ground surface down to the water table using subsurface storage capacity for the storage of water, if an imported water storage component of the project is ultimately implemented.

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



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

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

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

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

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

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

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

Under the terms of the agreements with the six water providers, upon completion of the Water Project's CEQA review, each agency will have the right to acquire an annual supply of 5,000 acre-feet of water at a pre-determined formula competitive with their incremental cost of new water. SMWD also was given the option to purchase an additional 10,000 acre-feet of water per year. In addition, the agencies have options to acquire storage rights in the Water Project to allow them to manage their supplies to complement their other water resources.

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

### *(3) Environmental Permits*

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

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

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

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

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

Following the close of the comment period, a Final Environmental Impact Report (“Final EIR”) will be compiled responding to public comments. Once complete, the Final EIR will be brought to the SMWD Board of Directors for certification and Project approval. Following the completion of all environmental requirements, construction of Project facilities would begin.

#### *(4) Construction and Working Capital*

Once the environmental review is concluded, we expect that we will complete economic agreements with the Water Project participants and make arrangements for the construction phase of the Water Project. As described above, construction would primarily consist of well-field facilities at the Water Project site, a conveyance pipeline extending approximately 43 miles along the right-of-way described in (1), above, from the well-field to the Colorado River Aqueduct (“CRA”), and an energy source to pump water through the conveyance pipeline between the Project well-field and the CRA.

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

#### **Other Eastern Mojave Properties**

Our second largest landholding is approximately 9,000 acres in the Piute Valley of eastern San Bernardino County. 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.

Additionally, we own acreage located near Danby Dry Lake, approximately 30 miles southeast of our landholdings in the Cadiz and Fenner valleys. The Danby Lake property is located approximately 10 miles north of the CRA. Initial hydrological studies indicate that it has excellent potential for a water supply project.

#### ***Agricultural Development***

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

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

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

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

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

### ***Other Development Opportunities***

#### **Water Transportation**

As described above (see "Overview"), we are currently evaluating the feasibility of converting existing idle natural gas pipelines for the transportation of water, either exclusively for the distribution of third party water or, in certain segments, in conjunction with the Water Project. In September 2011, we entered into two separate agreements with El Paso Natural Gas ("EPNG") and Questar Corporation ("Questar") providing us with options to purchase two separate underground natural gas pipelines. In February 2012, we made a \$1,000,000 payment to extend our option agreement with EPNG to April 2013. The second option agreement with Questar provides option terms that expire in December 2012. If both purchase options are exercised, they would require payments totaling \$50 million. Initial feasibility studies indicate that, upon conversion, the two pipelines would have a combined average capacity to distribute up to 40,000 acre-feet of water per year per segment in markets that currently lack multiple pick-up and delivery water distribution segments.

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

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

### **Solar Energy Production**

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

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

### **Other Property Development**

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

Over the longer-term, we believe the population of Southern California, Nevada and Arizona will continue to grow, and that, in time, the economics of commercial and residential development of our properties may become attractive. Moreover, other opportunities in business or infrastructure complementary to our current objectives could provide new opportunities for our business.

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

### ***Seasonality***

Our water resource development activities are not seasonal in nature.

Our farming operations are limited to the cultivation of lemons and grapes/raisins and spring and fall plantings of vegetables on the Cadiz Valley properties. These operations are subject to the general seasonal trends that are characteristic of the agricultural industry.

### ***Competition***

We face competition for the acquisition, development and sale of our properties from a number of competitors. We may also face competition in the development of water resources and siting of renewable energy facilities associated with our properties. Since California has scarce water resources and an increasing demand for available water, we believe that location, price and reliability of delivery are the principal competitive factors affecting transfers of water in California.

## ***Employees***

As of December 31, 2011, we employed 11 full-time employees (i.e. those individuals working more than 1,000 hours per year). We believe that our employee relations are good.

## ***Regulation***

Our operations are subject to varying degrees of federal, state and local laws and regulations. As we proceed with the development of our properties, including the Water Project, we will be required to satisfy various regulatory authorities that we are in compliance with the laws, regulations and policies enforced by such authorities. Groundwater development, and the export of surplus groundwater for sale to entities such as public water agencies, is subject to regulation by specific existing statutes, in addition to general environmental statutes applicable to all development projects. Additionally, we must obtain a variety of approvals and permits from state and federal governments with respect to issues that may include environmental issues, issues related to special status species, issues related to the public trust, and others. Because of the discretionary nature of these approvals and concerns, which may be raised by various governmental officials, public interest groups and other interested parties during both the development and the approval process, our ability to develop properties and realize income from our projects, including the Water Project, could be delayed, reduced or eliminated.

## ***Access To Our Information***

Our annual, quarterly and current reports, proxy statements and other information are filed with the Securities and Exchange Commission ("SEC") and are available free of charge through our web site, [www.cadizinc.com](http://www.cadizinc.com), as soon as reasonably practical after electronic filing of such material with the SEC.

Our SEC filings are also available to the public at the SEC website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file at the SEC's public reference room located at 100 F Street N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

## **ITEM 1A. Risk Factors**

Our business is subject to a number of risks, including those described below.

### **Our Development Activities Have Not Generated Significant Revenues**

At present, our development activities include water resource, agricultural and solar energy development at our San Bernardino County properties. We have not received significant revenues from our development activities to date and we do not know when, if ever, we will receive operating revenues sufficient to offset the costs of our development activities. As a result, we continue to incur a net loss from operations.

## **We May Never Generate Significant Revenues or Become Profitable Unless We Are Able To Successfully Implement Programs To Develop Our Land Assets and Related Water Resources**

We do not know the terms, if any, upon which we may be able to proceed with our water and other development programs. Regardless of the form of our water development programs, the circumstances under which supplies or storage of water can be developed and the profitability of any supply or storage project are subject to significant uncertainties, including the risk of variable water supplies and changing water allocation priorities. Additional risks include our ability to obtain all necessary regulatory approvals and permits, possible litigation by environmental or other groups, unforeseen technical difficulties, general market conditions for water supplies, and the time needed to generate significant operating revenues from such programs after operations commence.

## **The Development of Our Properties Is Heavily Regulated, Requires Governmental Approvals and Permits That Could Be Denied, and May Have Competing Governmental Interests and Objectives**

In developing our land assets and related water resources, we are subject to local, state, and federal statutes, ordinances, rules and regulations concerning zoning, resource protection, environmental impacts, infrastructure design, subdivision of land, construction and similar matters. Our development activities are subject to the risk of adverse interpretations or changes to U.S. federal, state and local laws, regulations and policies. Further, our development activities require governmental approvals and permits. If such permits were to be denied or granted subject to unfavorable conditions or restrictions, our ability to successfully implement our development programs would be adversely impacted.

The opposition of government officials may adversely affect our ability to obtain needed government approvals and permits upon satisfactory terms in a timely manner. In this regard, federal government appropriations currently preclude spending for any proposal to store water for the purpose of export or for any activities associated with the approval of rights-of-way on lands managed by the Needles Field Office of the Bureau of Land Management. As a result of our right-of-way with the Arizona & California Railroad Company, we do not believe federal approval will be required to implement the Project; however, even this may be subject to challenges.

A significant portion of our Cadiz/Fenner Property is included in a study area as part of an ongoing Environmental Impact Statement ("EIS") process for the expansion of the Marine Corp Air Ground Combat Center in Twentynine Palms, California. There are currently six different alternatives being considered for base expansion and our property, including portions of the Project area and agricultural operations, are included in one of the six different alternatives being studied. This alternative, however, was not selected as the "Preferred Alternative" in the base expansion project's Draft Environmental Impact Statement issued by the U.S. Department of the Navy in February 2011. As a result, we do not believe that our property will ultimately be impacted by expansion of the base. In the event any of the Cadiz/Fenner Valley landholdings are included in the final expansion area, then we would be entitled to full fair market value compensation for any property taken.

Additionally, the statutes, regulations and ordinances governing the approval processes provide third parties the opportunity to challenge proposed plans and approvals. In California, third parties have the ability to file litigation challenging the approval of a project, which they usually do by alleging inadequate disclosure and mitigation of the environmental impacts of the project. Opposition from environmental groups could cause delays and increase the costs of our development efforts or preclude such development entirely. While we have worked with representatives of various environmental interests and agencies to minimize and mitigate the impacts of our planned projects, certain groups may remain opposed to our development plans.

#### **Our Failure To Make Timely Payments of Principal and Interest on Our Indebtedness May Result in a Foreclosure on Our Assets**

As of December 31, 2011, we had indebtedness outstanding to our senior secured lenders of approximately \$56.673 million. This senior debt is secured by our assets. To the extent this debt is not converted into our common stock and we do not make principal and interest payments on the remaining indebtedness when due, or if we otherwise fail to comply with the terms of agreements governing our indebtedness, we may default on our obligations.

#### **The Conversion of Our Outstanding Senior Indebtedness into Common Stock Would Dilute the Percentage of Our Common Stock Held by Current Stockholders**

Our senior indebtedness is convertible into common stock at the election of our lenders. As of December 31, 2011, our senior indebtedness was convertible into 1,840,749 shares of our common stock, an amount equal to approximately 10% of the number of fully-diluted shares of our common stock outstanding as of that date. An election by our lenders to convert all or a portion of our senior secured indebtedness into common stock will dilute the percentage of our common stock held by current stockholders.

#### **We May Not Be Able To Obtain the Financing We Need To Implement Our Asset Development Programs**

Based upon our current and anticipated usage of cash resources, we have sufficient funds to meet our expected working capital needs through fiscal year 2012. We will continue to require additional working capital to meet our cash resource needs from that point forward and to continue to finance our operations until such time as our asset development programs produce revenues. If we cannot raise needed funds, we might be forced to make substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company. We cannot assure you that our current lenders, or any other lenders, will give us additional credit should we seek it. If we are unable to obtain additional credit, we may engage in further financings. Our ability to obtain financing will depend, among other things, on the status of our asset development programs and general conditions in the capital markets at the time funding is sought. Although we currently expect our capital sources to be sufficient to meet our near term liquidity needs, there can be no assurance that our liquidity requirements will continue to be satisfied. Any further financings would result in the dilution of ownership interests of our current stockholders.



## **The Issuance of Equity Securities Under Management Equity Incentive Plans Will Impact Earnings**

Our compensation programs for management emphasize long-term incentives, primarily through the issuance of equity securities and options to purchase equity securities. It is expected that plans involving the issuance of shares, options, or both will be submitted from time to time to our stockholders for approval. In the event that any such plans are approved and implemented, the issuance of shares and options under such plans may result in the dilution of the ownership interest of other stockholders and will, under currently applicable accounting rules, result in a charge to earnings based on the value of our common stock at the time of issue and the fair value of options at the time of their award. The expense would be recorded over the vesting period of each stock and option grant.

### **ITEM 1B. Unresolved Staff Comments**

Not applicable at this time.

### **ITEM 2. Properties**

Following is a description of our significant properties.

#### ***The Cadiz/Fenner Valley Property***

Since 1983, we have acquired approximately 34,000 acres of largely contiguous land in the Cadiz and Fenner valleys of eastern San Bernardino County, California (the “Cadiz/Fenner Property”). This area is located approximately 30 miles north of the Colorado River Aqueduct (“CRA”). In 1984, we conducted investigations of the feasibility of agricultural development of this land. These investigations confirmed the availability of high-quality groundwater in quantities appropriate for agricultural development.

Additional independent geotechnical and engineering studies conducted since 1985 have confirmed that the Cadiz/Fenner Property overlies an aquifer system that is ideally suited for the conservation, recovery and delivery of indigenous groundwater, as well as the storage of conserved or imported water, as contemplated by the Water Project. See Item 1, “Business – Narrative Description of Business – Water Resource Development”.

#### ***Other Eastern Mojave Properties***

We also own approximately 10,800 additional acres in the eastern Mojave Desert, including the Piute and Danby Dry Lake properties.

Our second largest property consists of approximately 9,000 acres in the Piute Valley of eastern San Bernardino County. 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.

Additionally, we own acreage located near Danby Dry Lake, approximately 30 miles southeast of our Cadiz/Fenner landholdings. Our Danby Dry Lake property is located approximately 10 miles north of the Colorado River Aqueduct. Initial hydrological studies indicate that it has excellent potential for water supply.

### ***Executive Offices***

We lease approximately 7,200 square feet of office space in Los Angeles, California for our executive offices. The lease terminates in October 2012. Current base rent under the lease is approximately \$15,400 per month.

### ***Cadiz Real Estate***

In December 2003, we transferred substantially all of our assets (with the exception of our office sublease, certain office furniture and equipment and any Sun World related assets) to Cadiz Real Estate LLC, a Delaware limited liability company ("Cadiz Real Estate"). We hold 100% of the equity interests of Cadiz Real Estate and, therefore, we continue to hold 100% beneficial ownership of the properties that we transferred to Cadiz Real Estate. The Board of Managers of Cadiz Real Estate currently consists of two managers appointed by us.

Cadiz Real Estate is a co-obligor under our senior secured convertible term loan, for which assets of Cadiz Real Estate have been pledged as security.

Because the transfer of our properties to Cadiz Real Estate has no effect on our ultimate beneficial ownership of these properties, we refer throughout this Report to properties owned of record either by Cadiz Real Estate or by us as "our" properties.

### ***Debt Secured by Properties***

Our assets have been pledged as collateral for \$56.673 million of debt outstanding on December 31, 2011. Information regarding interest rates and principal maturities is provided in Note 6 to the Consolidated Financial Statements.

### **ITEM 3. Legal Proceedings**

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

### **ITEM 4. Mine Safety Disclosures**

Not Applicable.

**PART II**

**ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities**

Our common stock is currently traded on The NASDAQ Global Market ("NASDAQ") under the symbol "CDZI." The following table reflects actual sales transactions for the dates that we were trading on NASDAQ, as reported by Bloomberg LP.

<u>Quarter Ended</u>	<u>High Sales Price</u>	<u>Low Sales Price</u>
<b>2010:</b>		
March 31	\$ 12.80	\$ 12.50
June 30	\$ 12.45	\$ 11.41
September 30	\$ 10.27	\$ 9.71
December 31	\$ 12.50	\$ 12.14
<b>2011:</b>		
March 31	\$ 12.20	\$ 11.82
June 30	\$ 10.89	\$ 10.52
September 30	\$ 8.67	\$ 7.90
December 31	\$ 9.71	\$ 9.43

On March 7, 2012, the high, low and last sales prices for the shares, as reported by Bloomberg, were \$9.99, \$9.71, and \$9.94, respectively.

As of March 7, 2012, the number of stockholders of record of our common stock was 130.

To date, we have not paid a cash dividend on our common stock and do not anticipate paying any cash dividends in the foreseeable future. Our senior secured convertible term loan has covenants that prohibit the payment of dividends.

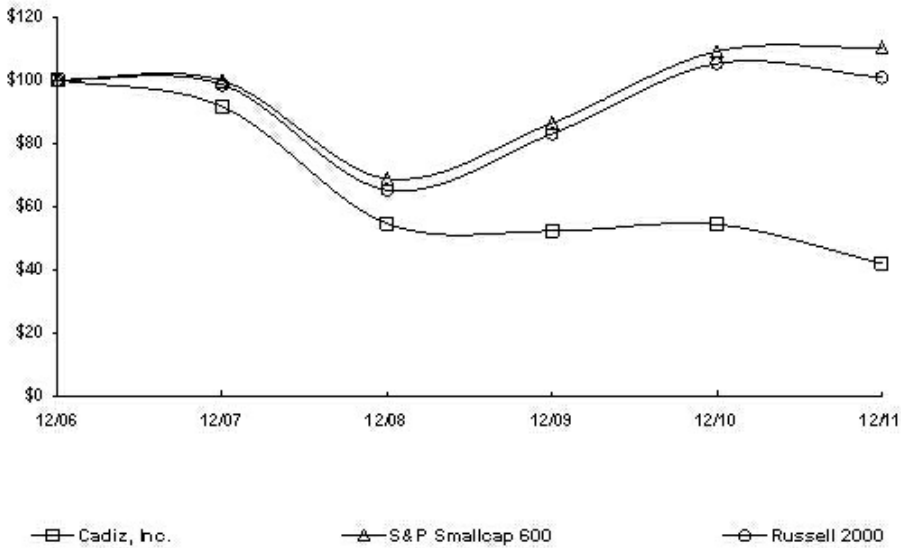
All securities sold by us during the three years ended December 31, 2011, which were not registered under the Securities Act of 1933, as amended, have been previously reported in accordance with the requirements of Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

## STOCK PRICE PERFORMRANCE

The stock price performance graph below compares the cumulative total return of Cadiz Inc. common stock against the cumulative total return of the Standard & Poor's Small Cap 600 NASDAQ U.S. index and the Russell 2000® index for the past five fiscal years. The graph indicates a measurement point of December 31, 2006, and assumes a \$100 investment on such date in Cadiz Inc. common stock, the Standard & Poor's Small Cap 600 and the Russell 2000® indices. With respect to the payment of dividends, Cadiz Inc. has not paid any dividends on its common stock, but the Standard & Poor's Small Cap 600 and the Russell 2000® indices assume that all dividends were reinvested. The stock price performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this annual report on Form 10-K into any filing under the Securities Act of 1933, as amended, except to the extent that Cadiz Inc. specifically incorporates this graph by reference, and shall not otherwise be deemed filed under such acts.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

\*Among Cadiz, Inc., the S&P Smallcap 600 Index, and the Russell 2000 Index



\*\$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

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**ITEM 6. Selected Financial Data**

The following selected financial data insofar as it relates to the years ended December 31, 2011, 2010, 2009, 2008, and 2007, has been derived from our audited financial statements. The information that follows should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2011 included in Part IV of this Form 10-K. See also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(\$ in thousands, except for per share data)

	<b>Year Ended December 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Statement of Operations Data:</b>					
Total revenues	\$ 1,019	\$ 1,023	\$ 808	\$ 992	\$ 426
Net loss	(16,837)	(15,899)	(14,399)	(15,909)	(13,633)
Net loss applicable to common stock	<u>\$ (16,837)</u>	<u>\$ (15,899)</u>	<u>\$ (14,399)</u>	<u>\$ (15,909)</u>	<u>\$ (13,633)</u>
<b>Per share:</b>					
Net loss (basic and diluted)	<u>\$ (1.20)</u>	<u>\$ (1.16)</u>	<u>\$ (1.13)</u>	<u>\$ (1.32)</u>	<u>\$ (1.15)</u>
Weighted-average common shares outstanding	<u>14,082</u>	<u>13,672</u>	<u>12,722</u>	<u>12,014</u>	<u>11,845</u>
<b>Year Ended December 31,</b>					
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Balance Sheet Data:</b>					
Total assets	\$ 57,998	\$ 48,936	\$ 50,319	\$ 47,412	\$ 49,572
Long-term debt	\$ 52,032	\$ 44,403	\$ 36,665	\$ 33,975	\$ 29,652
Common stock and additional paid-in capital	\$ 300,317	\$ 282,496	\$ 276,884	\$ 263,658	\$ 254,102
Accumulated deficit	<u>\$ (298,387)</u>	<u>\$ (281,550)</u>	<u>\$ (265,651)</u>	<u>\$ (251,252)</u>	<u>\$ (235,343)</u>
Stockholders' equity	\$ 1,930	\$ 946	\$ 11,233	\$ 12,406	\$ 18,759

Common shares issued and outstanding have increased from 11,903,611 in 2007 to 15,429,541 in 2011. The increase is primarily due to the issuance of shares to investors in private placements, the issuance of shares to investors upon the conversion of preferred stock and warrant exercises, and the issuance of shares to employees, vendors and lenders.

## ITEM 7. 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 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" above.*

### **Overview**

Our primary asset consists of 45,000 acres of land in three areas of eastern San Bernardino County, California. Virtually all of this land is underlain by high-quality, naturally recharging groundwater resources, and is situated in proximity to the Colorado River and the Colorado River Aqueduct ("CRA"), the major source of imported water for Southern California. Our main objective is to realize the highest and best use of these land and water resources in an environmentally responsible way.

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

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

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

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

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

### ***Water Resource Development***

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

Water Project facilities would include, among other things:

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

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

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

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

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

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

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

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

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



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

Under the terms of the agreements with the six water providers, upon completion of the Water Project’s CEQA review, each agency will have the right to acquire an annual supply of 5,000 acre-feet of water at a pre-determined formula competitive with their incremental cost of new water. SMWD also was given the option to purchase an additional 10,000 acre-feet of water per year. In addition, the agencies have options to acquire storage rights in the Water Project to allow them to manage their supplies to complement their other water resources.

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

### *(3) Environmental Permits*

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

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

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

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

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

Following the close of the comment period, a Final Environmental Impact Report (“Final EIR”) will be compiled responding to public comments. Once complete, the Final EIR will be brought to the SMWD Board of Directors for certification and Project approval. Following the completion of all environmental requirements, construction of Project facilities would begin.

#### *(4) Construction and Working Capital*

Once the environmental review is concluded, we expect that we will complete economic agreements with the Water Project participants and make arrangements for the construction phase of the Water Project. As described above, construction would primarily consist of well-field facilities at the Water Project site, a conveyance pipeline extending approximately 43 miles along the right-of-way described in (1), above, from the well-field to the Colorado River Aqueduct (“CRA”), and an energy source to pump water through the conveyance pipeline between the Project well-field and the CRA.

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

#### ***Agricultural Development***

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

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

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

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

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

### ***Other Development Opportunities***

#### **Water Transportation**

As described above (see “Overview”), we are currently evaluating the feasibility of converting existing idle natural gas pipelines for the transportation of water, either exclusively for the distribution of third party water or, in certain segments, in conjunction with the Water Project. In September 2011, we entered into two separate agreements with El Paso Natural Gas (“EPNG”) and Questar Corporation (“Questar”) providing us with options to purchase two separate underground natural gas pipelines. In February 2012, we made a \$1,000,000 payment to extend our option agreement with EPNG to April 2013. The second option agreement with Questar provides option terms that expire in December 2012. If both purchase options are exercised they would require payments totaling \$50 million. Initial feasibility studies indicate that, upon conversion, the two pipelines would have a combined average capacity to distribute up to 40,000 acre-feet of water per year per segment in markets that currently lack multiple pick-up and delivery water distribution segments.

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

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

### **Solar Energy Production**

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

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

### **Other Property Development**

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

Over the longer-term, we believe the population of Southern California, Nevada and Arizona will continue to grow, and that, in time, the economics of commercial and residential development of our properties may become attractive. Moreover, other opportunities in business or infrastructure complementary to our current objectives could provide new opportunities for our business.

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

### ***Results of Operations***

#### ***(a) Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

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 continue to incur a net loss from operations. We had revenues of \$1.0 million for the year ended December 31, 2011, and \$1.0 million for the year ended December 31, 2010. The net loss totaled \$16.8 million for the year ended December 31, 2011, compared with a net loss of \$15.9 million for the year ended December 31, 2010. The higher 2011 loss was primarily due to additional legal and consulting fees related to water development efforts and higher net interest expense, partially offset by lower stock based non-cash compensation costs related to options issued under the 2009 Equity Incentive Plan.

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

**Revenues.** Revenue totaled \$1.0 million during the year ended December 31, 2011, compared to \$1.0 million during the year ended December 31, 2010. 2011 revenues included \$0.9 million of revenues related to citrus crop sales, which were up \$0.2 million from the prior year primarily due to the larger and longer 2010-2011 lemon harvest season in comparison to the 2009-2010 lemon harvest season, and \$0.1 million of revenues related to raisin sales, which were down \$0.2 million from the prior year primarily due to a smaller raisin crop in 2011 in comparison to the 2010 raisin crop.

**Cost of Sales.** Cost of sales totaled \$1.4 million during the year ended December 31, 2011, compared with \$0.9 million during the year ended December 31, 2010. The higher cost of sales for the year ended December 31, 2011, related largely to the higher lemon harvesting and marketing costs related to the larger size of the 2010-2011 lemon crop and the earlier timing of the 2011-2012 lemon crop, which incurred substantially all costs in 2011.

**General and Administrative Expenses.** General and administrative expenses during the year ended December 31, 2011, totaled \$10.4 million compared with \$10.8 million for the year ended December 31, 2010. Non-cash compensation costs related to stock and option awards are included in general and administrative expenses.

Compensation costs from stock and option awards for the year ended December 31, 2011, totaled \$2.4 million compared with \$4.0 million for the year ended December 31, 2010. The expense reflects the vesting schedules of the stock and option awards under the 2009 Equity Incentive Plan.

Other general and administrative expenses, exclusive of stock based compensation costs, totaled \$8.1 million in the year ended December 31, 2011, compared with \$6.8 million for the year ended December 31, 2010. The higher 2011 expenses were primarily due to additional legal and consulting fees related to water development efforts.

**Depreciation.** Depreciation expenses totaled \$0.4 million for the year ended December 31, 2011, compared to \$0.3 million for 2010.

**Interest Expense, net.** Net interest expense totaled \$5.7 million during the year ended December 31, 2011, compared to \$4.7 million during 2010. The following table summarizes the components of net interest expense for the two periods (in thousands):

	<b>Year Ended December 31,</b>	
	<u>2011</u>	<u>2010</u>
Interest on outstanding debt	\$ 3,261	\$ 2,782
Amortization of debt discount	2,372	1,918
Amortization of deferred loan costs	72	42
Interest income	<u>(1)</u>	<u>(8)</u>
	<u>\$ 5,704</u>	<u>\$ 4,734</u>

The interest on outstanding debt increased from \$2.8 million to \$3.3 million due to the increase in interest rate from 5% to 6% per annum on the senior secured convertible term loan and the increase in debt outstanding under the new working capital facility. 2011 interest income decreased to \$1 thousand from \$8 thousand in the prior year due to lower short-term interest rates and a more conservative investment policy.

**Debt Refinancing.** Deferred loan costs, which are primarily legal fees, are amortized over the life of each loan agreement. In June 2006, we refinanced our term loan with ING Capital LLC (“ING”) with a new senior secured convertible term loan with a different lender. As a result, \$408,000 of legal fees were capitalized and will be amortized over the 7 year life of the loan agreement. An additional \$73,500 of lender fees were capitalized when the term loan was modified in October 2010. These fees will be amortized over the remaining life of the term loan. In June 2009 and October 2010, the term loan was modified as to certain of its conversion features. As a result of these convertible debt arrangements, the change in conversion value between the original and modified instrument totaled approximately \$3.2 million, which was recorded as additional debt discount with an offsetting amount recorded as additional paid in capital. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan as additional interest expense. In connection with the modification transaction in October 2010, we recorded a derivative liability related to the conversion option. The fair value of the derivative liability was marked-to-market at the end of each reporting period and recorded as other income (expense). On July 25, 2011, we entered into an amendment to the facility eliminating the availability to the Company of the unused \$3 million portion of the facility. As a result, the conversion option related to the unused portion of the facility no longer exists and a derivative liability is no longer being recorded.

**(b) Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

We had revenues of \$1.0 million for the year ended December 31, 2010, and \$0.8 million for the year ended December 31, 2009. The increase in revenue is primarily due to a larger raisin and lemon harvest in 2010 in comparison to 2009. The net loss totaled \$15.9 million for the year ended December 31, 2010, compared with a net loss of \$14.4 million for the year ended December 31, 2009. The higher 2010 loss was primarily due to higher stock based non-cash compensation costs related to shares and options issued under the 2009 Equity Incentive Plan.

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

**Revenues.** Revenue totaled \$1.0 million during the year ended December 31, 2010, compared to \$0.8 million during the year ended December 31, 2009. The increase in revenue was primarily due to a larger raisin and lemon harvest in 2010 in comparison to 2009. 2010 revenues included \$0.7 million of revenues related to citrus crop sales, which were up \$0.1 million from the prior year, and \$0.3 million of revenues related to raisin sales, which were up \$0.1 million from the prior year.

**Cost of Sales.** Cost of Sales totaled \$0.9 million during the year ended December 31, 2010, compared with \$1.1 million during the year ended December 31, 2009. The higher cost of sales for the year ended December 31, 2009, related largely to a reduction in carrying costs of the 2008 raisin inventory resulting in a write-down of inventory in 2009.

**General and Administrative Expenses.** General and administrative expenses during the year ended December 31, 2010, totaled \$10.8 million compared with \$9.4 million for the year ended December 31, 2009. Non-cash compensation costs related to stock and option awards are included in general and administrative expenses.

Compensation costs from stock and option awards for the year ended December 31, 2010 totaled \$4.0 million compared with \$2.3 million for the year ended December 31, 2009. The higher 2010 expense related largely to the issuance of restricted shares and the vesting of options that were issued under our 2009 Equity Incentive Plan.

Other general and administrative expenses, exclusive of stock based compensation costs, totaled \$6.8 million in the year ended December 31, 2010, compared with \$7.1 million for the year ended December 31, 2009. The higher 2009 expenses were primarily due to new hydrological studies and an incentive fee earned for certain legal and advisory services upon completion of milestones associated with the Water Project.

**Depreciation.** Depreciation expenses totaled \$0.3 million for the year ended December 31, 2010, compared to \$0.3 million for 2009.

**Interest Expense, net.** Net interest expense totaled \$4.7 million during the year ended December 31, 2010, compared to \$4.3 million during 2009. The following table summarizes the components of net interest expense for the two periods (in thousands):

	<b>Year Ended December 31,</b>	
	<u>2010</u>	<u>2009</u>
Interest on outstanding debt	\$ 2,782	\$ 2,356
Amortization of debt discount	1,918	1,937
Amortization of deferred loan costs	42	56
Interest income	<u>(8)</u>	<u>(35)</u>
	<u>\$ 4,734</u>	<u>\$ 4,314</u>

The interest on outstanding debt increased from \$2.4 million to \$2.8 million due to the increase in interest rate from 5% to 6% per annum on the senior secured convertible term loan and the increase in debt outstanding under the new working capital facility, while the amortization of debt discount decreased slightly due to extension of the accretion schedule related to the conversion option embedded in the term loan. 2010 interest income decreased to \$8 thousand from \$35 thousand in the prior year due to lower short-term interest rates and a more conservative investment policy.

**Debt Refinancing.** Deferred loan costs, which are primarily legal fees, are amortized over the life of each loan agreement. In June 2006, we refinanced our term loan with ING Capital LLC (“ING”) with a new senior secured convertible term loan with a different lender. As a result, \$408,000 of legal fees were capitalized and will be amortized over the 7 year life of the loan agreement. An additional \$105,000 of lender fees were capitalized when the term loan was modified in October 2010. These fees will be amortized over the remaining life of the term loan. In June 2009 and October 2010, the term loan was modified as to certain of its conversion features. As a result of these convertible debt arrangements, the change in conversion value between the original and modified instrument totaled approximately \$3.2 million, which was recorded as additional debt discount with an offsetting amount recorded as additional paid in capital. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan as additional interest expense. In connection with the modification transaction in October 2010, a derivative liability related to the conversion option was recorded. This derivative liability had a fair value of \$451 thousand at December 31, 2010, and will be marked-to-market at the end of each reporting period and recorded as other income (expense).

## ***Liquidity and Capital Resources***

### ***(a) 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 worked with our secured lenders to structure our debt in a way which allows us to continue development of the Water Project and minimize the dilution of the ownership interests of common stockholders. In June 2006, we entered into a \$36.4 million five year zero coupon senior secured convertible term loan with Peloton Partners LLP (through an affiliate) and another lender (the “Term Loan”). On April 16, 2008, we were advised that Peloton had assigned its interest in the Term Loan to an affiliate of Lampe Conway & Company LLC (“Lampe Conway”), and Lampe Conway subsequently replaced Peloton as administrative agent of the loan. On June 4, 2009, we completed arrangements to amend the Term Loan with Lampe Conway which modified certain of the conversion features and extended the maturity date to June 29, 2013 with interest continuing to accrue at 6% per annum through maturity. Further, the conversion feature was modified to allow up to \$4.55 million of principal to be converted into 650,000 shares of our Common Stock (“Common Stock”) at a conversion price of \$7 per share, and the remaining principal and interest to be converted into shares of Common Stock at a conversion price of \$35 per share.

On October 19, 2010, we closed a new \$10 million working capital facility with Lampe Conway and our other participating lender (“the Lenders”). Under the terms of the new \$10 million facility, we drew the first \$5 million at closing (“First Tranche”). Also upon closing, we were granted the option to draw up to an additional \$5 million over the subsequent 12 months (“Second Tranche”). We drew a total of \$2 million on the Second Tranche prior to its expiration. All interest on outstanding balances accrues at 6%, with no principal or interest payments required before the new facility’s June 29, 2013 maturity date, consistent with our existing term debt facility.

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



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

The Term Loan is collateralized by substantially all of the assets of the Company, and contains representations, warranties and covenants that are typical for agreements of this type, including restrictions that would limit our ability to incur additional indebtedness, incur liens, pay dividends or make restricted payments, dispose of assets, make investments and merge or consolidate with another person. However, while there are affirmative covenants, there are no financial maintenance covenants and no restrictions on our ability to issue additional common stock to fund future working capital needs. The debt covenants associated with the loan were negotiated by the parties with a view towards our operating and financial condition as it existed at the time the agreements were executed. At December 31, 2011, we were in compliance with our debt covenants.

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

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

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

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

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

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

At December 31, 2011, we had no outstanding credit facilities other than the Convertible Term Loan.

**Cash Used for Operating Activities.** Cash used for operating activities totaled \$7.5 million for the year ended December 31, 2011, and \$6.8 million for the year ended December 31, 2010. The cash was primarily used to fund general and administrative expenses related to our water development efforts.

**Cash Used In Investing Activities.** Cash used in investing activities in the year ended December 31, 2011, was \$4.1 million, compared with \$1.2 million for the year ended December 31, 2010. The 2011 period included additional investments in well-field and environmental work, and legal and consulting fees related to progressing the Water Project.

**Cash Provided by Financing Activities.** Cash provided by financing activities totaled \$17.1 million for the year ended December 31, 2011, compared with \$5.0 million for the year ended December 31, 2010. The 2011 results include \$2.0 million in proceeds received under our working capital facility, \$9.1 million in proceeds from the issuance of shares under a shelf takedown offering, and \$6.0 million in proceeds from a private placement. The 2010 cash provided reflects \$5.0 million of proceeds received under our working capital facility. See "Current Financing Arrangements" above.

**(b) Outlook**

**Short Term Outlook.** The \$6.0 million in proceeds from our November 2011 private placement, together with the \$5.1 million in proceeds from our December 2011 shelf takedown provide us with sufficient funds to meet our expected working capital needs through fiscal year 2012. Based on our current and anticipated usage of cash resources, we will require additional working capital commencing during the first quarter of fiscal 2013 to meet our cash resource needs from that point forward and to continue to finance our operations until such time as our asset development programs produce revenue. If we are unable to generate this from our current development activities, then we will need to seek additional financing in the capital markets. We expect to continue our historical practice of structuring our financing arrangements to match the anticipated needs of our development activities. See "Long Term Outlook", below. No assurances can be given, however, as to the availability or terms of any new financing.

**Long Term Outlook.** In the longer term, we will need to raise additional capital to finance working capital needs, capital expenditures and any payments due under our senior secured convertible term loan at maturity. See "Current Financing Arrangements" above.

Our future working capital needs will depend upon the specific measures we pursue in the entitlement and development of our water resources and other development. Future capital expenditures will depend primarily on the progress of the Water Project. Payments will be due under the Term Loan only to the extent that the Lenders elect not to exercise equity conversion rights prior to the Term Loan's final maturity date of June 29, 2013. We currently expect to satisfy amounts due under the Term Loan through one or more of (a) equity conversion pursuant to the terms outlined in Note 6, "Long-Term Debt", to our Consolidated Financial Statements; (b) construction financing associated with the Water Project; (c) cash generated from further development of our other properties, such as a mitigation bank; and (d) debt or equity financing in the capital markets. As disclosed in a Company release dated February 28, 2012, we have engaged an investment bank specializing in infrastructure financing to lead the Company through the construction financing process for the Water Project.

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

**(c) Critical Accounting Policies**

As discussed in Note 2 to our Consolidated Financial Statements, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements based on all relevant information available at the time and giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Management has concluded that the following critical accounting policies described below affect the most significant judgments and estimates used in the preparation of the consolidated financial statements.

**(1) Intangible and Other Long-Lived Assets.** Property, plant and equipment, intangible and certain other long-lived assets are depreciated or amortized over their useful lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue.

**(2) Goodwill.** As a result of a merger in May 1988 between two companies, which eventually became known as Cadiz Inc., goodwill in the amount of \$7,006,000 was recorded. Approximately \$3,193,000 of this amount was amortized until the adoption of Accounting Standards Codification 350, "Intangibles – Goodwill and Other" ("ASC 350") on January 1, 2002.

**(3) Valuation of Goodwill and Long-Lived Assets.** The Company assesses long-lived assets, excluding goodwill, for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable through the estimated undiscounted future cash flows resulting from the use of the assets. If it is determined that the carrying value of long-lived assets may not be recoverable, the impairment is measured by using the projected discounted cash-flow method. The Company reevaluates the carrying value of its water program annually.

The Company tests goodwill for impairment annually as of December 31st, or more frequently if events or circumstances indicate carrying values may not be recoverable, using the market method, as well as the discounted cash-flow method.

The Company uses a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any) for the Company. The step 1 calculation, used to identify potential impairment, compares the estimated fair value of the Company to its net carrying value (book values), including goodwill, on the measurement date. If the fair value of the Company is less than its carrying value, step 2 of the impairment test is required to measure the amount of the impairment loss (if any).

The step 2 calculation of the impairment test compares the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill represents the excess of the estimated fair value above the fair value of the Company's identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill). The determination of the fair value of its assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date).

**(4) Deferred Tax Assets and Valuation Allowances.** To date, the Company has not generated significant revenue from its water development programs, and it has a history of net operating losses. As such, the Company has generated significant deferred tax assets, including large net operating loss carry forwards for federal and state income taxes for which it has recorded a full valuation allowance. Management is currently working on water storage, water supply, agriculture and solar energy development projects, including the Water Project, that are designed to generate future taxable income, although there can be no guarantee that this will occur. If taxable income is generated in future years, some portion or all of the valuation allowance will be reversed, and an increase in net income would consequently be reported.

**(d) New Accounting Pronouncements**

See Note 2 to the Consolidated Financial Statements, "Summary of Significant Accounting Policies".

**(e) Off Balance Sheet Arrangements**

The Company does not have any off balance sheet arrangements at this time.

(f) **Certain Known Contractual Obligations**

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Long term debt obligations	\$ 56,677	\$ 4	\$ 56,673	\$ -	\$ -
Interest payable	5,357	-	5,357	-	-
Operating leases	373	302	71	-	-
	<u>\$ 62,407</u>	<u>\$ 306</u>	<u>\$ 62,101</u>	<u>\$ -</u>	<u>\$ -</u>

\* The above table does not reflect unrecognized tax benefits of \$3.3 million, the timing of which is uncertain. See Note 7 to the Consolidated Financial Statements, "Income Taxes".

Long-term debt included in the table above primarily reflects the Convertible Term Loan, which is described above in Item 7,"Management's Discussion and Analysis of Financial Condition and Results of Operation; Liquidity and Capital Resources". Operating leases include the lease of the Company's executive offices, as described in Item 2, "Properties".

Not included in the table above is a potential obligation to pay an amount of up to 1% of the net present value of the Water Project in consideration of certain legal and advisory services to be provided to us by Brownstein Hyatt Farber Schreck LLP. The primary services being provided are advising us as to Water Project design and implementation, permit approvals, environmental compliance, negotiation and drafting of agreements related to the Water Project. This fee would be payable upon receipt of all environmental approvals and permits and the execution of binding agreements for at least 51% of the Water Project's annual capacity. A portion of this fee may be payable in stock. Interim payments of \$1.5 million, to be credited against the final total, would be made upon the achievement of certain specified milestones. \$500 thousand of these interim payments was earned in June 2009 in consideration for the legal and advisory services previously provided. No further milestones have been met as of December 31, 2011. This arrangement may be terminated by either party upon 60 days notice, with any compensation earned but unpaid prior to termination payable following termination.

**ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk**

As of December 31, 2011, all of our indebtedness bore interest at fixed rates; therefore, we are not exposed to market risk from changes in interest rates on long-term debt obligations.

**ITEM 8. Financial Statements and Supplementary Data**

The information required by this item is submitted in response to Part IV below. See the Index to Consolidated Financial Statements.

**ITEM 9. Changes in and Disagreements with Accounts on Accounting and Financial Disclosure**

Not applicable.

**ITEM 9A. 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 December 31, 2011, 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.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on the criteria in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under that framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Changes in Internal Control 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 control 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 control over financial reporting.

**ITEM 9B. Other Information**

*Not applicable.*

### **PART III**

#### **ITEM 10. Directors, Executive Officers and Corporate Governance**

##### ***Directors and Executive Officers***

Our Board of Directors currently consists of eight directors. Set forth below is certain biographical information, the present occupation and the business experience for the past five years or more of each director and each of our three executive officers. We have no executive officer who is not also a director.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Keith Brackpool	54	Chairman of the Board and Chief Executive Officer
Stephen E. Courter	57	Director
Geoffrey Grant	51	Director
Winston H. Hickox	69	Director
Murray H. Hutchison	73	Director
Raymond J. Pacini	56	Director
Timothy J. Shaheen	52	Director, Chief Financial Officer and Secretary
Scott S. Slater	54	Director, President and General Counsel

Keith Brackpool is a founder of the Company, has served as a member of our Board of Directors since September 1986, and has served as Chief Executive Officer of the Company since December 1991. Mr. Brackpool assumed the role of Chairman of the Board on May 14, 2001, and was the Chief Financial Officer from May 2003 until October 2005. Mr. Brackpool also served as President of the Company from December 1991 until April 12, 2011. Mr. Brackpool has extensive expertise in Western water policy. He was appointed by former California Governor Gray Davis to co-chair his Agriculture and Water Transition Task Force and also served on the Governor's Commission on Building for the 21<sup>st</sup> Century, a diverse panel that developed long-term policy proposals to meet the state's future water, housing, technology and transportation needs. In addition to his position with the Company, Mr. Brackpool currently serves as the Chairman of the California Horse Racing Board (CHRB). Mr. Brackpool was appointed to the CHRB in September 2009 by former Governor Arnold Schwarzenegger and elected Chairman in January 2010. Mr. Brackpool is also a principal of 1334 Partners L.P., a partnership that owns commercial real estate. Previously, Mr. Brackpool served as director and chief executive officer of North American Operations for Albert Fisher Group, a multi-billion dollar food company.

Stephen E. Courter was appointed a director of the Company effective October 9, 2008. Mr. Courter was originally appointed to the Board as a designee of LC Capital Master Fund for a term expiring at the 2009 annual meeting of stockholders. Mr. Courter remained on the Board but not as a designee of any entity. Mr. Courter is currently on the faculty of the McCombs School of Business, University of Texas at Austin ("McCombs"). Mr. Courter also serves as a director of Pointserve, a privately held information technology firm in Austin, Texas. Prior to joining the faculty of McCombs, Mr. Courter served as CEO and Director of Broadwing Communications from 2006 to 2007. Prior to holding that position, Mr. Courter served as CEO and Chairman of NEON Communications from 2000 to 2006. Prior to 2000, Mr. Courter held various executive positions, both in the United States and Europe in several major telecommunication firms.

Geoffrey Grant was appointed a director of the Company effective January 22, 2007. Mr. Grant is presently a Managing Partner and the Chief Investment Officer of Grant Capital Partners founded in 2008. Prior to founding Grant Capital Partners, Mr. Grant was a Managing Partner and the Chief Investment Officer of Peloton Partners LLP, a global asset management firm. Mr. Grant co-founded Peloton Partners LLP in 2005. Mr. Grant's career in financial markets spans 27 years beginning at Morgan Stanley in 1982 in foreign exchange options and currency derivatives, then with Goldman Sachs from 1989 to 2004 where he ultimately served as Head of Global Foreign Exchange and Co-head of the Proprietary Trading Group in London.

Winston Hickox was appointed a director of the Company effective October 2, 2006. Mr. Hickox is currently a partner at California Strategies, a public policy consulting firm. From 2004 to 2006 Mr. Hickox completed a two-year assignment as Sr. Portfolio Manager with the California Public Employees' Retirement System (CalPERS) where he assisted with the design and implementation of a series of environmentally oriented investment initiatives in the Private Equity, Real Estate, Global Public Equities, and Corporate Governance segments of the fund's \$211 billion investment portfolio. Prior to his assignment at CalPers, from 1999 to 2003, Mr. Hickox served as Secretary of the California Environmental Protection Agency and a member of the Governor's cabinet. Mr. Hickox's environmental policy experience also includes membership on the board of the California League of Conservation Voters, including a four-year term as Board President (1990 - 1994); and two years on the boards of Audubon California and Sustainable Conservation (2004 - 2006). Additionally, Mr. Hickox is currently serving as a member of the board of Thomas Properties Group, a publicly traded full service real estate investment firm, GRIDiant Corporation, a privately held corporation in the energy technology sector, and as a member of the Sacramento County Employees' Retirement System board. Earlier in his professional career, Mr. Hickox was a partner and Managing Director with LaSalle Advisors, Ltd., a major force in the world's real estate capital markets, and a Managing Director with Alex Brown Kleinwort Benson Realty Advisors Corp., where he served as head of the firm's Portfolio Management Group.



Murray H. Hutchison was appointed a director of the Company in June 1997. He is also a member of the Board of Managers (an LLC's functional equivalent of a Board of Directors) of our subsidiary, Cadiz Real Estate LLC. In his capacity as a manager of the LLC, he performs essentially the same duties on behalf of the LLC as he would as an outside director for a corporation. Since his retirement in 1996 from International Technology Corporation ("ITC"), a publicly traded diversified environmental management company, Mr. Hutchison has been self-employed with his business activities involving primarily the management of an investment portfolio. From 1976 to 1996, Mr. Hutchison served as Chief Executive Officer and Chairman of International Technology for ITC. Mr. Hutchison formerly served as Chairman of the Board of Texas Eastern Product Pipelines Company (TEPPCO), a publicly traded company operating in refined petroleum products, liquefied petroleum gases and petrochemical transportation and storage, prior to its acquisition by Enterprise Products Partners L.P. in October 2009. Mr. Hutchison serves as lead director on the board of Jack in the Box, Inc., a publicly traded fast food restaurant chain; and as a director on the board of Cardium Therapeutics, Inc., a publicly traded medical technology company. Additionally, Mr. Hutchison serves as Chairman of the Huntington Hotel Corporation, owner of a privately owned hotel and office buildings, and as a director of several other non-publicly traded U.S. companies.

Raymond J. Pacini was appointed a director of the Company effective June 16, 2005. Mr. Pacini was originally appointed to the Board as a nominee of ING pursuant to the rights of ING, our prior lender, as a former holder of our Series F preferred stock. As of June 29, 2006, the Company's loan with ING was paid in full and ING's right to designate members of our Board of Directors was terminated. Mr. Pacini remained on the Board as a designee of Peloton, our lender after ING, pursuant to the right of Peloton to designate a single director under the terms of Cadiz Inc.'s credit facility with Peloton. As of April 16, 2008, LC Capital Master Fund acquired the interest of Peloton in our credit facility. Peloton's right to designate a director was personal to Peloton and was not assigned to LC Capital Master Fund. Mr. Pacini remained on our Board as a director but not as the designee of any entity. From May 1998 to March 2011, Mr. Pacini served as President, Chief Executive Officer and a Director of California Coastal Communities, Inc. ("CALC"), a residential land development and homebuilding company operating in Southern California which was formerly publicly traded. On October 27, 2009, CALC and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the Central District of California. On March 1, 2011, CALC satisfied the various conditions to its plan of reorganization with the respect to its Chapter 11 bankruptcy cases, emerged from bankruptcy and became a privately held company. From June 1990 until May 1998, Mr. Pacini was the Chief Financial Officer of CALC (formerly known as Koll Real Estate Group, Inc. and Henley Properties, Inc.). Mr. Pacini has seven years of experience as a certified public accountant with the accounting firm of Coopers & Lybrand (now known as PricewaterhouseCoopers LLP).

Timothy J. Shaheen was appointed Chief Financial Officer and Secretary in November 2008, and has served as a director of the Company since March 1999. Effective April 12, 2011, Mr. Shaheen also serves as Chairman and Chief Executive Officer of the Board of Managers of Cadiz Real Estate LLC, a wholly-owned subsidiary of the Company. Mr. Shaheen is a private investor and principal of Difinity Capital Partners LLP. Mr. Shaheen is also the sole member and manager of AG Derivatives, L.L.C., which provided agricultural management consulting services to the Company in 2008. From September 1996 to April 2005, Mr. Shaheen served as the President, Chief Executive Officer and a director of Sun World International. Mr. Shaheen also served as a Governor appointee to the Los Angeles Regional Water Quality Control Board from 1999 through 2005 and as Chairman of the Food Security Task Force for the United Fresh Fruit and Vegetable Association from 2001 through 2003. Prior to joining Sun World, Mr. Shaheen served as a senior executive with Albert Fisher North America, a publicly traded international produce company from 1989 to 1996. Prior to his employment with Albert Fisher, Mr. Shaheen has seven years of experience with the accounting firm of Ernst & Young LLP. Mr. Shaheen is a certified public accountant.

Scott S. Slater became an executive officer of the Company upon his appointment as President on April 12, 2011. Mr. Slater has served as General Counsel of the Company since November 2008. Mr. Slater is an accomplished negotiator and litigator and, in addition to his role with the Company, is also a shareholder in Brownstein Hyatt Farber Schreck, the nation's leading water practice firm. For 27 years, Mr. Slater's practice has been limited to litigation and the negotiation of agreements related to the acquisition, distribution, and treatment of water. He has served as lead negotiator on a number of important water transactions, including the negotiation of the largest conservation-based water transfer in U.S. history on behalf of the San Diego County Water Authority. Mr. Slater is also the author of *California Water Law and Policy*, the state's leading treatise on the subject, and has taught water law and policy courses at University of California, Santa Barbara, Pepperdine University, and the University of Western Australia, among others.

### ***The Board of Directors***

Directors of the Company hold office until the next annual meeting of stockholders or until their successors are elected and qualified. There are no family relationships between any directors or current officers of the Company. Officers serve at the discretion of the Board of Directors.

The Board of Directors is responsible for our management and direction and for establishing broad corporate policies, including our leadership structure. Mr. Brackpool currently serves as both Chairman of the Board and Chief Executive Officer. The Board believes that having Mr. Brackpool serve in both capacities is in the best interests of the Company and its stockholders because it enhances communication between the Board and management and allows Mr. Brackpool to more effectively execute the Company's strategic initiatives and business plans and confront its challenges. The Board believes that the appointment of lead independent Directors for each of its key committees, as well as its overall majority of independent Directors, allow it to maintain effective oversight of management. In addition, the Board of Directors and various committees of the Board regularly meet to receive and discuss operating and financial reports presented by the Chief Executive Officer and other members of management as well as reports by experts and other advisors.

Assessing and managing risk is the responsibility of the management of the Company. Our Board of Directors oversees and reviews certain aspects of the Company's risk management efforts. Annually, the Board reviews our strategic business plans, which includes evaluating the objectives of and risks associated with these plans.

In addition, under its charter, the Audit Committee reviews and discusses with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

The Audit Committee is composed of Raymond J. Pacini, Stephen E. Courter, and Winston H. Hickox. The Board of Directors has determined that Mr. Pacini, a member of the Company's Audit Committee, is an "audit committee financial expert" as that term is defined in Item 401(h) of Regulation S-K under the Securities Act.

## ***Code of Ethics***

The Company has adopted a code of ethics that applies to all of our employees, including our chief executive officer and chief financial officer. A copy of the code of ethics may be found on our website at <http://www.cadizinc.com>. Any employee who becomes aware of any existing or potential violation of the code of ethics is required to report it. Any waivers from and amendments to the code of ethics granted to directors or executive officers will be promptly disclosed on our website at <http://www.cadizinc.com>.

## ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act") requires our directors and executive officers, and persons who beneficially own more than 10% of a registered class of our equity securities ("reporting persons"), to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Reporting persons are required by Commission regulations to furnish the Company with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of reports and amendments thereto on Forms 3, 4 and 5 furnished to us by reporting persons and forms that we filed on behalf of certain directors and officers, during, and with respect to, our fiscal year ended December 31, 2011, and on a review of written representations from reporting persons to us that no other reports were required to be filed for such fiscal year, all Section 16(a) filing requirements applicable to our reporting persons were satisfied in a timely manner except that a form 5 filing of Mr. Richard Stoddard, a Form 3 filing of Mr. Slater, and a Form 4 filing of Mr. Hickox were inadvertently filed late.

## **ITEM 11. Executive Compensation**

### ***Compensation Discussion and Analysis***

#### Overview

The Company's compensation policies and practices are developed and implemented through the Compensation Committee of the Board of Directors. The Committee's responsibility is to review and consider annually the performance of our named executive officers in achieving both corporate and individual goals and objectives, and to assure that the Company's compensation policies and practices are competitive and effective in incentivizing management.

The Compensation Discussion and Analysis section provides a description of the primary elements of our fiscal year 2011 compensation program and policies for the following individuals, who are referred to throughout this Annual Report on Form 10-K as our named executive officers:

- Keith Brackpool, Chief Executive Officer
- Scott Slater, President and General Counsel
- Timothy Shaheen, Chief Financial Officer

Compensation committee activities in 2011 included:

- Reviewing guidelines and standards regarding our compensation practices and philosophy;
- Evaluating the performance of our executive officers;
- Reviewing and approving the total compensation and benefits of our executive officers, including cash compensation and long-term incentive compensation; and
- Considering equity incentive plan awards for our executive officers and employees.

For our named executive officers, other than the Chief Executive Officer, the committee established compensation levels based, in part, on the recommendations of the Chief Executive Officer.

This section should be read in conjunction with the “Summary Compensation Table” and related tables pertaining to the compensation earned in 2011 by the named executive officers presented at the conclusion of this section.

#### Compensation Philosophy

Our business plan and goals have historically been and continue to be linked to the entitlement process for the Water Project. The progress made by us in the development of the Water Project and our land and water resources does not bear a direct relationship to quarterly and annual results of operations due to the nature of developing this long-term project and our annual cash resources are focused on funding the completion of the development process. It is critical to the development of the Project that the Company attract and retain well-qualified executives familiar with the sector. As a result, our executive compensation programs seek to maintain a competitive annual salary structure while emphasizing long-term incentives that are connected to the ultimate implementation of the Project and also strive to align the interests of the executive officers and management with those of our stockholders through the use of equity-based programs. In doing so, the Company intentionally reduces the risk that executives will place too much focus on short-term achievements to the detriment of the long-term goals of the Company.

#### Use of Peer Group

The Compensation Committee believes it is important to understand and analyze the current compensation programs of other companies with similar structures when making compensation decisions. The Company’s main asset consists of a large land position in Southeastern California and its main emphasis is on the permitting of a water project at this unique site. It is difficult to identify directly comparable peer companies because no other company is similarly situated.

However, for guidance on the pay mix and compensation package of our named executive officers this year, the Compensation Committee identified a peer group of companies in the property and asset development sectors; specifically companies with comparable market capitalization and an emphasis on the development of real estate in the Southwestern United States. The Committee reviewed internally prepared surveys and other publicly available information for these companies and compared the components of the Company's compensation program with those of the identified peer group, which includes the following companies:

- Avatar Holdings Inc.
- HomeFed Corporation
- Limoneira Company
- PICO Holdings, Inc.
- Tejon Ranch Co.
- Thomas Properties Group, Inc.

Due to the Company's unique business plan and current focus on development of the Water Project, the Compensation Committee will exercise its discretion in determining compensation packages that may differ from the peer group. However, the Company's current compensation program for its executive officers is competitive with the peer group. Consistent with our compensation philosophy, the base salary of our Chief Executive Officer is in the bottom quartile of this group, while equity incentives are at the median of this group.

#### Elements of Compensation

Our compensation program has three primary components: cash salary, performance-based cash awards and long-term incentives through equity stock awards. Each element of the Company's compensation program has been specifically chosen to reward, motivate and incentivize the executives of the Company through the development of the Water Project. The Compensation Committee determines the amount for both total compensation and each compensation element through discussions with our management, consideration of benchmarking data, past performance and future corporate and individual objectives.

The three basic elements of compensation, described in further detail below, are:

- Cash salaries for our named executive officers are intended to create a minimum level of compensation that is competitive with other companies deemed comparable, depending on the prior experience and position of the executive;
- Performance based cash awards, if utilized, are based on the achievement of specified objectives that yield increased value for stockholders; and
- Long-Term incentives are intended to focus and align the goals of Company executives with those of our stockholders and help retain executives and motivate them to improve our long-term performance.

Our overall compensation packages for our named executive officers is currently more heavily weighted toward long-term equity incentives due to the current development timelines of the Water Project and other projects and the focus of the Company on achieving the implementation of these projects. Even with the emphasis on long-term incentives, our overall compensation is established at a level comparable to our peer group of companies which share a similar focus on long-term development of assets.

## Elements of 2011 Compensation

**CASH SALARY.** Base salaries for our named executives are determined by the Compensation Committee depending on a variety of factors including the scope of their responsibilities, their leadership skills and values, their performance and length of service. Decisions regarding salary increases are affected by the named executive's current salary and the amounts paid to their peers within and outside the Company. In evaluating base salaries for 2011 the Compensation Committee believed it was important to continue to emphasize long-term incentives as set out below and devote the Company's cash resources to the ongoing development of the Water Project. Therefore, base salaries for 2011 for these executives remained the same as in 2009 and 2010.

**PERFORMANCE BASED CASH AWARDS.** The Compensation Committee believes that it is important to offer cash incentives to executives for the achievement of specified objectives that yield increased value for stockholders and will utilize performance based cash awards from time to time to provide additional incentives. However, the Compensation Committee currently believes that equity based awards rather than cash based awards allow the Company to better preserve its existing cash resources and, accordingly, is relying primarily upon the grant of equity based awards to reward executive performance (see "Long-Term Incentives") of named executive officers. Accordingly, there were no performance based cash awards provided to named executive officers during 2011.

**LONG-TERM INCENTIVES.** The primary form of incentive compensation that we expect to offer to our executives consists of long-term incentives in the form of equity awards. The use of long-term incentives is intended to focus and align goals of Company executives with those of stockholders and creates a direct interest in the results of operations and achievements of the Company's goals.

As described below, the Committee has chosen to rely primarily upon equity instruments, such as restricted stock and options, in designing compensation packages for executives. The Committee views the grant of equity based awards as an incentive for future performance since the value of these equity based awards will increase as our stock price increases, thereby satisfying the Committee's goal of linking executive compensation to share price appreciation over the longer term and promoting the retention of the key executives throughout the development process of its projects. The Committee is conscious of the potential dilutive effect arising from the use of equity incentives and tries to limit issuances to maintain appropriate ratios of overall ownership levels in the Company from year to year.

In order for the company to utilize equity based awards as our primary form of incentive compensation, in March 2007 the Board approved a management equity incentive program (the "2007 Incentive Plan"). The 2007 Incentive Plan was also approved by our stockholders at the Company's 2007 Annual Meeting. As part of the 2007 Incentive Plan, 1,050,000 shares were reserved for issuance, of which 250,000 shares were granted between 2007 and 2009 to employees of the Company and 800,000 shares were allocated to the CEO and the then Chairman of the Company's real estate subsidiary subject to the satisfaction of certain performance-based and milestone conditions. These conditions were not met and the 800,000 shares were cancelled and never issued.

In December 2009, the Board and our senior secured lender approved a new equity incentive program (the "2009 Incentive Plan"), which was also approved by our stockholders at our 2009 Annual Meeting. The 2009 Incentive Plan reserved 850,000 shares for issuance, including no more than 300,000 shares that could be issued as full share grants. Options were issued with a minimum two year vesting period in order to accomplish two main goals. First, value would only be realized to the extent there was an increase in share price during the anticipated development phase of the Water Project, and secondly, the employee would only realize the full value of the grant by seeing the Company through this process. Additionally, all restricted stock issued included three year restrictions on sale to again require any gain to the employee to be linked to the outcome of the development phase of the Water Project. In 2010, the company granted 115,000 shares of restricted common stock and options to purchase 387,500 shares of common stock at an exercise price of \$11.50 per share under these guidelines.

For 2011, the Compensation Committee considered performance objectives in the development timelines of our projects when awarding shares of restricted stock and options to the named executives. Objectives achieved in 2011 included:

- Progressing the development of the Water Project, including the permitting process; and
  - Progressing the development of other Company owned real estate & water resources; and
  - Pursuing other water distribution related opportunities; and
  - Obtaining the financing necessary to continue to invest in the further development of these water related assets

Based on the progress achieved towards the Company's development objectives during 2011, a total of 140,000 shares of restricted stock and 100,000 options were issued to named executive officers as described below. The restricted stock and options were issued subject to vesting terms consistent with our strategy to design compensation to be consistent with the development timeline for the Water Project.

#### Agreements Governing Compensation

Our Chief Executive Officer, Mr. Keith Brackpool, entered into an amended and restated employment agreement effective May 22, 2009. The Compensation Committee has taken Mr. Brackpool's ongoing overall responsibility for our Company's performance and development of our properties into consideration when entering into his employment agreement. In particular, the Compensation Committee took into consideration that Mr. Brackpool, as Chief Executive Officer, has primary responsibility for overseeing the development of our land and water assets; identifying sources of financing for the Company's working capital needs and for the Water Project, and negotiating the terms of such financings; and identifying additional development opportunities (e.g. water transportation, renewable energy) and leading the Company's efforts to pursue such additional development opportunities. Under this amended and restated agreement, Mr. Brackpool's base salary remained unchanged in 2011 at \$400,000. This salary is in the bottom quartile of CEO base salary compensation for our peer group. In January 2011, Mr. Brackpool received 100,000 restricted shares of common stock under the 2009 Equity Incentive Plan, pursuant to a contractual agreement not to sell any of these shares for a period of three years ending on January 10, 2014.

Our President and General Counsel, Mr. Scott S. Slater, has served the Company since November 2008 pursuant to an agreement with the law firm Brownstein Hyatt Farber and Schreck LLP, where Mr. Slater is also a shareholder. Mr. Slater is primarily focused on the development of the Company's Water Project. Mr. Slater does not currently receive a base salary from the Company for his role as President and General Counsel. Due to the nature of the development of the Project, Mr. Slater's compensation from the Company has consisted exclusively of long-term incentives. In April 2011, Mr. Slater received options to purchase 100,000 shares of common stock at an exercise price of \$12.51 per share under our 2009 Equity Incentive Plan with such options vesting 1/3 when issued, 1/3 in April 2012 and 1/3 in April 2013.

Our Chief Financial Officer, Mr. Tim Shaheen, entered into a formal employment agreement with the Company effective May 22, 2009. Mr. Shaheen serves as the Principal Financial Officer of the Company and as Chairman and Chief Executive of the Board of Managers of Cadiz Real Estate LLC, our subsidiary holding title to our land and water assets. Mr. Shaheen also oversees our agricultural operations. The employment agreement provides for a base salary as well as for Mr. Shaheen's participation in a Long Term Transaction Incentive Plan and allows for his participation in other management incentive programs that the Board may adopt, including discretionary annual bonuses. Pursuant to the agreement, Mr. Shaheen's annual base salary remained unchanged at \$300,000 during 2011. In January 2011, Mr. Shaheen received 40,000 restricted shares of common stock under the 2009 Equity Incentive Plan, pursuant to a contractual agreement not to sell any of these shares for a period of three years ending on January 10, 2014.

#### Compensation Events Occurring in 2012

Recognizing that the prohibitions on sale associated with the use of restricted stock incentives causes tax burdens to the recipient, the Compensation Committee utilized cash based awards in 2012, consisting of a \$300,000 cash award that was granted to Mr. Brackpool in February 2012 and a \$200,000 cash award that was granted to Mr. Shaheen in February 2012. Additionally, Mr. Shaheen's cash base salary was increased by 10% per annum beginning February 14, 2012. The Compensation Committee considers these cash awards to be an important component of retaining executives that are subject to long-term restricted stock awards.

#### 2011 Say on Pay Vote

On June 2, 2011, the Company held its 2011 Annual Meeting of Stockholders. At the stockholders meeting, a majority of stockholders voting on our Say on Pay ("SOP") proposal voted against the executive compensation for our named executive officers as set forth in our 2011 Proxy Statement.

The Company has extensively evaluated the outcome on the SOP item, and we believe that the outcome reinforces the importance of clearly communicating with our stockholders about the goals and objectives of our compensation program. While we have worked to improve the presentation of the goals of our compensation program in the discussion incorporated in this Form 10-K, we are also currently acting to implement certain changes to our compensation program to address concerns. These changes will be implemented prior to the 2012 Annual Meeting of Stockholders, and will be specifically described in our 2012 Proxy Statement.



### Severance and Change in Control Provisions

Our compensation arrangements with Messrs. Brackpool and Shaheen provide for certain severance provisions and benefits associated with various termination scenarios, as well as certain vesting acceleration for equity-based compensation in the event of a change-in-control. The severance and change in control provisions were determined largely by negotiations between the parties as one of the many elements of a larger negotiation involving the particular executive's employment or consulting agreement with the Company. These agreements are designed to be competitive in the marketplace and provide security for these executives in the event that the Company is acquired and their position is impacted. This will allow our executives to consider and implement transformative transactions of significant benefit to our stockholders without undue concern over their own financial situations.

A summary of the severance and change-in-control provisions applicable to compensation arrangements with our executive officers named in the Summary Compensation Table, along with a quantification of the benefits available to each named officer as of December 31, 2011, can be found in the section captioned "Potential Payments upon Termination or Change in Control".

### Tax and Accounting Considerations

#### *Impact of Code Section 162(m)*

The Compensation Committee has considered the impact of provisions of the Internal Revenue Code of 1986, specifically Code Section 162(m). Section 162(m) limits to \$1 million our deduction for compensation paid to each of our executive officers, which does not qualify as "performance based".

Shares of stock issued to executives under the 2007 Incentive Plan and 2009 Incentive Plan do not qualify as performance-based compensation, and therefore, the portion of the compensation expense related to the Plans that exceeds \$1 million is not deductible.

In light of our federal and state net operating loss carryforwards of approximately \$112.5 million and \$74.8 million as of December 31, 2011, respectively, we do not expect the tax deductions lost as a result of the application of Section 162(m) to have a material impact upon our financial results.

### Compensation Committee Report

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management of the Company. Based on this review and discussion, we recommend to the Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

#### THE COMPENSATION COMMITTEE

Murray H. Hutchison, Chairman  
Stephen E. Courter  
Geoffrey Grant  
Winston H. Hickox  
Raymond J. Pacini

The foregoing report shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

### Executive Compensation Tables

#### Summary Compensation Tables

The following table shows the compensation awarded to, earned by, or paid during the years ended December 31, 2011, 2010 and 2009, to our chief executive officer, our president, our chief financial officer, and to the then chief executive officer of our subsidiary, Cadiz Real Estate, L.L.C.

Name and Principal Position <sup>(1)</sup>	Year	Salary (\$)	Bonus (\$)	Stock Awards <sup>(2)</sup> (\$)	Option Awards <sup>(2)</sup> (\$)	All Other Compensation <sup>(3)</sup> (\$)	Total (\$)
Keith Brackpool Chairman and Principal Executive Officer	2011	400,000	-	727,000	260,944	54,402	1,442,346
	2010	400,000	-	573,750	1,304,736	46,155	2,324,641
	2009	400,000	-	300,000	-	48,760	748,760
Timothy J. Shaheen Principal Financial Officer and Secretary	2011	300,000	-	290,800	130,472	12,963	734,235
	2010	300,000	-	202,500	652,368	20,400	1,175,268
	2009	300,000	-	159,071 <sup>(4)</sup>	-	11,987	471,058
Scott Slater President <sup>(5)</sup>	2011	-	-	-	600,998	-	600,998
	2010	-	-	-	-	-	-
	2009	-	-	-	-	-	-
Richard E. Stoddard Chairman, Cadiz Real Estate LLC <sup>(6)</sup>	2011	50,000	-	-	65,234	100,000 <sup>(6)</sup>	215,234
	2010	300,000	-	-	326,186	-	626,186
	2009	300,000	-	-	-	-	300,000

<sup>(1)</sup> The executive officers listed in the Summary Compensation Table above were our only executive officers during the year ended December 31, 2011.

<sup>(2)</sup> This column discloses the dollar amount of compensation cost recognized for the respective fiscal year in accordance with FAS123R. The assumptions used for determining the value of stock awards and options are set forth in the relevant Cadiz Inc. Annual Report to Stockholders in Note 10 to the Consolidated Financial Statements, "Stock-Based Compensation Plans and Warrants".

<sup>(3)</sup> All Other Compensation includes a 401k match that is generally available to all employees. Messrs. Brackpool and Shaheen received \$16,000 and \$10,846, respectively, in 401k matching contributions in 2011. In 2011, Mr. Brackpool's Other Compensation also includes \$36,197 of company paid expenses related to a leased automobile and \$2,205 related to life insurance. Mr. Shaheen's Other Compensation for 2011 includes \$2,117 in a car allowance. The value of perquisites for each of the other executive officers was less than \$10,000, and thus no amount relating to perquisites is included in the Summary Compensation Table.

<sup>(4)</sup> The amounts shown include shares received by Mr. Shaheen under our Outside Director Compensation Program for services performed as a non-employee director.

<sup>(5)</sup> Mr. Slater was appointed President of the Company on April 12, 2011, replacing Mr. Brackpool in this position.

<sup>(6)</sup> Mr. Stoddard served as Chairman and Chief Executive Officer of the Board of Managers of Cadiz Real Estate LLC, our subsidiary holding title to our land and water assets, until April 12, 2011, at which time he resigned and was replaced in these positions by Mr. Shaheen. Mr. Shaheen does not receive any additional compensation for serving in these positions. Following his resignation, Mr. Stoddard received compensation at the rate of \$12,500 per month for consulting services pursuant to an Addendum to the Consulting Agreement between the Company and Mr. Stoddard.

Grants of Plan-Based Awards

The following table sets forth each non-equity incentive plan award and equity award granted to our named executive officers during fiscal year 2011.

Name	Grant Date <sup>(1)</sup>	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (\$)		Estimated Future Payouts Under Equity Incentive Plan Awards Target (#) Shares	All Other Stock Awards: Number of Securities		Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Option Awards(\$)
		Target (\$)	Maximum (\$)		Number of Shares of Stock or Units (#)	Number of Securities Underlying Options		
Keith Brackpool	1/10/2011	-	-	-	100,000 <sup>(2)</sup>	-	-	-
Timothy J. Shaheen	1/10/2011	-	-	-	40,000 <sup>(2)</sup>	-	-	-
Scott Slater	4/12/2011	-	-	-	-	100,000 <sup>(3)</sup>	\$12.51	848,464
Richard E. Stoddard	-	-	-	-	-	-	-	-

<sup>(1)</sup> The grant date set forth in this table is the date the grants became effective.

<sup>(2)</sup> Restricted shares granted by the Company under the 2009 Equity Incentive Plan.

<sup>(3)</sup> Options granted by the Company under the 2009 Equity Incentive Plan.

### Outstanding Equity Awards at Fiscal Year

The following table sets forth certain information concerning outstanding stock and option awards as of December 31, 2011, for each named executive officer.

Name	Option Awards				Stock Awards	
	Securities Underlying Unexercised Options (#) Exercisable	Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Shares of Stock That Have Not Vested (#)	Market Value of Shares That Have Not Vested (\$)
Keith Brackpool	100,000 <sup>(1)</sup>	-	12.00	5/4/15	-	-
	133,334 <sup>(2)</sup>	66,666 <sup>(2)</sup>	11.50	1/14/20	-	-
Timothy J. Shaheen	66,667 <sup>(2)</sup>	33,333 <sup>(2)</sup>	11.50	1/14/20	-	-
Scott Slater	33,334 <sup>(2)</sup>	66,666 <sup>(2)</sup>	12.51	4/12/21	-	-
Richard E. Stoddard	100,000 <sup>(1)</sup>	-	12.00	5/4/15	-	-
	33,334 <sup>(2)</sup>	16,666 <sup>(2)</sup>	11.50	1/14/20	-	-

<sup>(1)</sup> These options were granted by the Company in 2005 under the Company's then existing Management Incentive Plan.

<sup>(2)</sup> Options granted by the Company under the 2009 Equity Incentive Plan.

### Option Exercises and Stock Vested

The following table sets forth certain information concerning stock option exercises and restricted stock vesting during 2011 for each named executive officer.

Name	Option Awards		Stock Awards	
	Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Keith Brackpool	—	—	—	—
Timothy J. Shaheen	—	—	—	—
Scott Slater	—	—	—	—
Richard E. Stoddard	—	—	—	—

### Pension Benefits

We do not have any qualified or non-qualified defined benefits plans.

## Nonqualified Deferred Compensation

We do not have any non-qualified defined contribution plans or other deferred compensation plans.

## ***Employment Arrangements***

For the fiscal year ended December 31, 2011, Mr. Brackpool was compensated under an Amended and Restated Agreement effective May 22, 2009 pursuant to which Mr. Brackpool received base compensation of \$400,000 per year, plus certain fringe benefits including the use of a leased automobile and life and disability insurance benefits funded by us. In addition, upon executing the Amended and Restated Employment Agreement in 2009, Mr. Brackpool received an immediate grant of 60,000 shares of common stock under our 2007 Management Equity Incentive Plan. The Amended and Restated Employment Agreement also provides for Mr. Brackpool's participation in a Long Term Transaction Incentive Plan in addition to allowing for his participation in other management incentive programs that the Board may adopt, including discretionary annual bonuses. The Amended and Restated Employment Agreement requires Mr. Brackpool to perform his services in a satisfactory manner, but does not require that his services be provided on a full-time basis. The agreement also provides the Company with protective covenants regarding trade secrets, non-competition, and solicitation of employees. In January 2010, Mr. Brackpool received 85,000 restricted shares of common stock pursuant to a contractual agreement not to sell any of those shares for a period of three years ending January 14, 2013, and options to purchase 200,000 shares of common stock at an exercise price of \$11.50 per share under our 2009 Equity Incentive Plan that vest 1/3 on issuance, 1/3 on January 14, 2011 and 1/3 on January 14, 2012. In January 2011, Mr. Brackpool received 100,000 restricted shares of common stock under the 2009 Equity Incentive Plan, pursuant to a contractual agreement not to sell any of these shares for a period of three years ending on January 10, 2014. In February 2012, Mr. Brackpool received a \$300,000 discretionary cash award.

Our President and General Counsel, Mr. Scott S. Slater, has served the Company since November 2008 pursuant to an agreement with the law firm Brownstein Hyatt Farber and Schreck LLP, where Mr. Slater is also a shareholder. Mr. Slater is primarily focused on the development of the Company's Water Project. Mr. Slater does not currently receive a base salary from the Company for his role as President and General Counsel. Due to the nature of the development of the Water Project, Mr. Slater's compensation from the Company has consisted of long-term incentives. In April 2011, Mr. Slater received options to purchase 100,000 shares of common stock at an exercise price of \$12.51 per share under our 2009 Equity Incentive Plan that vest 1/3 when issued, 1/3 in April 2012 and 1/3 in April 2013.

Effective November 19, 2008, Mr. Timothy J. Shaheen became our Chief Financial Officer. As of April 12, 2011, Mr. Shaheen also serves as Chairman and Chief Executive Officer of the Board of Managers of Cadiz Real Estate LLC, our subsidiary holding title to our land and water assets. Initially, his compensation for such services was \$10,000 per month, payable in addition to the compensation payable to him for his consulting services to the Company under the then existing consulting agreement between AG Derivatives, L.L.C. and the Company and the compensation he received for service in 2008 as a non-employee director under our Outside Director Compensation Plan. Mr. Shaheen is the sole member and manager of AG Derivatives, LLC. As of January 1, 2009, Mr. Shaheen was no longer eligible to participate in our Outside Director Compensation Plan and his compensation for service as our Chief Financial Officer was adjusted to enable him to receive the amount he would have otherwise received under the Outside Director Compensation Plan. Mr. Shaheen entered into a formal employment agreement with the Company effective May 22, 2009. The agreement provides for a base salary as well as Mr. Shaheen's participation in a Long Term Transaction Incentive Plan and allows for his participation in other management incentive programs that the Board may adopt, including discretionary annual bonuses. Pursuant to the agreement, Mr. Shaheen's annual base salary was \$300,000 from the effective date of this agreement until February 14, 2012, at which time it was increased to \$330,000 per annum. The agreement also provides the Company with protective covenants regarding trade secrets, non-competition, and solicitation of employees. In May 2009, Mr. Shaheen received a grant of 30,000 shares of common stock under our 2007 Management Equity Incentive Plan. In January 2010, Mr. Shaheen received 30,000 restricted shares of common stock pursuant to a contractual agreement not to sell any of those shares for a period of three years ending January 14, 2013, and options to purchase 100,000 shares of common stock at an exercise price of \$11.50 per share under our 2009 Equity Incentive Plan that vest 1/3 on issuance, 1/3 on January 14, 2011, and 1/3 on January 14, 2012. In January 2011, under the 2009 Equity Incentive Plan, Mr. Shaheen received 40,000 restricted shares of common stock pursuant to a contractual agreement not to sell any of these shares for a period of three years ending on January 10, 2014. In February 2012, Mr. Shaheen received a \$200,000 discretionary cash award.

For the fiscal year ended December 31, 2011, Mr. Stoddard was compensated in accordance with a Consulting Agreement dated August 1, 2002, and amended on January 1, 2011, pursuant to which he received \$12,500 per month. Following December 31, 2011, the terms of this Consulting Agreement will continue unless and until terminated by the Company upon not less than ninety days prior notice by either party. As part of the duties performed by Mr. Stoddard under the Consulting Agreement, Mr. Stoddard served as the Chairman and CEO of the Board of Managers of Cadiz Real Estate LLC, the subsidiary of the Company until he resigned from such position on April 12, 2011. The agreement also provides that Mr. Stoddard will participate in the Management Equity Incentive Plan and as a member of the key management team in any further equity grants considered by the Compensation Committee of the Board of Directors of the Company. In January 2010, Mr. Stoddard received options to purchase 50,000 shares of common stock at an exercise price of \$11.50 per share under our 2009 Equity Incentive Plan that vest 1/3 on issuance, 1/3 on January 14, 2011 and 1/3 on January 14, 2012.

#### ***Potential Payments upon Termination or Change in Control***

The following table and summary set forth estimated potential payments we would be required to make to our named executive officers upon termination of employment or change in control of the Company, pursuant to each executive's employment or consulting agreement in effect at year end. Except as otherwise indicated, the table assumes that the triggering event occurred on December 31, 2011.

Name	Benefit	Termination without Cause or Resignation upon Company Material Breach (\$)	Death or Disability (\$)	Termination Following Change of Control (\$)
Keith Brackpool	Salary	400,000	800,000	800,000
	Bonus	-	-	-
	Equity Acceleration	-	-	-
	Benefits Continuation <sup>(1)</sup>	85,171	-	170,342
	<b>Total Value</b>	<b>485,171</b>	<b>800,000</b>	<b>970,342</b>
Timothy J. Shaheen	Salary	165,000	165,000	330,000
	Bonus	-	-	-
	Equity Acceleration	-	-	-
	Benefits Continuation <sup>(1)</sup>	22,892	-	45,785
	<b>Total Value</b>	<b>187,892</b>	<b>165,000</b>	<b>375,785</b>
Scott Slater	Salary	-	-	-
	Bonus	-	-	-
	Equity Acceleration	-	-	-
	Benefits Continuation <sup>(1)</sup>	-	-	-
	<b>Total Value</b>	<b>-</b>	<b>-</b>	<b>-</b>
Richard E. Stoddard	Salary	-	-	-
	Bonus	-	-	-
	Equity Acceleration	-	-	-
	Benefits Continuation	-	-	-
	<b>Total Value</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> The benefits continuation amounts include car allowances, 401(k) matching benefits, life insurance and paid vacation.

#### Termination without Cause or Resignation upon Company Material Breach

Mr. Brackpool's Amended and Restated Employment Agreement, effective May 22, 2009, provides that if Mr. Brackpool were terminated by us without cause or if he resigns due to a breach of his Amended and Restated Employment Agreement by us, the Company is obligated to pay severance and continuation of benefits (to the extent such benefits could then be lawfully made available by the Company) for one year following the effective date of the termination, as though Mr. Brackpool were continuing to provide services to the Company under his Amended and Restated Employment Agreement.

Mr. Shaheen's Employment Agreement, effective May 22, 2009, provides that if Mr. Shaheen were terminated by us without cause or if he resigns due to a breach of his Employment Agreement by us, the Company is obligated to pay severance and continuation of benefits (to the extent such benefits could then be lawfully made available by the Company) for one hundred eighty days following the effective date of the termination, as though Mr. Shaheen were continuing to provide services to the Company under his Employment Agreement.

#### Termination of Employment Due to Death or Disability

Mr. Brackpool's Amended and Restated Employment Agreement, effective May 22, 2009, provides that if he dies or became disabled, he or his estate would be entitled to receive severance for two years consisting of his base compensation.

Mr. Shaheen's Employment Agreement provides that if he dies or became disabled, he or his estate would be entitled to receive severance for one hundred eighty days consisting of his base compensation.

#### Change in Control

Mr. Brackpool's Amended and Restated Employment Agreement, effective May 22, 2009, provides that if Mr. Brackpool is terminated by us following a change in control, the Company is obligated to pay severance and continuation of benefits (to the extent such benefits could then be lawfully made available by the Company) for two years following the effective date of the termination, as though Mr. Brackpool were continuing to provide services to the Company under his Amended and Restated Employment Agreement.

Mr. Shaheen's Employment Agreement, effective May 22, 2009, provides that if Mr. Shaheen is terminated by us following a change in control, the Company is obligated to pay severance and continuation of benefits (to the extent such benefits could then be lawfully made available by the Company) for one year following the effective date of the termination, as though Mr. Shaheen were continuing to provide services to the Company under his Employment Agreement.

#### **Director Compensation**

The following table summarizes the compensation earned by each of the non-employee directors in 2011. Directors who are also officers or employees of the Company receive no compensation for duties performed as a director.

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)<sup>(1)</sup></b>	<b>Option Awards (\$)<sup>(2)</sup></b>	<b>Total (\$)</b>
Stephen E. Courter	30,000	20,460	-	50,460
Stephen J. Duffy	15,000	20,460	-	35,460
Geoffrey Grant	30,000	20,460	-	50,460
Winston H. Hickox	30,000	20,460	-	50,460
Murray H. Hutchison	30,000	20,460	-	50,460
Raymond J. Pacini	30,000	20,460	-	50,460

<sup>(1)</sup> This column discloses the dollar amount of compensation cost recognized in 2011 based on the fair value at grant date in accordance with FASB ASC Topic 718. These awards were valued at the market value of the underlying stock on the date of grant in accordance with FASB ASC Topic 718.

<sup>(2)</sup> Directors of the Company do not receive stock option awards.



### ***Director Compensation Policy***

Under the Company's current compensation structure, all non-employee directors are entitled to receive, for each 12 month period ending June 30 of each year, the amount of \$30,000, prorated for directors serving less than the full 12 months. Payments are made in 4 quarterly installments of \$7,500. A director is entitled to a \$7,500 fee for any quarter in which services are rendered. Each June 30, non-employee directors are also entitled to receive a deferred stock award consisting of shares of the Company's common stock with a value equal to \$20,000 (calculated with reference to the average closing price of the Company's common stock during the one month preceding the annual award date), prorated for directors serving less than the full 12 months.

### ***Director Stock Ownership Policy***

The Company encourages stock ownership on behalf of its directors. Thus, the Company's compensation structure for non-employee directors includes awards of stock as compensation for director services. See "Director Compensation Policy", above.

### ***Compensation Committee Interlocks and Insider Participation***

In fiscal 2011, there were no Compensation Committee interlocks and no insider participation in Compensation Committee decisions that were required to be reported under the rules and regulations of the 1934 Act.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

***Security Ownership of Certain Beneficial Owners and Management***

The following table sets forth the beneficial ownership of our voting securities, as of March 7, 2012, by each stockholder who we know to own beneficially more than five percent of our common stock, and by each director, each named executive officer, and all directors and executive officers as a group, excluding, in each case, rights under options or warrants not exercisable within 60 days. All persons named have sole voting power and investment power over their shares except as otherwise noted.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Class
LC Capital Master Fund LC Capital Partners LP LC Capital Advisors LLC LC Capital International LLC Steven Lampe Richard F. Conway c/o Lampe, Conway & Co., LLC 680 Fifth Avenue, 12th Floor New York, New York 10019-5429	2,448,700 <sup>(1)</sup>	14.42%
Altima Partners LLP Mark Donegan Dominic Redfern 23 Savile Row, 6th Floor London W1S 2ET United Kingdom	1,742,640 <sup>(2)</sup>	11.09%
Zesiger Capital Group LLC 460 Park Avenue, 22nd Floor New York, New York 10022	1,636,815 <sup>(3)</sup>	10.60%
Persistency Private Equity Limited Camomille International Pte Singapore Andrew Morris 19 W. 44 <sup>th</sup> Street, Suite 312 New York, NY 10036	1,212,117 <sup>(4)</sup>	7.85%
Water Asset Management LLC 509 Madison Avenue Suite 804 New York, NY 10022	1,161,146 <sup>(5)</sup>	7.52%

Frost Gamma Investment Trust 4400 Biscayne Blvd Miami, FL 33137	788,829 <sup>(6)</sup>	5.11%
Keith Brackpool c/o 550 S. Hope St., Suite 2850 Los Angeles, CA 90071	547,436 <sup>(7)</sup>	3.48%
Timothy J. Shaheen c/o 550 S. Hope St., Suite 2850 Los Angeles, CA 90071	200,000 <sup>(8)</sup>	1.29%
Scott S. Slater c/o 550 S. Hope St., Suite 2850 Los Angeles, CA 90071	75,667 <sup>(9)</sup>	*
Murray Hutchison c/o 550 S. Hope St., Suite 2850 Los Angeles, CA 90071	17,621	*
Raymond J. Pacini c/o 550 S. Hope St., Suite 2850 Los Angeles, CA 90071	8,922	*
Winston H. Hickox c/o 550 S. Hope St., Suite 2850 Los Angeles, CA 90071	7,393	*
Geoffrey Grant c/o 550 S. Hope St., Suite 2850 Los Angeles, CA 90071	6,974	*
Stephen Courter c/o 550 S. Hope Street, Suite 2850 Los Angeles, CA 90071	4,894	*
All Directors and officers as a group (eight individuals)	868,907 <sup>(7)(8)(9)</sup>	5.46%

\* Represents less than one percent of the 15,438,961 outstanding shares of common stock of the Company as of 3/7/2012.

Footnotes

- (1) Based on Schedule 13D/A filed on November 5, 2010, with the SEC by LC Capital Master Fund Ltd., information provided by LC Capital Master Fund Ltd. and the Company's corporate records.

Includes 759,492 shares of common stock beneficially owned as of March 7, 2012 and 20,880 shares issuable upon the exercise of warrants acquired in our 2009 private placement.

As of March 7, 2012, includes 585,000 shares of common stock issuable upon conversion of \$4,550,000 in principal under our credit facility (the "Loan") at a conversion rate of \$7 per share, 150,108 shares of common stock issuable upon conversion of \$1,876,347 in principal and interest under the Loan at a conversion rate of \$12.50 per share, 543,672 shares of common stock issuable upon conversion of \$7,339,574 in principal and interest under the Loan at a conversion rate of \$13.50 per share, and 237,102 shares of common stock issuable upon conversion of \$8,298,582 in principal and interest under the Loan at a conversion rate of \$35 per share.

Does not include 57,145 shares of common stock issuable upon conversion of a maximum of an additional \$759,092 in interest which may accrue in favor of LC Capital Master Fund Ltd. during the term of the Loan, assuming no further extension of the maturity date of the Loan. Of the 57,145 shares of common stock, only 6,938 shares were beneficially owned by LC Capital Master Fund Ltd. as of March 7, 2012, as a result of common stock issuable upon conversion of interest that will have accrued within 60 days of March 7, 2012, including 1,501 shares at the conversion rate of \$12.50 per share and 5,437 shares at the conversion rate of \$13.50 per share. These 6,938 shares are included.

These securities also may be deemed to be beneficially owned by LC Capital Partners, LP ("Partners"), LC Capital Advisors LLC ("Advisors"), Lampe Conway, LC Capital International LLC ("International"), Steven G. Lampe ("Lampe") and Richard F. Conway ("Conway") by virtue of the following relationships: (i) Partners' beneficially owns one-third of the outstanding shares of the Master Fund; (ii) Advisors is the sole general partner of Partners; (iii) Lampe Conway acts as investment manager to Partners and the Master Fund pursuant to certain investment management agreements, and as a result of such agreements, Lampe Conway shares voting and dispositive power over the securities; (iv) International acts as investment advisor to the Master Fund pursuant to an investment advisory agreement and, as a result, International shares voting and dispositive power over the securities; and (v) Lampe and Conway act as the sole managing members of each of Advisors, Lampe Conway and International and are the natural persons with voting and dispositive power over these securities.

Includes 145,508 shares held by Steven G. Lampe over which he has sole voting and dispositive power. Master Fund disclaims beneficial ownership over these securities.

LC Capital and/or its affiliates have designated Mr. Stephen E. Courter, a director of the Company, as their designee on our Board of Directors.

- (2) Based upon a Schedule Form 13G/A filed on December 8, 2011 with the SEC and our corporate records of stock issuances, the listed related entities own an aggregate of 1,742,640 shares of the Company's common stock. Altima Partners has shared voting and dispositive power as to 1,294,651 shares of the stock, including 48,000 shares of stock issuable upon the exercise of warrants acquired in our October 2009 private placement. Mr. Redfern and Mr. Donegan have shared voting and dispositive power as to 1,496,118 shares of the stock, including 48,000 shares of stock issuable upon the exercise of warrants acquired in our October 2009 private placement. Mr. Donegan, has sole voting and dispositive power as to 24,300 shares. Altima Partners and Mr. Redfern disclaim beneficial ownership over these securities. Also includes 222,222 shares of stock issuable upon exercise of warrants acquired by affiliates of Altima Partners in our November 2011 private placement.

- (3.) Based upon a Schedule Form 13G/A filed on February 1, 2012 with the SEC, Zesiger Capital Group LLC owns an aggregate of 1,636,815 shares of the Company's common stock and has sole voting power as to 1,205,482 shares and sole dispositive power as to 1,636,815 shares. Pursuant to this Schedule 13G/A, Zesiger Capital Group LLC disclaims beneficial ownership of such securities, which are held in discretionary accounts which Zesiger Capital Group LLC manages. No single client owns more than 5% of the securities.
- (4.) Based upon a Schedule Form 13G/A filed on February 14, 2012, with the SEC and our corporate records of stock issuances, the listed related entities own an aggregate of 1,212,117 shares of the Company's common stock. Persistency Private Equity Limited and Camomille International Pte Singapore have shared voting and dispositive power as to 1,183,465 shares and Andrew Morris, the Managing Member of Persistency Capital, LLC, has sole voting and dispositive power as to 28,652 shares. Persistency Private Equity Limited and Camomille International Pte Singapore disclaim beneficial ownership over these securities.
- (5.) Based upon a Schedule Form 13G/A filed on December 27, 2011 with the SEC and our corporate records of stock issuances, Water Asset Management LLC owns an aggregate of 1,161,146 shares of the Company's common stock. Water Asset Management LLC has dispositive power over the 1,161,146 shares and voting power over 489,164 shares.
- (6.) Based upon a Schedule 13G/A filed on February 8, 2012 with the SEC, Frost Gamma Investment Trust beneficially owns 788,829 shares of the Company's common stock and has sole voting and dispositive power as to the stock.
- (7.) Includes 85,000 shares issued under the 2009 Equity Incentive Plan, which Mr. Brackpool has a contractual agreement not to sell for a period of three years ending January 14, 2013, and 100,000 shares issued under the 2009 Equity Incentive Plan, which Mr. Brackpool has a contractual agreement not to sell for a period of three years ending January 10, 2014. Includes 300,000 shares underlying presently exercisable options.
- (8.) Includes 30,000 shares issued under the 2009 Equity Incentive Plan for which Mr. Shaheen has a contractual agreement not to sell for a period of three years ending January 14, 2013, and 40,000 shares issued under the 2009 Equity Incentive Plan, which Mr. Shaheen has a contractual agreement not to sell for a period of three years ending January 10, 2014. Also includes 100,000 shares underlying presently exercisable options.
- (9.) Includes 33,334 shares underlying presently exercisable options and 33,333 options, which will vest on April 12, 2012. Does not include 33,333 options, which will vest on April 12, 2013.

### Equity Compensation Plan Information

The following table provides information as of December 31, 2011, with respect to shares of our common stock that may be issued under our existing compensation plans:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by stockholders	547,500 <sup>(1)</sup>	\$11.69	48,513 <sup>(2)</sup>
Equity compensation plans not approved by stockholders	315,000 <sup>(3)</sup>	\$12.09	0
<b>Total</b>	<b>862,500</b>	<b>\$11.84</b>	<b>48,513</b>

<sup>(1)</sup> Represents 10,000 options outstanding under our 2007 Management Equity Incentive Plan and 537,500 options outstanding under our 2009 Equity Incentive Plan as of December 31, 2011.

<sup>(2)</sup> Represents 48,513 securities issuable under our 2009 Equity Incentive Plan as of December 31, 2011.

<sup>(3)</sup> Represents 315,000 options outstanding under our 2003 Management Equity Incentive Plan as of December 31, 2011.

### ITEM 13. Certain Relationships and Related Transactions, and Director Independence

#### Certain Relationships and Related Transactions

There have been no transactions during our last fiscal year with our directors and officers and beneficial owners of more than five percent of our voting securities and their affiliates requiring disclosure, except for the following:

As previously reported in our Form 8-K filed July 11, 2011, on July 8, 2011 we sold 363,636 shares of Common Stock to three institutional buyers (including 18,182 shares to Zesiger Capital Group, LLC., a holder of more than 5% of our Common Stock), at the price of \$11 per share for total proceeds of \$4,000,000. The shares were registered with the Securities and Exchange Commission pursuant to the Company's shelf registration statement

As previously reported in our Form 8-K filed December 1, 2011, on November 30, 2011 we completed a direct private placement with affiliates of Altima Partners LLP (collectively, "Altima"), a holder of more than 5% of our Common Stock, pursuant to which we issued 666,667 shares of Common Stock at a price of \$9 per share for aggregate proceeds of \$6,000,000. For every three shares of Common Stock issued, Altima received one Common Stock purchase warrant entitling the holder to purchase, commencing 90 days from the date of issuance and prior to December 8, 2014, one share of Common Stock at an exercise price of \$13 per share.

As previously reported in our Form 8-K filed December 15, 2011, on December 14, 2011 we sold 570,000 shares of Common Stock to two institutional buyers (including 70,000 shares to Zesiger Capital Group, LLC., a holder of more than 5% of our Common Stock), at the price of \$9 per share for total proceeds of \$5,130,000. The shares were registered with the Securities and Exchange Commission pursuant to the Company's shelf registration statement.

#### ***Policies and Procedures with Respect to Related Party Transaction***

Our Audit Committee Charter requires that the Audit Committee review and approve all related-party transactions between the Company, on the one hand, and directors, officers, employees, consultants, and any of their family members, on the other hand. In addition, our written Conflicts of Interest policy provides that no employee, officer or director may use or attempt to use his or her position at the Company to obtain any improper personal benefit for himself or herself, for his or her family, or for any other person.

In order to implement these requirements, the Company requires that prior to entering into any transaction with the Company a related party must advise Company management of the potential transaction. Management will, in turn, provide to the Audit Committee a description of the material terms of the transaction, including the dollar amount, the nature of the related party's direct or indirect interest in the transaction, and the benefits to be received by the Company from the transaction. The Audit Committee may make such other investigations as it considers appropriate under the circumstances. The Audit Committee will also consider whether the benefits of the proposed transaction could be obtained by the Company upon better terms from non-related parties, and whether the transaction is one that would be reportable by the Company in its public filings. The Audit Committee will then make a determination as to whether the proposed transaction is in the best interests of the Company and should therefore be approved.

#### ***Director Independence***

Messrs. Courter, Grant, Hickox, Hutchison and Pacini have all been affirmatively determined by the Board to be "independent" under all relevant securities and other laws and regulations, including those set forth in SEC and regulations and pertinent listing standards of the NASDAQ Global Market, as in effect from time to time. Mr. Grant was a principal of an entity which, until April 2008, held our primary secured credit facility. However, no payments have been made by us to this entity since April 2008, when this entity assigned its interest in the credit facility to a third party. As no payments have been made to this entity within our past three fiscal years, Mr. Grant currently meets all of the requirements necessary to qualify as "independent."

The Company's independent directors meet routinely in executive session without the presence of management. The Company does not have a lead independent director.

#### ***Independence of Committee Members***

The Board maintains three committees, namely, the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee. The Board has determined that all members of its committees are independent.

#### **ITEM 14. Principal Accounting Fees and Services**

For the fiscal years ended December 31, 2011 and 2010, professional services were performed by PricewaterhouseCoopers LLP. The Company's Audit Committee annually approves the engagement of outside auditors for audit services in advance. The Audit Committee has also established complementary procedures to require pre-approval of all audit-related, tax and permitted non-audit services provided by PricewaterhouseCoopers LLP, and to consider whether the outside auditors' provision of non-audit services to the Company is compatible with maintaining the independence of the outside auditors. The Audit Committee may delegate pre-approval authority to one or more of its members. Any such fees pre-approved in this manner shall be reported to the Audit Committee at its next scheduled meeting. All services described below were pre-approved by the audit committee.

All fees for services rendered by PricewaterhouseCoopers LLP aggregated \$321,000 and \$263,000 during the fiscal years ended December 31, 2011 and 2010, respectively, and were composed of the following:

**Audit Fees.** The aggregate fees accrued by the Company for the audit of the annual financial statements during the fiscal years ended December 31, 2011 and 2010, for reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q, and for assistance with and review of documents filed with the SEC were \$321,000 for 2011 and \$263,000 for 2010.

**Audit Related Fees.** No audit-related fees were billed by PricewaterhouseCoopers LLP to the Company during the fiscal years ended December 31, 2011 and 2010.

**Tax Fees.** No tax fees were billed by PricewaterhouseCoopers LLP to the Company during the fiscal years ended December 31, 2011 and 2010.

**All Other Fees.** No other fees were billed during the fiscal years ended December 31, 2011 and 2010.



## **PART IV**

### **ITEM 15. Exhibits, Financial Statement Schedules**

1. Financial Statement. See Index to Consolidated Financial Statements.
2. Financial Statement Schedule. See Index to Consolidated Financial Statements.
3. Exhibits.

The following exhibits are filed or incorporated by reference as part of this Form 10-K.

- 3.1 Cadiz Certificate of Incorporation, as amended <sup>(1)</sup>
- 3.2 Amendment to Cadiz Certificate of Incorporation dated November 8, 1996 <sup>(2)</sup>
- 3.3 Amendment to Cadiz Certificate of Incorporation dated September 1, 1998 <sup>(3)</sup>
- 3.4 Amendment to Cadiz Certificate of Incorporation dated December 15, 2003 <sup>(4)</sup>
- 3.5 Certificate of Elimination of Series D Preferred Stock, Series E-1 Preferred Stock and Series E-2 Preferred Stock of Cadiz Inc. dated December 15, 2003 <sup>(4)</sup>
- 3.6 Certificate of Elimination of Series A Junior Participating Preferred Stock of Cadiz Inc., dated March 25, 2004 <sup>(4)</sup>
- 3.7 Amended and Restated Certificate of Designations of Series F Preferred Stock of Cadiz Inc. <sup>(5)</sup>
- 3.8 Cadiz Bylaws, as amended <sup>(6)</sup>
- 3.9 Second Amended and Restated Certificate of Designations of Series F Preferred Stock of Cadiz Inc. dated June 30, 2006, as corrected by Certificate of Correction dated March 14, 2007 <sup>(13)</sup>
- 3.10 Certificate of Elimination of Series F Preferred Stock of Cadiz Inc. (as filed August 3, 2007) <sup>(15)</sup>
- 4.1 Form of Subscription Agreement used for issuance of Units in October and November 2009 <sup>(7)</sup>
- 4.2 Form of Warrant Agreement <sup>(7)</sup>
- 10.1 Limited Liability Company Agreement of Cadiz Real Estate LLC dated December 11, 2003 <sup>(4)</sup>

- 10.2 Amendment No. 1, dated October 29, 2004, to Limited Liability Company Agreement of Cadiz Real Estate LLC <sup>(8)</sup>
- 10.3 Consulting Agreement dated August 1, 2002 by and between Richard Stoddard and Cadiz Inc., and Extension of Consulting Agreement dated January 1, 2004 by and between Richard Stoddard and Cadiz Inc. <sup>(8)</sup>
- 10.4 Settlement Agreement dated as of August 11, 2005 by and between Cadiz Inc., on the one hand, and Sun World International, Inc., Sun Desert, Inc., Coachella Growers and Sun World/Rayo, on the other hand <sup>(9)</sup>
- 10.5 \$36,375,000 Credit Agreement among Cadiz Inc. and Cadiz Real Estate LLC, as Borrowers, the Several Lenders from time to time parties thereto, and Peloton Partners LLP, as Administrative Agent, dated as of June 26, 2006<sup>(10)</sup>
- 10.6 Amendment No. 1 dated September 29, 2006 to the \$36,375,000 Credit Agreement among Cadiz Inc. and Cadiz Real Estate LLC, as Borrowers, the Several Lenders from time to time parties thereto and Peloton Partners LLP, as Administrative Agent, dated as of June 26, 2006<sup>(11)</sup>
- 10.7 Outside Director Compensation Plan<sup>(12)</sup>
- 10.8 Resolutions adopted by the Cadiz Inc. Board of Directors on March 13, 2007, increasing the monthly consulting fees paid to Richard E. Stoddard<sup>(13)</sup>
- 10.9 2007 Management Equity Incentive Plan<sup>(14)</sup>
- 10.10 Amendment No. 2 dated October 1, 2007 to Reorganization Plan and Agreement for Purchase and Sale of Assets dated as of February 18, 1998 among Cadiz Inc. and Mark A. Liggett in his capacity as successor in interest to Exploration Research Associates, Incorporated., a California corporation (“ERA”) and in his individual capacity as former sole shareholder of ERA and as the successor in interest to ERA <sup>(16)</sup>
- 10.11 Longitudinal Lease Agreement dated September 17, 2008 between Arizona & California Railroad Company and Cadiz Real Estate, LLC <sup>(17)</sup>
- 10.12 Amended and Restated Employment Agreement between Keith Brackpool and Cadiz Inc. dated May 22, 2009 <sup>(18)</sup>
- 10.13 Employment Agreement between Timothy J. Shaheen and Cadiz Inc. dated May 22, 2009 <sup>(18)</sup>

- 10.14 Amendment No. 2 to the Credit Agreement among Cadiz Inc. and Cadiz Real Estate LLC, as Borrowers, the Several Lenders from time to time parties thereto, and LC Capital Master Fund Ltd., as Administrative Agent, dated as of June 4, 2009 <sup>(19)</sup>
- 10.15 2009 Equity Incentive Plan<sup>(20)</sup>
- 10.16 Services and Exclusivity Agreement with Layne Christensen Company dated November 2, 2009, as amended by amendments dated January 4, 2010, January 27, 2010<sup>(21)</sup>
- 10.17 Form of Option Agreement with Santa Margarita Water District<sup>(22)</sup>
- 10.18 Form of Environmental Processing and Cost Sharing Agreement with Santa Margarita Water District<sup>(22)</sup>
- 10.19 Form of Environmental Processing and Cost Sharing Agreement with Three Valleys Municipal Water District<sup>(22)</sup>
- 10.20 Option Agreement with Golden State Water Company dated June 25, 2010<sup>(23)</sup>
- 10.21 Option Agreement with Suburban Water Systems dated October 4, 2010<sup>(24)</sup>
- 10.22 Amendment No. 3 to the Credit Agreement and Amendment No. 2 to the Registration Rights Agreement among Cadiz Inc. and Cadiz Real Estate LLC, as Borrowers, the Several Lenders from time to time parties thereto, and LC Capital Master Fund Ltd., as Administrative Agent, dated as of October 19, 2010<sup>(25)</sup>
- 10.23 Amendment No. 3 to the Services and Exclusivity Agreement with Layne Christensen Company dated April 8, 2010 <sup>(26)</sup>
- 10.24 Amendment to Consulting Agreement with Richard E. Stoddard dated January 1, 2011 <sup>(26)</sup>
- 10.25 Letter agreement with Scott S. Slater dated April 12, 2011 <sup>(27)</sup>
- 10.26 Amendment No. 4 to the Credit Agreement among Cadiz Inc. and Cadiz Real Estate LLC, as Borrowers, the Several Lenders from time to time parties thereto, and LC Capital Master Fund Ltd., as Administrative Agent, dated July 25, 2011 <sup>(28)</sup>
- 10.27 Option Agreement with California Water Service Company dated December 1, 2011 <sup>(29)</sup>
- 10.28 Option Agreement with Questar Southern Trails Pipeline Company dated August 12, 2011

- 10.29 Option Agreement for Purchase of Line No. 1904 Facilities with El Paso Natural Gas Company dated September 8, 2011, as amended by amendment dated February 8, 2012
- 10.30 Addendum to Employment Agreement between Timothy J. Shaheen and Cadiz Inc. dated February 14, 2012
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Independent Registered Public Accounting Firm
- 31.1 Certification of Keith Brackpool, Chairman and Chief Executive Officer of Cadiz Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Timothy J. Shaheen, Chief Financial Officer and Secretary of Cadiz Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Keith Brackpool, Chairman and Chief Executive Officer of Cadiz Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Timothy J. Shaheen, Chief Financial Officer and Secretary of Cadiz Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Previously filed as an Exhibit to our Registration Statement of Form S-1 (Registration No. 33-75642) declared effective May 16, 1994 filed on February 23, 1994
  - (2) Previously filed as an Exhibit to our Report on Form 10-Q for the quarter ended September 30, 1996 filed on November 14, 1996
  - (3) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 filed on November 13, 1998
  - (4) Previously filed as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 2003 filed on November 2, 2004
  - (5) Previously filed as an Exhibit to our Current Report on Form 8-K dated November 30, 2004 filed on December 2, 2004
  - (6) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 filed on August 13, 1999
  - (7) Previously filed as an Exhibit to our Registration Statement on Form S-3 (Registration No. 333-163321) filed on November 24, 2009
  - (8) Previously filed as an Exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed on March 31, 2005
  - (9) Previously filed as an Exhibit to our Report on Form 10-Q for the quarter ended September 30, 2005 filed on November 14, 2005
  - (10) Previously filed as an Exhibit to our Registration Statement on Form S-3 (Registration No. 333-126117) filed on July 28, 2006

- (11) Previously filed as an Exhibit to our Current Report on Form 8-K dated October 4, 2006 and filed October 4, 2006
- (12) Previously filed as Appendix B to our Definitive Proxy dated October 10, 2006 and filed on October 10, 2006
- (13) Previously filed as an Exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed on March 16, 2007
- (14) Previously filed as Appendix A to our Definitive Proxy dated April 27, 2007 and filed April 27, 2007
- (15) Previously filed as an Exhibit to our Report on Form 10-Q for the quarter ended June 30, 2007 filed on August 6, 2007
- (16) Previously filed as an Exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed on March 14, 2008
- (17) Previously filed as an Exhibit to our Report on Form 10-Q for the quarter ended September 30, 2008 filed on November 10, 2008
- (18) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, filed on August 10, 2009
- (19) Previously filed as an Exhibit to the Post-Effective Amendment No. 1 to our Registration Statement on Form S-3 (Registration No. 333-136117) filed on August 3, 2009
- (20) Previously filed as Appendix A to our Definitive Proxy dated November 3, 2009, and filed on November 5, 2009
- (21) Previously filed as an Exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed on March 15, 2010
- (22) Previously filed as an Exhibit to our Current Report on Form 8-K dated June 23, 2010 and filed on June 24, 2010
- (23) Previously filed as an Exhibit to our Current Report on Form 8-K dated June 25, 2010 and filed on June 28, 2010
- (24) Previously filed as an Exhibit to our Current Report on Form 8-K dated October 4, 2010 and filed on October 7, 2010
- (25) Previously filed as an Exhibit to our Current Report on Form 8-K dated October 19, 2010 and filed on October 20, 2010
- (26) Previously filed as an Exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed on March 16, 2011
- (27) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed on May 9, 2011
- (28) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed on August 8, 2011
- (29) Previously filed as an Exhibit to our Current Report on Form 8-K dated December 1, 2011, and filed on December 7, 2011

*Index to Financial Statements***CADIZ INC. CONSOLIDATED FINANCIAL STATEMENTS**

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(Schedules other than those listed above have been omitted since they are either not required, inapplicable, or the required information is included on the financial statements or notes thereto.)

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Cadiz, Inc:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Cadiz, Inc. and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

March 15, 2012



**Consolidated Statements of Operations**

<b>(In thousands, except per share data)</b>	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Total revenues	\$ 1,019	\$ 1,023	\$ 808
Costs and expenses:			
Cost of sales (exclusive of depreciation shown below)	1,441	927	1,102
General and administrative	10,447	10,801	9,445
Depreciation	365	344	342
Total costs and expenses	12,253	12,072	10,889
Operating loss	(11,234)	(11,049)	(10,081)
Interest expense, net	(5,704)	(4,734)	(4,314)
Other Income (expense), net	108	(110)	-
Net loss before income taxes	(16,830)	(15,893)	(14,395)
Income tax expense	7	6	4
Net loss applicable to common stock	\$ (16,837)	\$ (15,899)	\$ (14,399)
Basic and diluted net loss per share	\$ (1.20)	\$ (1.16)	\$ (1.13)
Weighted-average shares outstanding	14,082	13,672	12,722

See accompanying notes to the consolidated financial statements.

**Consolidated Balance Sheets**

<b>(\$ in thousands)</b>	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,370	\$ 5,911
Accounts receivable	139	277
Prepaid expenses and other	604	299
Total current assets	<u>12,113</u>	<u>6,487</u>
Property, plant, equipment and water programs, net	41,886	38,315
Goodwill	3,813	3,813
Other assets	<u>186</u>	<u>321</u>
Total assets	<u>\$ 57,998</u>	<u>\$ 48,936</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,069	\$ 358
Accrued liabilities	1,049	1,518
Tax liability	321	-
Current portion of long term debt	<u>4</u>	<u>16</u>
Total current liabilities	2,443	1,892
Long-term debt	52,032	44,403
Derivative liabilities	-	451
Deferred revenue	670	-
Tax liability	-	321
Other long-term liabilities	<u>923</u>	<u>923</u>
Total liabilities	56,068	47,990
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock - \$0.01 par value; 70,000,000 shares		
Authorized; shares issued and outstanding: 15,429,541 at		
December 31, 2011, and 13,677,772 at December 31, 2010	154	137
Additional paid-in capital	300,163	282,359
Accumulated deficit	<u>(298,387)</u>	<u>(281,550)</u>
Total stockholders' equity	1,930	946
Total liabilities and stockholders' equity	<u>\$ 57,998</u>	<u>\$ 48,936</u>

See accompanying notes to the consolidated financial statements.

**Consolidated Statements of Cash Flows**

(\$ in thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net loss	\$ (16,837)	\$ (15,899)	\$ (14,399)
Adjustments to reconcile net loss to net cash Used for operating activities:			
Depreciation	365	344	342
Amortization of deferred loan costs	72	42	56
Amortization of debt discount	2,372	1,918	1,937
Interest added to loan principal	3,261	2,782	2,356
Unrealized (gain) loss on derivative liability	(108)	110	-
Compensation charge for stock awards and share options	2,376	4,009	2,273
Issuance of stock for services	-	-	500
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	138	(102)	(109)
(Increase) decrease in prepaid expenses and other	(305)	63	145
Decrease in other assets	63	220	194
Increase (decrease) in accounts payable	304	(141)	252
Increase (decrease) in accrued liabilities	285	(107)	(30)
Increase in tax liability	-	-	105
Increase in deferred revenue	500	-	-
Net cash used for operating activities	<u>(7,514)</u>	<u>(6,761)</u>	<u>(6,378)</u>
Cash flows from investing activities:			
Additions to property, plant and equipment	(4,140)	(1,184)	(119)
Proceeds from sale of marketable securities	-	-	4,500
Net cash (used for) provided by investing activities	<u>(4,140)</u>	<u>(1,184)</u>	<u>4,381</u>
Cash flows from financing activities:			
Net proceeds from issuance of common stock	15,129	-	8,835
Proceeds from issuance of long-term debt	2,000	5,000	46
Principal payments on long-term debt	(16)	(22)	(20)
Net cash provided by financing activities	<u>17,113</u>	<u>4,978</u>	<u>8,861</u>
Net increase (decrease) in cash and cash equivalents	5,459	(2,967)	6,864
Cash and cash equivalents, beginning of period	<u>5,911</u>	<u>8,878</u>	<u>2,014</u>
Cash and cash equivalents, end of period	<u>\$ 11,370</u>	<u>\$ 5,911</u>	<u>\$ 8,878</u>

See accompanying notes to the consolidated financial statement.

*Consolidated Statements of Stockholders' Equity*

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2008	12,453,210	\$ 125	\$ 263,533	\$ (251,252)	\$ 12,406
Issuance of shares pursuant to stock awards	147,026	1	-	-	1
Issuance of shares pursuant to warrant exercises and Private Placement	841,449	8	8,827	-	8,835
Issuance of common stock for services	59,312	1	499	-	500
Convertible term loan conversion option	-	-	1,617	-	1,617
Stock compensation expense	-	-	2,273	-	2,273
Net loss	-	-	-	(14,399)	(14,399)
Balance as of December 31, 2009	13,500,997	\$ 135	\$ 276,749	\$ (265,651)	\$ 11,233
Issuance of shares pursuant to stock awards	176,775	2	-	-	2
Convertible term loan conversion option	-	-	1,603	-	1,603
Stock compensation expense	-	-	4,007	-	4,007
Net loss	-	-	-	(15,899)	(15,899)
Balance as of December 31, 2010	13,677,772	\$ 137	\$ 282,359	\$ (281,550)	\$ 946
Issuance of shares pursuant to stock awards	151,466	1	-	-	1
Issuance of shares pursuant to Private Placement and Shelf Takedown	1,600,303	16	15,113	-	15,129
Convertible term loan conversion option	-	-	343	-	343
Stock compensation expense	-	-	2,348	-	2,348
Net Loss	-	-	-	(16,837)	(16,837)
Balance as of December 31, 2011	15,429,541	154	300,163	(298,387)	1,930

See accompanying notes to the consolidated financial statements.

*Notes To The Consolidated Financial Statements***NOTE 1 – DESCRIPTION OF BUSINESS**

Our primary asset consists of 45,000 acres of land in three areas of eastern San Bernardino County, California. Virtually all of this land is underlain by high-quality, naturally recharging groundwater resources, and is situated in proximity to the Colorado River and the Colorado River Aqueduct, the major source of imported water for Southern California. Our main objective is to realize the highest and best use of these land and water resources in an environmentally responsible way.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Under the terms of the agreements with the six water providers, upon completion of the Water Project’s CEQA review, each agency will have the right to acquire an annual supply of 5,000 acre-feet of water at a pre-determined formula competitive with their incremental cost of new water. SMWD also was given the option to purchase an additional 10,000 acre-feet of water per year. In addition, the agencies have options to acquire storage rights in the Water Project to allow them to manage their supplies to complement their other water resources.

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

## *(3) Environmental Permits*

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

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

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

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

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

Following the close of the comment period, a Final Environmental Impact Report (“Final EIR”) will be compiled responding to public comments. Once complete, the Final EIR will be brought to the SMWD Board of Directors for certification and Project approval. Following the completion of all environmental requirements, construction of Project facilities would begin.

#### *(4) Construction and Working Capital*

Once the environmental review is concluded, we expect that we will complete economic agreements with the Water Project participants and make arrangements for the construction phase of the Water Project. As described above, construction would primarily consist of well-field facilities at the Water Project site, a conveyance pipeline extending approximately 43 miles along the right-of-way described in (1), above, from the well-field to the Colorado River Aqueduct (“CRA”), and an energy source to pump water through the conveyance pipeline between the Project well-field and the CRA.



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

In addition to the development projects described above, we believe that over the longer-term, the population of Southern California, Nevada, and Arizona will continue to grow, and that, in time, the economics of commercial and residential development of our properties will become attractive.

We remain committed to the ongoing 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.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***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 \$16.8 million, \$15.9 million and \$14.4 million for the years ended December 31, 2011, 2010 and 2009, respectively. The Company had working capital of \$9.7 million at December 31, 2011, and used cash in operations of \$7.5 million for the year ended December 31, 2011. Currently, the Company's sole focus is the development of its land and water assets.

In June 2006, the Company raised \$36.4 million through the private placement of a five year zero coupon convertible term loan with Peloton Partners LLP ("Peloton"), as administrative agent, and an affiliate of Peloton and another investor, as lenders (the "Term Loan"). The proceeds of the new term loan were partially used to repay the Company's prior term loan facility with ING Capital LLC ("ING"). On April 16, 2008, the Company was advised that Peloton's interest in the Term Loan had been assigned to an affiliate of Lampe, Conway & Company LLC ("Lampe Conway"), and Lampe Conway subsequently replaced Peloton as administrative agent of the loan. On June 4, 2009, the Company completed arrangements to amend the Term Loan as to certain of its conversion features and extend its maturity to June of 2013. This facility was further modified as to certain of its conversion features on October 19, 2010, in connection with a new \$10 million working capital facility with the existing lenders.

In October and November 2009, the Company raised \$7.1 million in a private placement of 226,200 Units at \$31.50 per Unit. This includes 20,880 Units purchased by the Lenders of the Term Loan pursuant to the Lenders' Participation Rights under the Term Loan. Each Unit consists of three (3) shares of the Company's Common Stock, par value \$.01 per share (the "Common Stock") and one (1) stock purchase warrant. The warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$15 per share. The warrant has a term of three (3) years, but is callable by the Company at any time following November 1, 2010, if the closing market price of the Company's common stock exceeds \$22.50 for 10 consecutive trading days.

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

On November 30, 2011, the Company raised \$6 million in a private placement of 666,667 shares of Common Stock at a price of \$9 per share. For every three (3) shares of Common Stock issued, the Company issued (1) Common Stock purchase warrant (collectively, the "Warrants") entitling the holder to purchase, commencing 90 days from the date of the issuance and prior to December 8, 2014, one (1) share of Common Stock at an exercise price of \$13 per share. On December 14, 2011, the Company sold 570,000 shares of Common Stock from its existing shelf registration at a price of \$9 per share for total proceeds of \$5.1 million. The proceeds from these two transactions provide the Company with sufficient funds to meet expected working capital needs for the next 12 months.

Based on our current and anticipated usage of cash resources, we will require additional working capital commencing during the first quarter of fiscal 2013 to meet our cash resource needs from that point forward, and to continue to finance our operations until such time as our asset development programs produce revenue. If the Company is unable to generate this from its current development activities, then it will need to seek additional financing in the capital markets.

Payments will be due under the Term Loan only to the extent that the Lenders elect not to exercise equity conversion rights prior to the Term Loan's final maturity date of June 2013. We currently expect to satisfy amounts due under the Term Loan through one or more of (a) equity conversion pursuant to the terms outlined in Note 6, "Long-Term Debt"; (b) construction financing associated with the Water Project; (c) cash generated from further development of our other properties, such as a mitigation bank; and (d) debt or equity financing in the capital markets.

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 or equity linked securities to raise funds, the ownership percentage of the Company's existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If the Company cannot raise needed funds, it might be forced to make 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.

### ***Principles of Consolidation***

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

### ***Use of Estimates in Preparation of Financial Statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, management has made estimates with regard to goodwill and other long-lived assets, stock compensation and deferred tax assets. Actual results could differ from those estimates.

### ***Revenue Recognition***

The Company recognizes crop sale revenue upon shipment and transfer of title to customers.

### ***Stock-Based Compensation***

General and administrative expenses include \$2.4 million, \$4.0 million and \$2.3 million of stock based compensation expenses in the years ended December 31, 2011, 2010 and 2009, respectively.

The Company applies the Black-Scholes valuation model in determining the fair value of options granted to employees and consultants. For employees, the fair value is then amortized on a straight-line basis over the requisite service period. For consultants, the fair value is remeasured at each reporting period and recorded as a liability until the award is settled.

ASC 718 also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation as opposed to only recognizing forfeitures and the corresponding reduction in expense as they occur. The remaining vesting periods are relatively short, and the potential impact of forfeitures is not material. The Company is in a tax loss carryforward position and is not expected to realize a benefit from any additional compensation expense recognized under ASC 718. See Note 7, "Income Taxes".

### ***Net Loss Per Common Share***

Basic Earnings Per Share (EPS) is computed by dividing the net loss by the weighted-average common shares outstanding. Options, deferred stock units, warrants, and the zero coupon term loan convertible into or exercisable for certain shares of the Company's common stock were not considered in the computation of diluted EPS because their inclusion would have been antidilutive. Had these instruments been included, the fully diluted weighted average shares outstanding would have increased by approximately 2,655,000 shares, 2,423,000 shares and 2,420,000 shares for the years ended December 31, 2011, 2010 and 2009, respectively.

### ***Cash and Cash Equivalents***

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

### ***Property, Plant, Equipment and Water Programs***

Property, plant, equipment and water programs are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally ten to forty-five years for land improvements and buildings, and five to fifteen years for machinery and equipment. Leasehold improvements are depreciated over the shorter of the term of the relevant lease agreement or the estimated useful life of the asset.

Water rights, storage and supply programs are stated at cost. Certain costs directly attributable to the development of such programs have been capitalized by the Company. These costs, which are expected to be recovered through future revenues, consist of direct labor, drilling costs, consulting fees for various engineering, hydrological, environmental and feasibility studies, and other professional and legal fees. While interest on borrowed funds is currently expensed, interest costs related to the construction of project facilities will be capitalized at the time construction of these facilities commences.

### ***Goodwill and Other Assets***

As a result of a merger in May 1988 between two companies which eventually became known as Cadiz Inc., goodwill in the amount of \$7,006,000 was recorded. Approximately \$3,193,000 of this amount was amortized prior to the adoption of ASC 350 on January 1, 2002. Since the adoption of ASC 350, there have been no historical goodwill impairments recorded.

	<b>Amounts (in thousands)</b>
Balance at December 31, 2009	\$ 3,813
Adjustments	<u>-</u>
Balance at December 31, 2010	3,813
Adjustments	<u>-</u>
Balance at December 31, 2011	<u><u>\$ 3,813</u></u>

Deferred loan costs represent costs incurred to obtain debt financing. Such costs are amortized over the life of the related loan. At December 31, 2011, the deferred loan fees relate to the zero coupon secured convertible term loan with Lampe Conway, as described in Note 6, "Long-Term Debt".

### ***Impairment of Goodwill and Long-Lived Assets***

The Company assesses long-lived assets, excluding goodwill, for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable through the estimated undiscounted future cash flows resulting from the use of the assets. If it is determined that the carrying value of long-lived assets may not be recoverable, the impairment is measured by using the projected discounted cash-flow method. The Company reevaluates the carrying value of its water program annually.

The Company tests goodwill for impairment annually as of December 31st, or more frequently if events or circumstances indicate carrying values may not be recoverable, using the market method, as well as the discounted cash-flow method.

The Company uses a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any) for the Company. The step 1 calculation, used to identify potential impairment, compares the estimated fair value of the Company to its net carrying value (book values), including goodwill, on the measurement date. If the fair value of the Company is less than its carrying value, step 2 of the impairment test is required to measure the amount of the impairment loss (if any).

The step 2 calculation of the impairment test compares the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill represents the excess of the estimated fair value above the fair value of the Company's identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill). The determination of the fair value of its assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date).

### ***Income Taxes***

Income taxes are provided for using an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

### ***Fair Value of Financial Instruments***

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and accrued liabilities due to their short-term nature. The carrying value of the Company's debt approximates fair value, based on interest rates available to the Company for debt with similar terms. See Note 6, "Long-Term Debt", for discussion of fair value of debt.

### ***Supplemental Cash Flow Information***

No cash payments, including interest, are due on the loan with Lampe Conway prior to the June 29, 2013, final maturity date.

The Company recorded non-cash additions to fixed assets of \$1,826,000, \$1,276,000 and \$1,166,000 at December 31, 2011, 2010 and 2009, respectively, which were accrued at the respective year ends, for the costs directly attributable to the development of the Water Project.

Cash payments for income taxes were \$6,500, \$6,400, and \$4,000 in the years ended December 31, 2011, 2010, and 2009, respectively.

**Recent Accounting Pronouncements**

In December 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-28, an accounting pronouncement related to Accounting Standards Codification Topic 350, *Intangibles – Goodwill and Other*, which requires a company to consider whether there are any adverse qualitative factors indicating that an impairment may exist in performing step 2 of the impairment test for reporting units with zero or negative carrying amounts. The provisions of this pronouncement are effective for fiscal years, and interim periods within those fiscal years, beginning December 15, 2010. The Company adopted this pronouncement on January 1, 2011. The adoption of this pronouncement has no impact on the Company’s financial position and results of operations.

In September 2011, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2011-08, *Testing Goodwill for Impairment* which permits an entity to first assess qualitative factors to determine whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. ASU 2011-08 will be effective for the Company for the fiscal years beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-08 to have a material effect on its operating results or financial position.

**NOTE 3 – PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS**

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

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Land and land improvements	\$ 24,188	\$ 23,680
Water programs	18,914	15,496
Buildings	1,187	1,180
Leasehold improvements	570	570
Furniture and fixtures	458	442
Machinery and equipment	997	950
Construction in progress	103	163
	<u>46,417</u>	<u>42,481</u>
Less accumulated depreciation	<u>(4,531)</u>	<u>(4,166)</u>
	<u>\$ 41,886</u>	<u>\$ 38,315</u>

Depreciation expense during the years ended December 31, 2011, 2010 and 2009 was approximately \$365,000, \$344,000, and \$342,000.

**NOTE 4 – OTHER ASSETS**

Other assets consist of the following (dollars in thousands):

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Deferred loan costs, net	\$ 148	\$ 251
Prepaid rent	31	-
Security deposits	7	70
	<u>\$ 186</u>	<u>\$ 321</u>

Deferred loan costs consist of legal and other fees incurred to obtain debt financing. Amortization of deferred loan costs was approximately \$72,000, \$42,000, and \$56,000 in 2011, 2010 and 2009, respectively. Prepaid rent consists of rental and other fees incurred to obtain the right-of-way for the Water Project water conveyance pipeline, as discussed in Note 1, “Description of Business”. Amortization of prepaid rent was approximately \$136,000, \$32,000 and \$194,000 in 2011, 2010 and 2009, respectively.

**NOTE 5 – ACCRUED LIABILITIES**

Accrued liabilities consist of the following (dollars in thousands):

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Payroll, bonus, and benefits	\$ 150	\$ 114
Well-field, environmental studies, legal and consulting	716	1,215
Stock-based compensation	27	-
Other accrued expenses	156	189
	<u>\$ 1,049</u>	<u>\$ 1,518</u>

**NOTE 6 – LONG-TERM DEBT**

At December 31, 2011 and 2010, the carrying amount of the Company’s outstanding debt is summarized as follows (dollars in thousands):

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Zero coupon secured convertible term loan due June 29, 2013. Interest accruing at 5% per annum until June 29, 2009 and at 6% thereafter	\$ 56,673	\$ 51,412
Other loans	4	20
Debt discount	<u>(4,641)</u>	<u>(7,013)</u>
	52,036	44,419
Less current portion	<u>4</u>	<u>16</u>
	<u>\$ 52,032</u>	<u>\$ 44,403</u>

The Company estimates fair value of debt to be \$52.357 million.

Pursuant to the Company's loan agreements, annual maturities of long-term debt outstanding on December 31, 2011, are as follows:

Year	\$ 000's
2012	4
2013	56,673
2014	-
	<u>\$ 56,677</u>

In June 2006, the Company entered into a \$36.4 million five year zero coupon senior secured convertible term loan with Peloton Partners LLP (through an affiliate) and another lender (the "Term Loan"). On April 16, 2008, the Company was advised that Peloton had assigned its interest in the Term Loan to an affiliate of Lampe Conway & Company LLC ("Lampe Conway"), and Lampe Conway subsequently replaced Peloton as administrative agent of the loan. On June 4, 2009, the Company completed arrangements to amend the Term Loan with Lampe Conway which modified certain of the conversion features and extended the maturity date to June 29, 2013 with interest continuing to accrue at 6% per annum through maturity. Further, the conversion feature was modified to allow up to \$4.55 million of principal to be converted into 650,000 shares of the Company's Common Stock ("Common Stock") at a conversion price of \$7 per share, and the remaining principal and interest to be converted into shares of Common Stock at a conversion price of \$35 per share.

On October 19, 2010, the Company closed a new \$10 million working capital facility with Lampe Conway and other participating lenders ("the Lenders"). Under the terms of the new \$10 million facility, the Company drew the first \$5 million at closing ("First Tranche"). Also upon closing, the Company was granted the option to draw up to an additional \$5 million over the subsequent 12 months ("Second Tranche"). The Company drew a total of \$2 million on the Second Tranche prior to its expiration. All interest on outstanding balances accrues at 6%, with no principal or interest payments required before the new facility's June 29, 2013, maturity date, consistent with our existing term debt facility.



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

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

The Term Loan is collateralized by substantially all of the assets of the Company, and contains representations, warranties and covenants that are typical for agreements of this type, including restrictions that would limit the Company's ability to incur additional indebtedness, incur liens, pay dividends or make restricted payments, dispose of assets, make investments and merge or consolidate with another person. However, while there are affirmative covenants, there are no financial maintenance covenants and no restrictions on the Company's ability to issue additional common stock to fund future working capital needs. The debt covenants associated with the loan 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 December 31, 2011, the Company was in compliance with its debt covenants.

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

The Company has analyzed all of the above provisions of the convertible loan and related agreements for embedded derivatives under generally accepted accounting principles and SEC rules. The Company concluded that certain provisions of the convertible loan agreement, which were in effect prior to the first amendment date, are deemed to be derivatives. Therefore, 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, 2006, loan funding date, with an offsetting discount to the convertible term loan. This 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 Inc. common share price:	\$17.01
Volatility:	46%
Risk-free Interest Rate:	5.18%
Change in control probability:	10%

The Company incurred \$408,000 and \$105,000 in 2006 and 2010, respectively, of outside legal expenses and lenders fees related to the negotiation and documentation of the loan, which is amortized over the life of the loan.

#### **NOTE 7 – INCOME TAXES**

Deferred taxes are recorded based upon differences between the financial statement and tax bases of assets and liabilities and available carryforwards. Temporary differences and carryforwards which gave rise to a significant portion of deferred tax assets and liabilities as of December 31, 2011 and 2010 are as follows (in thousands):

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Deferred tax assets:		
Net operating losses	\$ 44,850	\$ 40,864
Fixed asset basis difference	7,177	7,213
Contributions carryover	2	1
Deferred compensation	2,230	1,700
Accrued liabilities	529	534
 Total deferred tax assets	 54,788	 50,312
 Valuation allowance for deferred tax assets	 (54,788)	 (50,312)
 Net deferred tax asset	 \$ -	 \$ -

The valuation allowance increased \$4,476,000 and \$2,962,000 in 2011 and 2010, respectively, due to an increase in the net operating loss category of deferred tax assets. The change in deferred tax assets resulted from current year net operating losses, expiration of prior year loss carryovers, and changes to future tax deductions resulting from terms of stock compensation plans.

As of December 31, 2011, the Company had net operating loss (NOL) carryforwards of approximately \$112.5 million for federal income tax purposes and \$74.8 million for California income tax purposes. Such carryforwards expire in varying amounts through the year 2031. Use of the carryforward amounts is subject to an annual limitation as a result of ownership changes.

On August 26, 2005, a Settlement Agreement between Cadiz Inc. ("Cadiz"), on the 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 retains the right to utilize the Sun World net operating loss carryovers (NOLs). Sun World Federal NOLs are estimated to be approximately \$58 million. If, in any year from calendar year 2005 through calendar year 2011, the utilization of such NOLs results in a reduction of Cadiz' tax liability for such year, then Cadiz will pay to the Sun World bankruptcy estate 25% of the amount of such reduction, and shall retain the remaining 75% for its own benefit. There is no requirement that Cadiz utilizes these NOLs during this reimbursement period, or provides any reimbursement to the Sun World bankruptcy estate for any NOLs used by Cadiz after this reimbursement period expires. The reimbursement period ended on December 31, 2011, with no utilization of the Sun World NOLs.

As of the January 1, 2007, adoption of ASC 740, the Company possessed unrecognized tax benefits totaling approximately \$3.3 million. There were no changes to unrecognized tax benefits during the four years ended December 31, 2011. None of these tax benefits, if recognized, would affect the Company's effective tax rate because the Company has recorded a full valuation allowance against these assets.

As of December 31, 2011, the Company had accrued a total of \$321,000 for state taxes, interest and penalties related to income tax positions in prior returns. The Company expects that the unrecognized tax benefits will decrease in the next 12 months by approximately \$321,000 as a result of the expiration of statutes of limitation on December 31, 2012.

In connection with the adoption of ASC 740, the Company elected to classify income tax penalties and interest as general and administrative and interest expenses, respectively. For the twelve months ended December 31, 2011, general and administrative and interest expenses included approximately \$0 of income tax penalties.

The Company's tax years 2008 through 2011 remain subject to examination by the Internal Revenue Service, and tax years 2007 through 2011 remain subject to examination by California tax jurisdictions. In addition, the Company's loss carryforward amounts are generally subject to examination and adjustment for a period of three years for federal tax purposes and four years for California purposes, beginning when such carryovers are utilized to reduce taxes in a future tax year.

A reconciliation of the income tax benefit to the statutory federal income tax rate is as follows (dollars in thousands):

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Expected federal income tax benefit at 34%	\$ (5,720)	\$ (5,405)	\$ (4,895)
Loss with no tax benefit provided	4,880	4,545	3,751
State income tax	7	6	4
Stock Options	(6)	154	462
Non-deductible expenses and other	846	706	682
	<u>7</u>	<u>6</u>	<u>4</u>
Income tax expense	<u>\$ 7</u>	<u>\$ 6</u>	<u>\$ 4</u>

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 8 – EMPLOYEE BENEFIT PLANS**

The Company has a 401(k) Plan for its salaried employees. The Company matches 100% of the first three percent of annual base salary and 50% of the next two percent of annual base salary contributed by an employee to the plan. The Company contributed approximately \$55,000, \$49,000, and \$42,000 to the plans for fiscal years 2011, 2010 and 2009, respectively.

#### **NOTE 9 – COMMON STOCK AND WARRANTS**

On October 1, 2007, the Company agreed to the conditional issuance of up to 300,000 shares to the former sole shareholder and successor in interest to Exploration Research Associates, Inc. (“ERA”), who is now an employee of the Company. The agreement settled certain claims by ERA against the Company, and provided that the 300,000 shares will be issued if and when certain significant milestones in the development of the Company’s properties are achieved.

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

In October and November 2009, the Company raised \$7.1 million with a private placement of 226,200 Units at \$31.50 per Unit. This includes 20,880 Units purchased by the Lenders of the Term Loan pursuant to the Lenders' Participation Rights under the Term Loan. Each Unit consists of three (3) shares of the Company's Common Stock, par value \$.01 per share (the "Common Stock") and one (1) stock purchase warrant. The warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$15 per share. The warrant has a term of three (3) years, but is callable by the Company at any time following November 1, 2010, if the closing market price of the Company's common stock exceeds \$22.50 for 10 consecutive trading days.

In June 2011, the Company filed a shelf registration statement on Form S-3 registering the sale of up to \$50 million of the Company's common stock in one or more public offerings. The registration statement was declared effective on June 10, 2011. By way of takedown from this shelf registration, the Company raised \$4 million with the sale of 363,636 shares at \$11 per share on July 8, 2011, and \$5.1 million with the sale of 570,000 shares at \$9 per share on December 14, 2011.

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

As discussed in Note 6, "Long-Term Debt", principal and accrued interest on the Term Loan is convertible into common shares of the Company at the Lender's option. The terms of the loan include optional prepayment provisions that could result in an early conversion of the loan under certain circumstances.

#### **NOTE 10 – STOCK-BASED COMPENSATION PLANS AND WARRANTS**

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

##### ***2003 Management Equity Incentive Plan***

In December 2003, concurrently with the completion of the Company's then current financing arrangements with ING, the Company's board of directors authorized the adoption of a Management Equity Incentive Plan. As of December 31, 2011, a total of 315,000 common stock options remain outstanding under this plan.

##### ***Outside Director Compensation Plan***

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

### **2007 Management Equity Incentive Plan**

The 2007 Management Equity Incentive Plan was approved by stockholders at the 2007 Annual Meeting. As of December 31, 2011, a total 10,000 common stock options remain outstanding under this plan.

### **2009 Equity Incentive Plan**

The 2009 Equity Incentive Plan was approved by stockholders at the 2009 Annual Meeting. The plan provides for the grant and issuance of up to 850,000 shares and options to the Company's employees and consultants. The plan became effective when the Company filed a registration statement on Form S-8 on December 18, 2009. All options issued under the 2009 Equity Incentive Plan have a ten year term with vesting periods ranging from issuance date to 24 months. To date, 537,500 common stock purchase options have been issued under this plan and all remained outstanding as of December 31, 2011.

All options that have been issued under the above plans have been issued to officers, employees and consultants of the Company. In total, options to purchase 862,500 shares were unexercised and outstanding on December 31, 2011, under the three equity incentive plans.

For consultants of the Company, the fair value of each option granted under the 2009 Equity Incentive Plan is estimated at each reporting period and recorded as a liability until the award is settled using the Black Scholes option pricing model.

For officers and employees of the Company, the fair value of each option granted under the plans was estimated on the date of grant using the Black Scholes option pricing model based on the following weighted-average assumptions:

Risk free interest rate	3.90%
Expected life	9.4 years
Expected volatility	52%
Expected dividend yield	0.0%
Weighted average vesting period	0.9 years

The risk free interest rate is assumed to be equal to the yield of a U.S. Treasury bond of comparable maturity, as published in the Federal Reserve Statistical Release for the relevant date. The expected life estimate is based on an analysis of the employees receiving option grants and the expected behavior of each employee. The expected volatility is derived from an analysis of the historical volatility of the trading price per share of the Company's common stock on the NASDAQ Global Market. The Company does not anticipate that it will pay dividends to common stockholders in the future, and the weighted average vesting period is based on the option vesting schedule, assuming no options are forfeit prior to the initial vesting date.

The Company recognized stock option related compensation costs of \$1,245,000, \$2,561,000, and \$0 in fiscal 2011, 2010 and 2009, respectively, relating to these options. No stock options were exercised during fiscal 2011.

A summary of option activity under the plans as of December 31, 2011, and changes during the current fiscal year are presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value (\$000's)</u>
Outstanding January 1, 2011	727,500	\$ 11.86	6.0	\$ 6,437
Granted	135,000	11.87	8.7	1,079
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at December 31, 2011	<u>862,500</u>	<u>\$ 11.92</u>	<u>6.5</u>	<u>\$ 7,516</u>
Exercisable at December 31, 2011	<u>636,671</u>	<u>\$ 11.97</u>	<u>5.7</u>	<u>\$ 5,761</u>

The weighted-average grant-date fair value of options granted during the years ended December 31, 2011 and 2010, were \$7.28 and \$7.65, respectively. No options were granted in 2009. The following table summarizes stock option activity for the periods noted.

	<u>Amount</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at January 1, 2009	365,000	\$ 12.85
Granted	-	\$ -
Expired or canceled	(40,000)	\$ 17.25
Exercised	-	\$ -
Outstanding at December 31, 2009	325,000	\$ 12.31
Granted	402,500	\$ 11.51
Expired or canceled	-	\$ -
Exercised	-	-
Outstanding at December 31, 2010	727,500	\$ 11.86
Granted	135,000	\$ 11.87
Expired or canceled	-	-
Exercised	-	-
Outstanding at December 31, 2011	<u>862,500(a)</u>	\$ 11.92
Options exercisable at December 31, 2011	<u>636,671</u>	\$ 11.97
Weighted-average years of remaining contractual life of options outstanding at December 31, 2011	<u>6.5</u>	

(a) Exercise prices vary from \$9.88 to \$18.99, and expiration dates vary from May 2015 to December 2021.

### **Stock Awards to Directors, Officers, Consultants and Employees**

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

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

Of the total 850,000 shares reserved under the 2009 Equity Incentive Plan, a grant of 115,000 restricted shares of common stock became effective on January 14, 2010, a grant of 140,000 restricted shares of common stock became effective on January 10, 2011, consistent with the terms of the agreements pursuant to which those executives provide services to the Company and which contemplate that such executives will participate in the Company's long-term incentive plans. The recipients of these restricted shares have a contractual agreement not to sell any of these shares for a period of three years following the effective date. Of the remaining 595,000 shares reserved under the 2009 Equity Incentive Plan, 8,987 shares of common stock were issued to directors, 537,500 were issued as options as described above and 48,513 are available for future distribution.

Under the Outside Director Compensation Plan, 58,987 shares have been awarded for the plan years ended June 30, 2006, through June 30, 2011. Of the 58,987 shares awarded, 11,304 shares were awarded for service during the plan year ended June 30, 2011, became effective on that date and vested on January 31, 2012.

The accompanying consolidated statements include approximately \$1,130,000, \$1,388,000 and \$2,273,000 of stock based compensation expense related to stock awards in the years ended December 31, 2011, 2010 and 2009, respectively.

A summary of stock awards activity under the plans during the fiscal year ended December 31, 2011 and 2010 is presented below:

	<u>Shares</u>	<u>Weighted-Average Grant-date Fair Value</u> (\$000's)
Nonvested at December 31, 2009	61,775	\$ 820
Granted	124,582	725
Forfeited or canceled	-	-
Vested	<u>(176,775)</u>	(792)
Nonvested at December 31, 2010	9,582	\$ 116
Granted	151,304	951
Forfeited or canceled	-	-
Vested	<u>(151,466)</u>	(949)
Nonvested at December 31, 2011	9,420	\$ 102



As of December 31, 2011, the total unrecognized compensation costs related to unvested share-based awards under the plans totaled \$351,000, and is expected to be recognized over a weighted-average period of one year.

### ***Stock Purchase Warrants Issued to Non-Employees***

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

In October 2009, the Company raised \$7.1 million with a private placement of 226,200 Units at \$31.50 per Unit. This includes 20,880 Units purchased by the Lenders of the Term Loan pursuant to the Lenders' Participation Rights under the Term Loan. Each Unit consists of three (3) shares of the Company's common stock and one (1) stock purchase warrant. The warrant entitles the holder to purchase one (1) share of common stock at an exercise price of \$15 per share. The warrant has a term of three (3) years, but is callable by the Company at any time following November 1, 2010 if the closing market price of the Company's common stock exceeds \$22.50 for 10 consecutive trading days.

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

448,422 warrants remain outstanding as of December 31, 2011.

### **NOTE 11 – SEGMENT INFORMATION**

The primary business of the Company is to acquire and develop land and water resources. As a result, the Company's financial results are reported in a single segment.

### **NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The Company leases equipment and office facilities under operating leases that expire through 2014. Aggregate rental expense under all operating leases was approximately \$338,000, \$371,000 and \$375,000 in the years ended December 31, 2011, 2010 and 2009, respectively. At December 31, 2011, the future minimum rental commitments under existing non-cancelable operating leases are as follows:

<u>Year</u>	<u>\$</u>	<u>000's</u>
2012		302
2013		55
2014		16
	<u>\$</u>	<u>373</u>

In the normal course of its agricultural operations, the Company handles, stores, transports and dispenses products identified as hazardous materials. Regulatory agencies periodically conduct inspections and, currently, there are no pending claims with respect to hazardous materials.

The Company entered into a Services and Exclusivity Agreement with Layne Christensen Company (“Layne”) on November 2, 2009. The agreement provides that the Company will contract exclusively with Layne for certain water related services, including drilling of boreholes, drilling of monitoring wells, completion of test wells, completion of production wells, and completion of aquifer, storage and recovery wells. In exchange for the Services and Exclusivity Agreement, Layne has agreed to forego \$923,000 for work performed as of December 31, 2011.

Alternatively, if (a) the Company elects by December 31, 2012, not to proceed with the Water Project, then it will pay Layne 100% of the \$923,000 balance due for work performed as of December 31, 2011, or (b) the Company elects by December 31, 2012, to proceed with the Water Project and in its reasonable discretion decides not to use Layne as the exclusive provider of services for the well field the Company will pay Layne 125% of the \$923,000 balance due for work performed as of December 31, 2011.

As previously reported, the Company has a potential obligation to pay an amount of up to 1% of the net present value of the Water Project in consideration of certain legal and advisory services to be provided to the Company by Brownstein Hyatt Farber Schreck LLP. The primary services being provided are advising the Company as to Water Project design and implementation, permit approvals, environmental compliance, negotiation and drafting of agreements related to the Water Project. This fee would be payable upon receipt of all environmental approvals and permits and the completion of binding agreements for at least 51% of the Water Project’s annual capacity. A portion of this fee may be payable in stock. Interim payments of \$1.5 million, to be credited to the final total, would be made upon the achievement of certain specified milestones. \$500 thousand of these interim payments was earned in June 2009 in consideration for the legal and advisory services previously provided. No further milestones have been met as of December 31, 2011. This arrangement may be terminated by either party upon 60 days notice, with any compensation earned but unpaid prior to termination payable following termination.

Pursuant to cost sharing agreements that have been entered into by participants in the Company’s Water Project, \$670 thousand in funds have offset costs incurred in the environmental analysis of the Water Project. These funds may either be reimbursed or credited to participants participation in the Water Project and, accordingly, are fully reflected as deferred revenue as of December 31, 2011.

The Company is involved in other legal and administrative proceedings and claims. In the opinion of management, the ultimate outcome of each proceeding, individually and in the aggregate, will not have a material adverse impact on the Company's financial statements.

**NOTE 13 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)***(in thousands except per share data)*

	<b>Quarter Ended</b>			
	<b>March 31, 2011</b>	<b>June 30, 2011</b>	<b>September 30, 2011</b>	<b>December 31, 2011</b>
Revenues	\$ 457	\$ 40	\$ 121	\$ 401
Operating loss	(3,029)	(2,288)	(2,704)	(3,213)
Net loss applicable to common stock	(4,254)	(3,728)	(4,105)	(4,750)
Basic and diluted net loss per common share	\$ (0.31)	\$ (0.27)	\$ (0.29)	\$ (0.33)

	<b>Quarter Ended</b>			
	<b>March 31, 2010</b>	<b>June 30, 2010</b>	<b>September 30, 2010</b>	<b>December 31, 2010</b>
Revenues	\$ 3	\$ 4	\$ 274	\$ 742
Operating loss	(4,173)	(2,094)	(2,086)	(2,696)
Net loss applicable to common stock	(5,207)	(3,144)	(3,179)	(4,369)
Basic and diluted net loss per common share	\$ (0.38)	\$ (0.23)	\$ (0.23)	\$ (0.32)

**NOTE 14 – FAIR VALUE MEASUREMENTS**

The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011 and 2010, and indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. We consider a security that trades at least weekly to have an active market. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

<i>(in thousands)</i>	<b>Investments at Fair Value as of December 31, 2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Certificates of Deposit	\$ 6,500	\$ -	\$ -	\$ 6,500
Total investments at fair value	<u>\$ 6,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,500</u>

**Investments at Fair Value as of December 31, 2010**

*(in thousands)*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Certificates of Deposit	\$ 5,500	\$ -	\$ -	\$ 5,500
Total Assets	<u>\$ 5,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,500</u>
<b>Liabilities</b>				
Derivative	\$ -	\$ (451)	\$ -	\$ (451)
Total Liabilities	<u>\$ -</u>	<u>\$ (451)</u>	<u>\$ -</u>	<u>\$ (451)</u>
Net Total Assets and (Liabilities)	<u>\$ 5,500</u>	<u>\$ (451)</u>	<u>\$ -</u>	<u>\$ 5,049</u>

**NOTE 15 - SUBSEQUENT EVENTS**

In February 2012, the Company made a \$1,000,000 payment to extend its option agreement with El Paso Natural Gas to April 2013.

*Schedule 1 - Valuation and Qualifying Accounts**For the years ended December 31, 2011, 2010 and 2009 (\$ in thousands)*

	<b>Balance at Beginning of Period</b>	<b>Additions Charged to</b>		<b>Deductions</b>	<b>Balance at End of Period</b>
		<b>Costs and Expenses</b>	<b>Other Accounts</b>		
<b>Year ended December 31, 2011</b>					
Tax valuation allowance	\$ 50,312	\$ 4,476	\$ -	\$ -	\$ 54,788
<b>Year ended December 31, 2010</b>					
Tax valuation allowance	\$ 47,350	\$ 2,962	\$ -	\$ -	\$ 50,312
<b>Year ended December 31, 2009</b>					
Tax valuation allowance	\$ 46,400	\$ 950	\$ -	\$ -	\$ 47,350

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

### CADIZ INC.

By: /s/ Keith Brackpool  
Keith Brackpool,  
Chairman and Chief Executive Officer

Date: March 15, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

#### Name and Position

#### Date

<u>/s/ Keith Brackpool</u> Keith Brackpool, Chairman and Chief Executive Officer (Principal Executive Officer)	<u>March 15, 2012</u>
<u>/s/ Timothy J. Shaheen</u> Timothy J. Shaheen, Chief Financial Officer (Principal Financial and Accounting Officer)	<u>March 15, 2012</u>
<u>/s/ Scott Slater</u> Scott Slater, President and Director	<u>March 15, 2012</u>
<u>/s/ Geoffrey Grant</u> Geoffrey Grant, Director	<u>March 15, 2012</u>
<u>/s/ Winston H. Hickox</u> Winston H. Hickox, Director	<u>March 15, 2012</u>
<u>/s/ Murray H. Hutchison</u> Murray H. Hutchison, Director	<u>March 15, 2012</u>
<u>/s/ Raymond J. Pacini</u> Raymond J. Pacini, Director	<u>March 15, 2012</u>
<u>/s/ Stephen E. Courter</u> Stephen E. Courter, Director	<u>March 15, 2012</u>

**OPTION AGREEMENT****BETWEEN****CADIZ, INC.****AND****QUESTAR SOUTHERN TRAILS PIPELINE COMPANY****DATED****AUGUST 12, 2011****TABLE OF CONTENTS**

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**SCHEDULES**

Pipeline Assets Schedule

**EXHIBITS**

Exhibit A -- Form of Purchase and Sale Agreement

Exhibit B -- Form Quit Claim Deed

**OPTION AGREEMENT**

This Option Agreement (“Agreement”) is made and entered into effective as of this 1<sup>st</sup> day of August, 2011, by and between Questar Southern Trails Pipeline Company, a corporation organized under the laws of the State of Utah, having its principal office at 180 East 100 South, P.O. Box 45360, Salt Lake City, Utah 84145 (referred to herein as “Questar Southern Trails”) and Cadiz, Inc., a Delaware corporation, having its principal office at 550 South Hope Street, Los Angeles, California 90071 (referred to herein as “Cadiz”). Each of Questar Southern Trails and Cadiz is referred to herein individually as a

“Party” and collectively as the “Parties”.

## **RECITALS**

WHEREAS, Questar Southern Trails is the owner of a pipeline known as the “Southern Trails Pipeline;” and

WHEREAS, Questar Southern Trails desires to convey, and Cadiz desires to acquire an option to purchase a portion of the Southern Trails Pipeline, together with certain pipeline facilities, fixtures, certain real property and related assets as described in the Pipeline Assets Schedule attached hereto (the “Pipeline Assets”) for the purpose of developing a water transportation pipeline project; and

WHEREAS, the Parties acknowledge that Questar Southern Trails holds certain additional real property rights, (“Real Property”) and the Parties desire to facilitate Questar Southern Trails’ donation of such Real Property to a qualified charitable organization acceptable to both Parties.

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants, conditions and agreements set forth herein, the Parties hereby agree as follows:

## **ARTICLE I**

### **DEFINITIONS**

#### **1.1 Definitions.**

(a) As used herein the following terms shall have the meanings defined below:

“*Affiliated Companies*” shall mean, when used with respect to a Party, any entity that directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the specified Party. For purposes of this definition, “control” shall mean ownership of more than fifty percent (50%) of either the outstanding voting stock of the controlled entity, as to corporations, or other ownership interests which carry with them the right to direct the policies and management of the subject entity, as to non-corporate entities.

“*Agreement*” shall have the meaning set forth in the Preamble.

“*Applicable Law*” shall mean any law, statute, rule, regulation, ordinance, code, decision, injunction, judgment, award, or decree of any Governmental Authority in effect from time to time and applicable to this Agreement, the Parties hereto or any matter set forth herein.

“*Business Day*” shall mean any day except Saturday, Sunday or federal or state holidays on which banks are authorized to be closed in the states of California or Utah.

“*Commercially Reasonable Efforts*” shall mean efforts which are reasonably within the contemplation of the Parties on the date hereof, which are designed to enable a Party, directly or indirectly, to satisfy a condition to, or otherwise assist in the consummation of, the transactions contemplated by this Agreement and which do not require the performing Party to expend any funds or assume liabilities other than expenditures and liabilities which are reasonable in nature and amount in the context of the transactions contemplated by this Agreement.

“*Confidential Information*” shall mean all non-public information furnished or provided to a Receiving Party or any of its Representatives by a Disclosing Party or any of its Representatives, and all analyses, compilations, data, studies or other documents prepared by the Receiving Party or its Representatives containing or based in whole or in part on any such furnished or provided information related to the subject matter of this Agreement. Confidential Information shall not include, and nothing in this Agreement shall in any way restrict or impair a Party’s right to use, disclose or otherwise deal with information which (a) is generally available to the public; (b) was in the possession of the Party using the information prior to the date of the Confidentiality Agreement between the Parties dated May 11, 2011, or comes into the possession of such Party through no improper act of such Party or otherwise not in contravention of this Agreement or such Confidentiality Agreement; (c) is independently made available as a matter of right to the Party receiving the information by a third party, who has a lawful right to disclose the information or other pertinent data; or (d) is independently developed by the Receiving Party without referring to the Confidential Information. Confidential Information shall not include, and nothing in this Agreement shall in any way restrict or impair, a party’s right to use or disclose the existence of this Option Agreement, the portion of the Pipeline Assets that are subject to this Agreement, and the date upon which the Option expires.

“*Disclosing Party*” shall mean the Party providing Confidential Information pursuant to this Agreement.

“*Dollar*” and “*\$*” shall mean the lawful currency of the United States of America.

“*Governmental Authority*” shall mean any federal, state and local or other governmental or administrative authority, agency, court or tribunal having jurisdiction.

“*Knowledge*” shall mean the actual knowledge of any officer of Questar Southern Trails as of the date of this Agreement and without conducting any investigation.

“*Material Adverse Effect*” shall mean any state of facts, change, development, event, effect, condition, loss, impact or occurrence that is materially adverse to the condition (physical or otherwise) of the Pipeline Assets; provided, however, that the foregoing shall not include events,



circumstances, conditions or effects relating to or arising from (a) the economy of the United States generally or of the state of California in particular, (b) the transactions contemplated hereby and the public announcement hereof, (c) an outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war or the occurrence of any other similar calamity or crisis, including the occurrence of a terrorist attack, (d) events or circumstances including, without limitation, regulatory intervention that affect the Company's business in the same manner and to the same extent as other businesses in its industry generally or (e) loss of profits, loss in purchaser value or consequential damages.

"Parent" shall mean the entity that owns 100% of the outstanding capital stock of a Party.

"Party" and "Parties" shall have the meaning set forth in the Preamble.

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government (or agency or political subdivision thereof, including any Governmental Authority).

"Phase 1 Option Fee" shall have the meaning set forth in Section 2.2.

"Phase 2 Option Fee" shall have the meaning set forth in Section 2.3.

"Phase 3 Option Fee" shall have the meaning set forth in Section 2.5.

"Pipeline Assets" shall have the meaning set forth in the Recitals.

"Purchase Price" shall have the meaning set forth in Section 2.1.

"Questar Southern Trails" shall have the meaning set forth in the Preamble.

"Receiving Party" shall mean a Party or its Representatives who receives Confidential Information pursuant to this Agreement

"Representatives" shall mean a Party's representatives including its directors, officers, employees, agents or other representatives including without limitation attorneys, accountants, consultants, affiliates and financial advisors.

"Real Property" shall have the meaning set forth in the Recitals.

"Cadiz" shall have the meaning set forth in the Preamble.

"Third Party" shall mean any Person other than Questar Southern Trails or Cadiz, their respective Parents or Affiliated Companies.

(b) Other Definitional Provisions.

(i) The words "hereof," "herein" and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(ii) The terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa.

(iii) Whenever the Parties have agreed that any approval or consent shall not be "unreasonably withheld," such phrase shall also include the Parties' agreement that the approval or consent shall not be unreasonably delayed or conditioned.

(iv) Reference to "day" or "days" in this Agreement shall refer to calendar days unless otherwise stated.

(v) "including" (and with the correlative meaning "include") means "includes but is not limited to" and corresponding syntactical variations.

## ARTICLE II

### OPTION TO PURCHASE THE PIPELINE ASSETS

2.1 Option to Purchase. Cadiz shall have the option to purchase the Pipeline Assets ("Option") at a purchase price of ten million dollars (\$10,000,000) ("Purchase Price"), upon the terms and conditions set forth in, and in the form attached as Exhibit A (the "Purchase and Sale Agreement"). Should Cadiz exercise the Option, then Questar Southern Trails shall donate the Real Property, as described in the Real Property Schedule, to the Charitable Organization upon the terms and conditions, and in the form attached as Exhibit B ("Quit Claim Deed"). The Option shall commence upon execution of this Agreement and shall proceed in three phases, more specifically set forth below.

2.2 Phase 1 Option Period. Upon execution of this Agreement, Cadiz shall pay Questar Southern Trails seventy-five thousand dollars (\$75,000.00) ("Phase 1 Option Fee"). The first phase of the option will commence upon execution of this Agreement and shall end on the earlier of December 31, 2011, or the closing of a definitive Purchase and Sale Agreement by which Cadiz purchases the Pipeline Assets from Questar Southern Trails ("Phase 1 Option

Period). The Phase 1 Option Fee is non-refundable but will be credited toward the Purchase Price, should Cadiz exercise the Option. If Cadiz does not exercise the Option during the Phase 1 Option Period and does not timely pay the Phase 2 Option Fee (defined below), then this Agreement shall terminate.

2.3 Phase 2 Option Period. Cadiz may extend the Option if it pays Questar Southern Trails an additional two-hundred and fifty thousand dollars (\$250,000.00) ("Phase 2 Option Fee") on or before December 31, 2011. If Cadiz so extends the Option, then Phase 2 of the Option Period will commence upon payment of the Phase 2 Option Fee and shall continue through the earlier of June 30, 2012, or the closing of a definitive Purchase and Sale Agreement by which Cadiz purchases the Pipeline Assets from Questar Southern Trails (the "Phase 2 Option Period"). The Phase 2 Option Fee is non-refundable but will be credited toward the Purchase Price, should Cadiz exercise the Option. If Cadiz does not exercise the Option during the Phase 2 Option Period and does not timely pay the Phase 3 Option Fee (defined below), then this Agreement shall terminate.

2.4 Exercising the Option During the Phase 1 Option Period or the Phase 2 Option Period. During the Phase 1 Option Period and the Phase 2 Option Period, Cadiz shall have the sole and exclusive right, but not the obligation, to purchase the Pipeline Assets. To the extent that it so elects, Cadiz shall exercise its Option to acquire the Pipeline Assets by delivering written notice of such exercise. The closing of the Purchase and Sale Agreement shall occur as soon as practicable after the exercise of the Option by Cadiz, and as more fully set forth, below.

2.5 Phase 3 Option Period. Cadiz may further extend the Option if deemed necessary by Cadiz in order to procure certain rights-of-way and real property rights related to the Pipeline Assets or obtain appropriate regulatory approvals in respect to the Pipeline Assets. Should Cadiz elect to further extend the Option, Cadiz shall pay Questar Southern Trails an additional five-hundred thousand dollars (\$500,000.00) ("Phase 3 Option Fee") on or before June 30, 2012. The Phase 3 Option Fee is non refundable and will not be credited to the Purchase Price. If Cadiz so extends the Option, then Phase 3 of the Option Period will commence upon payment of the Phase 3 Option Fee and shall continue through the earlier of June 30, 2013, or the closing of a definitive Purchase and Sale Agreement by which Cadiz purchases the Pipeline Assets from Questar Southern Trails (the "Phase 3 Option Period"). If Cadiz does not exercise the Option during the Phase 3 Option Period, then this Agreement shall terminate.

2.6 Exercising the Option During the Phase 3 Option Period. If Cadiz extends the Option Period into Phase 3, Cadiz must close on the Purchase and Sale Agreement, provided, however, that obtaining certain real property rights that are used, useful, necessary or appropriate to the Pipeline Assets (including franchise agreements, rights-of-way, easements, and governmental permits related to the use of real property associated with the Pipeline Assets) shall be conditions precedent to Cadiz's obligation to close on the Purchase and Sale Agreement. The closing of the purchase and sale of the Pipeline Assets shall occur as soon as practicable after the exercise of the Option by Cadiz, and as more fully set forth below.

2.7 Closing Date Payments. Upon the closing of the Purchase and Sale Agreement (as defined therein), Cadiz will pay to Questar Southern Trails Pipeline the Purchase Price, less any applicable Phase 1 Option Fee and Phase 2 Option Fee. Such payment shall be in immediately available funds and shall be made by wire transfer to an account designated in writing by Questar Southern Trails at least two days prior to the closing of the Purchase and Sale Agreement.

2.8 Final Definitive Purchase and Sale Agreement; Instruments of Conveyance, Transfer and Assumption. It is the intent of the Parties that in order to effect the closing of the purchase and sale of the Pipeline Assets, Questar Southern Trails and Cadiz shall deliver to one another a duly executed purchase and sale agreement in the form attached as Exhibit A, along with any other documents described in Exhibit A, and other documents reasonably necessary to effect the conveyance of the Pipeline Assets from Questar Southern Trails to Cadiz.

2.9 Exclusivity. Questar Southern Trails may engage in discussions and negotiations relating to a sale, joint venture, merger, or any other direct or indirect use or disposition of the Pipeline Assets ("Back-up Negotiations") so long as (i) such Back-Up Negotiations do not involve any State, Federal or local agencies that have the right to approve Cadiz' right to use the Pipeline Assets, (ii) do not involve the sale of the Pipeline Assets to a water company, (iii) do not interfere with the Option granted hereunder, any transactions contemplated by this Agreement, or the rights of Cadiz hereunder; and (i v) the Parties will each employ good faith and Commercially Reasonable Efforts to close on the Purchase and Sale Agreement and to close in fact if the conditions to closing have been satisfied, Cadiz exercises the Option, and the Parties have reached agreement upon all material terms related to the purchase and sale of the Pipeline Assets.

2.10 Condition of Pipeline Assets. Questar Southern Trails shall continue to maintain the Pipeline Assets in the ordinary course of business and maintain the Pipeline Assets in a condition equal to the condition existing at the time the Agreement is signed. Notwithstanding the foregoing, nothing in this Agreement shall require Questar Southern Trails to relocate or re-build any of the Pipeline Assets or to procure or perfect any real property rights related to this Agreement. Notwithstanding the foregoing, the Parties acknowledge and agree that any Pipeline Assets (including any related real property interests), will be sold as-is, where-is. Questar Southern Trails makes no warranty or representation related to the condition of the Pipeline Assets, any environmental conditions existing on or around the Pipeline Assets, or the suitability of the Pipeline Assets for any particular purpose, including but not limited to the purpose intended by Cadiz.

2.11 Access to Information and People. Subject to the terms and conditions of this Agreement, and in particular those relating to confidentiality of information, Questar Southern Trails shall provide Cadiz and its Representatives with reasonable access to any and all information related to the Pipeline Assets that is reasonably necessary for Cadiz to perform due diligence review of the Pipeline Assets. Questar Southern Trails shall also provide Cadiz and its Representatives with reasonable access to such personnel of Questar Southern Trails as may be necessary or useful to Cadiz in its due diligence review of the Pipeline Assets.

2.12 Cooperation. Questar Southern Trails will cooperate with Cadiz to facilitate the assignment, transfer or acquisition of Real Property necessary for the conveyance of the Pipeline Assets. Cadiz will bear all costs associated with the assignment, transfer and/or acquisition of Real Property necessary for the conveyance of the Pipeline Assets.

## ARTICLE III

### CONFIDENTIALITY

3.1 Pursuant to the terms of this Agreement, the Parties will exchange information related to the Option, the Pipeline Assets, and the Purchase and Sale Agreement. Any Confidential Information disclosed pursuant to this Agreement will be kept confidential and will not, without the prior written consent of the Disclosing Party, be disclosed by the Receiving Party or its Representatives, in any manner whatsoever, in whole or in part, and will not be used by the Receiving Party or its Representatives directly or indirectly for any purpose other than for evaluation purposes and discussion with the Disclosing Party. The Receiving Party agrees to transmit Confidential Information only to those Representatives who agree to be bound by the terms of this Confidentiality section, and who need to know the Confidential information for the purpose of conducting due diligence relating to the Pipeline Assets, the Option and a final Purchase and Sale Agreement.

3.2 The Receiving Party and its Representatives will not disclose to any other person or entity the fact that the Confidential Information has been made available or that discussions are taking place concerning the Confidential Information except as required by law. Notwithstanding the foregoing, as set forth in the definition for "Confidential Information," nothing shall prevent either Party or its Representatives from disclosing the existence of the Option, this Agreement, or its duration to anyone and Questar Southern Trails specifically reserves the right to disclose such information in the course of Back-up Negotiations.

3.3 The Receiving Party shall destroy all Confidential Information provided to it by the Disclosing Party no later than ten (10) days after this Agreement terminates; or Cadiz provides notice to Questar Southern Trails that it will not exercise the Option. All working notes and records of the Receiving Party, which incorporate or are based upon the Confidential information, shall also be destroyed by the Receiving Party within ten (10) days after this Agreement terminates or Cadiz provides notice to Questar Southern Trails that it will not exercise the Option. The Party destroying such Confidential Information shall provide written certification that destruction has occurred. If Cadiz exercises the Option, then it may retain all Confidential Information and working notes and records provided or created pursuant to this Agreement.

3.4 If a Receiving Party or anyone to whom it transmits the Confidential Information pursuant to this Agreement is requested or required by an administrative or governmental proceeding or by a court of competent jurisdiction (by oral questions, interrogatories, request for Confidential Information or documents subpoena, civil investigative demand or similar process) to disclose any of the Confidential Information, the Receiving Party will provide the Disclosing Party with immediate written notice of this fact so that the Disclosing Party may seek a protective order or other appropriate remedy, unless notice to the Disclosing Party is prohibited by the administrative, governmental or judicial body requiring disclosure by the Receiving Party,. If such body compels a disclosure of such Confidential Information, the Receiving Party will furnish only that portion of the Confidential Information that is legally required and will exercise Commercially Reasonable Efforts to obtain reliable assurance that confidential treatment will be accorded the Confidential Information.

3.5 Any Party disclosing Confidential Information represents that it has the right to disclose such Confidential Information and believes it to be reliable and accurate, but expressly makes no warranty of any kind with respect to the reliability or accuracy of the Confidential Information.

3.6 Each Party acknowledges that the remedies at law are inadequate to protect against breach of this Article III (Confidentiality), and each Party admits that its breach of this Article may cause irreparable harm and each agrees that the Party harmed may seek injunctive relief based upon this admission. Equitable relief shall not be exclusive of other remedies to which any Party may be entitled to at law or in equity. The Parties hereby waive any requirements for the securing or posting of any bond in connection with the obtaining of any equitable relief.

3.7 This Agreement supersedes and replaces the Confidentiality Agreement between the Parties dated May 11, 2011.

## ARTICLE IV

### **REPRESENTATIONS AND WARRANTIES OF QUESTAR SOUTHERN TRAILS**

Questar Southern Trails represents and warrants to Cadiz as follows:

**Valid Organization.** Questar Southern Trails is a corporation validly existing and in good standing under the laws of the State of Utah, and is duly qualified or licensed to do business as a foreign corporation in California and in each other state where it is necessary and required to be so qualified or licensed in order to perform the obligations and effect the transactions contemplated by this Agreement, except where the failure to so qualify or register will not result in a Material Adverse Effect.

4.2 **Authorization.** Questar Southern Trails has full corporate power and authority to enter into this Agreement and carry out the transactions contemplated hereby. This Agreement is a valid and binding agreement of Questar Southern Trails, enforceable against Questar Southern Trails in accordance with its terms, except (a) as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights; and (b) that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought.

4.3 **Consents.** To Questar Southern Trails' Knowledge, no consent, approval of or by, or filing with or notice to any other Person is required with respect to Questar Southern Trails in connection with the execution, delivery or enforceability of this Agreement or the consummation of the transactions related to the Pipeline Assets.

4.4 **No Violation.** Neither the execution and delivery of this Agreement nor the performance by Questar Southern Trails of its obligations under this Agreement to convey the Pipeline Assets, nor the consummation of the transactions contemplated by this Agreement with respect to the Pipeline Assets will: (a) violate any provision of the articles of incorporation or bylaws of Questar Southern Trails; (b) to the Knowledge of Questar Southern Trails, violate any statute or law or any judgment, decree, order, regulation or rule of any court or Governmental Authority to which Questar Southern Trails is subject, or (c) result in a default or give rise to any right of termination, modification, cancellation or acceleration under or in conflict with the terms conditions or provisions

of any material agreement or other instrument or obligation to which Questar Southern Trails is a party or by which Questar Southern Trails or any of the Pipeline Assets is otherwise bound and that would result in a Material Adverse Effect, provided, however, that this clause (c) of this paragraph is not applicable to any rights-of-way, easements or leases included within the Pipeline Assets.

4.5 Litigation. To Questar Southern Trails' Knowledge, there is no action, claim, demand, suit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry or investigation of any nature, civil, criminal, regulatory or otherwise, in law or in equity, pending or threatened against or relating to the Pipeline Assets in connection with this Agreement or the transactions contemplated hereby.

4.6 No Broker. Questar Southern Trails has not retained or employed any broker, finder, or similar agent, or otherwise taken any action in connection with the negotiations relating to this Agreement and the transactions contemplated hereby in a manner so as to give rise to any claims against any of the Parties for any brokerage commission, finder's fee or other similar payment.

4.7 No Implied Warranties. The Parties agree that only the warranties of Questar Southern Trails expressly set forth herein shall apply and Questar Southern Trails makes no other warranties, either express or implied, with regard to the Option, the Pipeline Assets and/or the Real Property, nor shall any such warranties (either express or implied) exist with regard to the Purchase and Sale Agreement or the Quit Claim Deed except as may be specifically set forth therein.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES OF CADIZ

Cadiz hereby represents and warrants to Questar Southern Trails as follows:

5.1 Valid Organization. Cadiz is, as of the date of this Agreement, and will be on the closing of the definitive Purchase and Sale Agreement, a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and is duly qualified or licensed to do business in all states where it is necessary and required to be so qualified or licensed in order to perform the obligations and effect the transactions contemplated by this Agreement.

5.2 Authorization. Cadiz has full corporate power and authority to enter into this Agreement, to carry out the transactions contemplated hereby and to acquire and own the Pipeline Assets. This Agreement is a valid and binding agreement of Cadiz, enforceable against Cadiz in accordance with its terms, except (a) as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights; and (b) that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought.

5.3 Consents. No consent, approval of or by, or filing with or notice to any other Person, including any Governmental Authority, is required with respect to Cadiz in connection with the execution, delivery or enforceability of this Agreement or the consummation of the transactions provided for hereby.

5.4 No Violation. Neither the execution and delivery of this Agreement, nor the performance by Cadiz of its obligations under this Agreement, nor the consummation of the transactions contemplated by this Agreement will: (a) violate any provision of the articles of incorporation, applicable amendments to the articles of incorporation or bylaws of Cadiz; or (b) to the knowledge of Cadiz, violate any statute or law or any judgment, decree, order, regulation or rule of any court or Governmental Authority to which Cadiz is subject or any contract to which Cadiz is a party or by which it is bound.

5.5 Litigation. To Cadiz's knowledge, there is no action, claim, demand, suit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry or investigation of any nature, civil, criminal, regulatory or otherwise, in law or in equity, pending or threatened against or relating to Cadiz in connection with this Agreement or the transactions contemplated hereby.

5.6 No Broker. Cadiz has not retained or employed any broker, finder, or similar agent, or otherwise taken any action in connection with the negotiations relating to this Agreement and the transactions contemplated hereby in a manner so as to give rise to any claims against any of the Parties for any brokerage commission, finder's fee or other similar payment.

5.7 Investigation by Cadiz. As of the closing of a definitive Purchase and Sale Agreement, Cadiz will have had full access to and the opportunity to review the Pipeline Assets and its associated books and records, and the opportunity to meet with officers and other representatives of Questar Southern Trails for the purpose of investigating and obtaining information regarding the Pipeline Assets. Any access to Pipeline Assets or Real Property shall be coordinated through the Questar Southern Trails Business Development Department.

## ARTICLE VI

### MISCELLANEOUS PROVISIONS

6.1 Damages. Notwithstanding anything herein to the contrary, no Party shall be liable for consequential, incidental, exemplary, special, indirect or punitive damages (including lost profits, loss of production or other damages attributable to business interruption) arising under or in connection with this Agreement.

6.2 Amendment and Modification. Subject to Applicable Law, this Agreement may only be amended, modified and supplemented by written agreement of the Parties to this Agreement.

6.3 Waiver of Compliance. Any failure of Questar Southern Trails, on the one hand, or Cadiz, on the other hand, to comply with an obligation, covenant, agreement or condition contained in this Agreement may be expressly waived in writing by the non-failing Party, but such waiver or failure to insist upon strict compliance shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

6.4 Notices. All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be deemed to have been given if delivered by hand, transmitted by facsimile or mailed, certified or registered mail with postage prepaid:

(a) If to Questar Southern Trails, to:

Questar Southern Trails Pipeline Company  
180 East 100 South  
P.O. Box 45360  
Salt Lake City, UT 84145-0360  
Attn: President  
Telephone No.: 801-324-5180  
Facsimile No: 801-324-5834

with a copy to:

Questar Southern Trails Pipeline Company  
180 East 100 South  
P.O. Box 45360  
Salt Lake City, UT 84145-0360  
Attn: General Manager, Marketing and Business Development  
Telephone No.: 801-324-2509  
Facsimile No.: 801-324-2578

or such other person or address as Questar Southern Trails shall furnish Cadiz in writing.

(b) If to Cadiz, to:

Cadiz, Inc.  
550 South Hope Street, Suite 2850  
Los Angeles, California 90071  
Attn: President  
Telephone No.: (213) 271-1607  
Facsimile No.: (213) 271-1614

or to such other person or address as Cadiz shall furnish to Questar Southern Trails in writing.

6.5 Assignment. This Agreement and all of the provisions herein shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned (by operation of law or otherwise) by either of the Parties without the prior written consent of the other Party, which consent shall not be unreasonably withheld. Notwithstanding the foregoing or anything to the contrary herein, an assignment by Cadiz to either of the following shall not require consent of Seller; (i) a Cadiz-related entity formed by Cadiz in conjunction with purchase of the Pipeline Assets, or (ii) a California Mutual Water Company exempt from regulation by the California Public Utilities Commission. For purposes of this section, a "Cadiz-related entity" shall mean an entity in which Cadiz owns or controls a material financial interest or otherwise has the right to direct the policies and management of the subject entity. In all cases, assignment shall not relieve the assignor of liability hereunder, except as otherwise agreed in writing by the Parties.

6.6 No Third Party Beneficiaries. This Agreement is solely for the benefit of Questar Southern Trails and Cadiz and their respective successors and assigns, and nothing in this Agreement shall confer any rights upon any other Person.

6.7 Governing Law. THIS AGREEMENT AND THE LEGAL RELATIONS BETWEEN THE PARTIES HERETO SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, EXCLUDING ANY CHOICE OF LAW RULES WHICH MAY DIRECT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

6.8 Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.9 Exhibits and Headings. The headings contained in this Agreement are inserted for convenience only, shall not constitute a part of this Agreement, and are in no way to be construed as a limitation on the scope of particular sections to which they refer.

6.10 Entire Agreement. This Agreement (including the Exhibits, Schedules and other documents and ancillary agreements referred to herein, which form a part of this Agreement) embodies the entire agreement and understanding of the Parties in respect of the subject matter contained herein as such subject matter relates solely to the Pipeline Assets and supersedes all prior agreements and understandings between the Parties with respect to such subject matter. There are no restrictions, promises, warranties, covenants or undertakings with respect to the transactions contemplated hereby

and thereby, other than those expressly set forth or referred to in this Agreement.

6.11 Representation By Counsel; No Strict Construction. Cadiz and Questar Southern Trails acknowledge that each of them has been represented by counsel in connection with the negotiation of this Agreement and the transactions contemplated hereby and that the language used in this Agreement shall be deemed to be the language chosen by the Parties hereto to express their mutual intent. Accordingly, any rule of law or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the Party that drafted it has no application and is expressly waived.

6.12 Severability. Whenever possible, each provision or part thereof of this Agreement shall be interpreted in such a manner as to be valid and effective under Applicable Law, but if any provision or part thereof of this Agreement or the application of any such provision or part thereof to any Person or circumstance shall, to the extent equitable, be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or part thereof.

6.13 Bulk Transfer Laws. Cadiz hereby waives compliance by Questar Southern Trails with the provisions of any so-called bulk transfer laws of any jurisdiction in connection with any transfer and conveyance of the Pipeline Assets pursuant to this Agreement.

6.14 Time is of the Essence. With regard to all rights and obligations of the Parties and all dates and time periods set forth or referred to in this Agreement, time is of the essence.

6.15 Acknowledgement of Parties; Conspicuousness. EACH OF THE PARTIES HERETO SPECIFICALLY ACKNOWLEDGES AND AGREES (1) THAT IT HAS A DUTY TO READ THIS AGREEMENT AND THAT IT IS CHARGED WITH NOTICE AND KNOWLEDGE OF THE TERMS HEREOF AND (2) THAT IT HAS IN FACT READ THIS AGREEMENT AND IS FULLY INFORMED AND HAS FULL NOTICE AND KNOWLEDGE OF THE TERMS, CONDITIONS AND EFFECTS OF THIS AGREEMENT. EACH PARTY HERETO FURTHER AGREES THAT IT WILL NOT CONTEST THE VALIDITY OR ENFORCEABILITY OF ANY SUCH PROVISIONS OF THIS AGREEMENT ON THE BASIS THAT THE PARTY HAD NO NOTICE OR KNOWLEDGE OF SUCH PROVISIONS OR THAT SUCH PROVISIONS ARE NOT "CONSPICUOUS."

6.16 Survival. The terms and conditions set forth in Article III (Confidentiality) shall survive the termination of this Agreement for 24 months.

## ARTICLE VII

### DISPUTE RESOLUTION

7.1 The Parties shall promptly attempt in good faith to resolve any claim, dispute or controversy relating to or arising out of this Agreement, other than those disputes giving rise to a claim for injunctive relief ("Dispute"), by negotiations between representatives of each Party who have authority to settle the controversy and who are at a higher level of management than those directly involved in the Dispute (each such representative, a "Designated Representative"). The Party claiming a Dispute shall provide written notice thereof to the other Party, which written notice shall include a detailed explanation of the basis of the Dispute and shall identify the claiming Party's Designated Representative. Within five (5) Business Days after receiving the claiming Party's written notice of the Dispute, the receiving Party shall provide written notice to the claiming Party identifying the receiving Party's Designated Representative. The Designated Representatives shall meet no later than five (5) Business Days after the receiving Party provides written notice to the claiming Party identifying the receiving Party's Designated Representative. In the event the Designated Representatives are unable to resolve such Dispute within forty-five (45) days after the claiming Party's notice of the Dispute, or such later date mutually agreed upon by the Parties in writing, then the Parties shall attempt to resolve such Dispute through mediation. All mediation shall be conducted in Los Angeles, California. All aspects of the mediation shall be treated as confidential. Neither the Parties nor the mediator may disclose the existence, content or results of the mediation, except as necessary to comply with legal or regulatory requirements. Before making any such disclosure in order to comply with legal or regulatory requirements, a Party shall give written notice to the other Party and shall afford such Party a reasonable opportunity to protect its interests. If the Parties are unable to resolve the Dispute within ninety (90) days after the claiming Party's notice of the Dispute, or such later date mutually agreed upon by the Parties in writing; then either Party may seek relief before a state or federal court in the State of California, located in Los Angeles County. Each Party hereby submits to the exclusive, *in personam* jurisdiction of such courts and waives any defense of an inconvenient forum. In any proceeding before a court of competent jurisdiction, the prevailing Party shall be entitled to recover all reasonable attorneys' fees associated with such proceeding in addition to any other damages or remedies the court may award in such proceeding. The terms set forth in this Article VII (Dispute Resolution) shall not apply when a dispute gives rise to a good faith claim for injunctive relief, and nothing herein shall prevent a Party from seeking injunctive relief without engaging in the process outlined herein.

IN WITNESS WHEREOF, **QUESTAR SOUTHERN TRAILS PIPELINE COMPANY** and **CADIZ, INC.** have caused this Agreement to be executed by their respective, duly authorized representatives as of the day and year first above written.

### **QUESTAR SOUTHERN TRAILS PIPELINE COMPANY**

By: /s/ R. Allan Bradley  
Name: R. Allan Bradley  
Title: President and CEO

### **CADIZ, INC.**

By: /s/ Scott Slater  
Name: Scott Slater  
Title: President

**EXHIBIT A**

[Insert final form of the Purchase and Sale Agreement]

**EXHIBIT B**

[Insert final form Quit Claim Deed]

**Pipeline Assets Schedule**

The Pipeline Assets consist of approximately 97.1 miles of Southern Trails Pipeline's buried 16 inch wrapped steel pipeline and associated valves that extends from the pig launcher located in the West Hynes yard in Long Beach, California (approximate Lat. 33.863247, Long. -118.164408) to Milepost 96 near Cabazon, Riverside County, California (Section 9 Township 3 S Range 3 E) (approximate Lat. 33.927002, Long. -116.683992), and includes existing fixtures, related assets and all real property interests appurtenant to, or necessary or convenient to the operation of the pipeline.

**[Insert Map]**

**Option Agreement for  
Purchase of Line No. 1904 Facilities**

This Option Agreement is entered into as of the 26th day of August 2011, between Cadiz, Inc. (“Cadiz”), and El Paso Natural Gas Company (“EPNG”).

WHEREAS, EPNG owns a former oil transmission pipeline and related real property interests that is currently inactive and that extends from a location near the unincorporated community of Cadiz in eastern San Bernardino County in California for approximately 220 miles and terminates near the unincorporated community of Wheeler Ridge in Kern County, California, generally known as the “1904 Pipeline” and as more fully described below; and

WHEREAS, Cadiz desires to acquire an option to purchase the 1904 Pipeline and EPNG is willing to grant such an option on the terms set forth herein.

In consideration of the mutual covenants and conditions hereinafter contained, Cadiz and EPNG hereby agree as follows:

1. Definitions. As used herein, the following terms shall have meanings as defined below:
  - a. “1904 Pipeline” shall be that portion of the All American Pipeline and facilities, inclusive of all appurtenant easements, rights of way and fixtures, whatever they may be, as well as EPNG’s interests in any fee or leased property underlying such portion of the pipeline and facilities, located within the State of California and commencing at a point near the unincorporated community of Cadiz, in eastern San Bernardino County and terminating at a point near the unincorporated community of Wheeler Ridge in Kern County, that was not converted to natural gas service and which is currently inactive. The 1904 Pipeline consists of approximately 220 miles of the All American Pipeline. The 1904 Pipeline is described and depicted more fully on Exhibit A, attached hereto.
  - b. “All American Pipeline” is that 30-inch outside diameter pipeline that was originally constructed by Plains All American Pipeline, L.P. as a crude oil transmission pipeline and which extended from a point near Bakersfield, California to a point near McCamey, Texas.
  - c. “Closing” has the meaning set forth in the Purchase Agreement.
  - d. “Closing Date” has the meaning set forth in the Purchase Agreement.
  - e. “Exercise Notice” has the meaning set forth in Section 3.
  - f. “Option” has the meaning set forth in Section 2.
  - g. “Option Agreement” means this agreement including the attached Exhibits, which are hereby incorporated by this reference as if fully set forth herein.
  - h. “Option Payment” has the meaning set forth in Section 2.
  - i. “Option Period” has the meaning set forth in Section 3.
  - j. “Party” or “Parties” shall mean EPNG or Cadiz, or both, respectively.
  - k. “Purchase Agreement” means the form of Purchase and Sale Agreement attached as Exhibit B hereto.
  - l. “Purchase Price” has the meaning set forth in the Purchase Agreement.
  - m. “Records” has the meaning set forth in Section 6.
2. Option. In consideration for the payment by Cadiz of the sum of Seventy Thousand Dollars (\$70,000) (the “Option Payment”), the receipt of which EPNG acknowledges, EPNG hereby gives and grants to Cadiz the exclusive right and option (the “Option”) to elect to purchase the 1904 Pipeline on the terms set forth herein. The Option Payment is non-refundable and will be forfeited in the event that Cadiz fails to exercise the Option.
3. Option Period. The Option may be exercised by Cadiz by giving EPNG written notice of such exercise (the “Exercise Notice”) in the manner set forth in Section 9 below. Cadiz may exercise the Option at any time before the expiration of the Option Period, which shall commence upon the date of this Option Agreement up to and including 5:00 p.m., Mountain Time, on February 29, 2012. During the Option Period, Cadiz shall evaluate the feasibility of using the 1904 Pipeline to convey water, recycled water, wastewater and brine (hereinafter “Water”) by, among other things, conducting Due Diligence Review as set forth in Section 5, and Inspections and Testing in Section 6. Cadiz acknowledges that it may not be possible to obtain federal, state, or local government permits and further regulatory approvals, including compliance with NEPA or CEQA, as may be required to use the 1904 Pipeline to convey Water. Cadiz acknowledges that compliance with any applicable governmental regulatory requirements, including obtaining any required permits or compliance with NEPA or CEQA, may be required to use the 1904



Pipeline for the conveyance of Water.

4. Purchase Agreement; Purchase Price. In the event that Cadiz elects to exercise the Option, then within three (3) business days following EPNG's receipt of the Exercise Notice, EPNG and Cadiz shall enter into the Purchase Agreement, which sets forth the terms and conditions of the sale of the 1904 Pipeline by EPNG and the purchase of such assets by Cadiz. The Purchase Agreement shall provide for a total purchase price for the 1904 Pipeline of Forty Million Dollars (\$40,000,000), payable on the Closing Date. The Option Payment shall not be applied against the Purchase Price and shall not offset any portion of the Purchase Price that is due at Closing.
5. Due Diligence Review. During the Option Period, EPNG shall:
  - a. Give Cadiz and its representatives, employees, consultants, independent contractors, attorneys and other advisors ("Cadiz Representatives") reasonable access by telephone or in person to EPNG's personnel with knowledge of the 1904 Pipeline or operations thereof (including, but not limited to, production and land administration) during regular office hours for any and all due diligence requests, inspections and investigations, provided that such contact with EPNG's personnel does not unreasonably interfere with the ongoing operations of EPNG.
  - b. Submit to Cadiz or Cadiz Representatives as promptly as practicable, copies of such documents as Cadiz may reasonably request. Copies of documents in excess of fifty (50) pages will be provided at Cadiz' expense.
  - c. Furnish to Cadiz all other information with respect to the 1904 Pipeline as Cadiz may from time to time request, unless EPNG is prohibited therefrom by any agreement, contract, applicable privilege, obligation or duty by which it is bound or by the necessity of any third-party approval; provided that, if requested by Cadiz, EPNG shall use reasonable efforts to obtain the waiver of any such prohibition or the granting of any such approval.
6. Inspections and Testing. During the Option Period, Cadiz, and/or its designee, shall have the right of ingress and egress to the 1904 Pipeline so that Cadiz may make any inspections, tests, surveys and studies of the 1904 Pipeline which Cadiz may desire, including:
  - a. Environmental sampling or other tests of soils, water, groundwater, and other liquids, equipment, etc. Cadiz shall provide to EPNG or EPNG's designee a detailed scope of work and/or work plan pursuant to which the assessment work will take place.
  - b. Cadiz shall have the right to perform, conduct or make such tests of the 1904 Pipeline as Cadiz deems necessary or desirable to determine the suitability of the 1904 Pipeline for use as a Water transmission pipeline, provided however, that such tests shall be non-destructive of the pipeline facilities and will not diminish the ability of EPNG to use the pipeline in the future in the event that Cadiz does not exercise the Option and purchase the 1904 Pipeline.
  - c. After giving EPNG reasonable notice, which notice may be verbal or written (in person or by telephone), Cadiz and/or its designee may access the 1904 Pipeline during normal business hours and may also make arrangements to access the 1904 Pipeline at other times upon agreement with EPNG. EPNG may have a representative present (at EPNG's expense) at all phases of Cadiz's examination or testing of the 1904 Pipeline.
  - d. Cadiz shall promptly deliver to EPNG a copy of every report of findings obtained by Cadiz as a result of the activities described in clauses (a) through (c).
  - e. The inspections, tests, surveys and studies conducted pursuant to this Section 6 shall be at Cadiz's expense. However, unless otherwise agreed in writing by the Parties, Cadiz shall not be obligated to pay for or reimburse EPNG for any costs or expenses that may be incurred by EPNG, including costs associated with having EPNG personnel present for any inspection, examination or test.
  - f. EPNG shall give Cadiz and Cadiz Representatives full access to, and the right to copy, all the books, records, surveys, maps, geophysical and engineering data and other documents of EPNG directly pertaining to the 1904 Pipeline ("Records"), provided that EPNG shall have no obligation hereunder to provide Cadiz or Cadiz Representatives with access to any data that relates to those portions of the former All-American Oil Pipeline that have been converted to natural gas service and which are retained by EPNG, and which are not part of this Option Agreement.
7. Maintenance of 1904 Pipeline. Throughout the Option Period EPNG agrees to maintain the 1904 Pipeline in the same manner as it has during the period prior to this Option Agreement, and to:
  - a. Not undertake any physical modification of the 1904 Pipeline without obtaining the prior written consent of Cadiz.
  - b. Not voluntarily abandon any portion of the 1904 Pipeline, including any rights associated therewith.
  - c. Not enter into any agreement or arrangement transferring, selling, pledging or encumbering any portion of the 1904 Pipeline.
  - d. Not grant any option, preferential right to purchase or other right to purchase the 1904 Pipeline.
  - e. Provide Cadiz with written notice of any claims, demands, suits or actions made against or by EPNG which affect the 1904 Pipeline.

8. Cooperation. Cadiz and EPNG shall execute and deliver such other instruments and documents and take such other actions as may be reasonably necessary to evidence and effectuate the transaction contemplated by this Option Agreement.
9. Notices. Except as to Cadiz' Due Diligence Review (Section 6) and Inspections and Testing (Section 7), all other notices, requests, demands, and other communications required or permitted to be given under this Option Agreement shall be deemed to have been duly given if in writing and delivered personally or received via first class, postage prepaid, certified mail, overnight delivery service or by fax addressed as follows:

If to EPNG:

For U.S. Mail Delivery:

El Paso Natural Gas Company  
P.O. Box 1087  
Colorado Springs, CO 80944  
Attention: Edward J. Miller  
Fax No.: (719) 520-3792  
For courier Delivery:  
El Paso Natural Gas Company  
2 North Nevada Avenue  
Colorado Springs, CO 90903  
Attention: Edward J. Miller  
Fax No.: (719) 520-3792

If to Cadiz:

Cadiz, Inc.  
550 South Hope Street, Suite 2850  
Los Angeles, CA 90017  
Attention: Scott Slater  
Fax No. (805) 965-4333

Any Party may change the address to which such communications are to be directed to it by giving notice to the other in the manner provided in this Section 9.

10. Assignment. Neither this Option Agreement nor any part hereof may be assigned by either Party without the prior written consent of the other Party; provided, however, that the rights of Cadiz hereunder shall be assignable by Cadiz to an entity controlled by Cadiz. "Control" for purposes of this Section 10, shall mean a direct or indirect voting and ownership interest in such other entity of greater than 50%.
11. Governing Law. This Option Agreement is governed by and shall be construed according to the laws of the State of Colorado, excluding any conflicts-of-law rule or principle that might apply the law of another jurisdiction.
12. Entire Agreement. This Option Agreement and the Confidentiality and Nondisclosure Agreement entered into by the Parties dated January 27, 2011 (as the same may be modified by Section 13 hereof), constitute the entire agreement between EPNG and Cadiz with respect to the subject matter hereof, superseding all prior statements, representations, discussions, agreements and understandings relating to such subject matter.
13. Confidentiality. The terms of this Option Agreement, all information provided pursuant to the terms of this Option Agreement and the fact the Parties are engaged in communications and discussions regarding the Option Agreement are confidential and shall be governed by the terms of the Confidentiality and Nondisclosure Agreement entered into by the Parties dated January 27, 2011, provided, however, that the Parties will cooperate in good faith to accommodate reasonable requests to comply with public company disclosure requirements.
14. Costs. EPNG and Cadiz shall each bear its own costs relating to the negotiation of this Option Agreement and due diligence hereunder, excepting as provided in Section 5(b). Neither Party shall have any liability, contingent or otherwise, for brokers' or finders' fees in respect of the matters provided for in this Option Agreement that were incurred by the other Party.
15. Amendments; Waiver. Other than as specifically provided herein, this Option Agreement may be amended, superseded, or canceled, and any of the terms hereof may be waived, only by a written instrument specifically stating that it amends, supersedes, or cancels this Option Agreement or waives any of the terms herein, executed by all Parties or, in the case of a waiver, by the Party waiving compliance. Other than as specifically provided herein, the failure of any Party at any time to require performance of any provision herein shall in no manner affect the right at a later time to enforce the same. No waiver by any Party of any condition, or of any breach of any term, covenant, representation, or warranty, shall be deemed or constitute a waiver of any other condition, or breach of any other term, covenant, representation, or warranty, nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.
16. Convenient Reference. Section headings contained in this Option Agreement are for convenient reference only, and shall not in any way affect the meaning or interpretation of this Option Agreement.
17. No Third-Party Beneficiaries. Nothing in this Option Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Option Agreement on any person or entity other than the Parties and their respective successors and permitted assigns.

IN WITNESS WHEREOF, the Parties have duly executed this Option Agreement as of the date first set forth above.

**EL PASO NATURAL GAS COMPANY**

By: /s/ James J. Cleary  
James J. Cleary  
President

**CADIZ, INC.**

By: /s/ Scott Slater  
Scott Slater  
General Counsel

**Exhibits**

A – Description of 1904 Pipeline  
B - Form of Purchase Agreement

**Exhibit A**  
**Description of 1904 Pipeline**

The “1904 Pipeline” shall be that portion of pipeline that was constructed and formerly utilized as an oil transportation pipeline commonly known as the “All American Pipeline” and those facilities, inclusive of all appurtenant easements, rights of way and fixtures, whatever they may be, as well as EPNG’s interests in any fee or leased property underlying such portion of the pipeline and facilities, which are located within the State of California and commencing at a point near the unincorporated community of Cadiz, in eastern San Bernardino County and extending in a north-westerly direction for approximately 220 miles to a point of termination near the unincorporated community of Wheeler Ridge in Kern County, California. The 1904 Pipeline does not include any pipeline facilities, easements or rights currently utilized by El Paso in connection with the operation of that portion of the All American Pipeline that was converted to natural gas service and is currently being operated as part of the FERC regulated facilities of El Paso Natural Gas Company.

**Exhibit B**  
**Form of Purchase Agreement**

**PURCHASE AND SALE AGREEMENT**

**between**

**EL PASO NATURAL GAS COMPANY**  
**(EPNG)**

**and**

**CADIZ, INC.**  
**(Cadiz)**

**DATED: February \_\_, 2012**

**1904 Pipeline Facilities  
San Bernardino and Kern Counties, California  
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**EXHIBITS**

- Exhibit A - Description of 1904 Pipeline
- Exhibit B - Assignment, Bill of Sale and Deed
- Exhibit C - Deed
- Exhibit D - Form of Certificate of Non-Foreign Status

**PURCHASE AND SALE AGREEMENT**

THIS PURCHASE AND SALE AGREEMENT, dated as of February \_\_, 2012, is by and between **EL PASO NATURAL GAS COMPANY**, a Delaware corporation ("EPNG"), whose address is 2 North Nevada, Colorado Springs, CO 80903 and **CADIZ, INC.**, a Delaware corporation ("Cadiz"), whose address is 550 South Hope Street, Suite 2850, Los Angeles, CA 90017.

**W I T N E S S E T H:**

WHEREAS, EPNG owns a former oil transmission pipeline and related real property interests that is currently inactive and that extends from a location near the unincorporated community of Cadiz in eastern San Bernardino County in California for approximately 220 miles and terminates near the unincorporated community of Wheeler Ridge in Kern County, California, generally known as the "1904 Pipeline," as more particularly described in Exhibit "A" hereto;

WHEREAS, EPNG desires to sell all of its right, title and interest in the 1904 Pipeline to Cadiz and Cadiz desires to purchase the same from EPNG; and

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

**SECTION 1. DEFINITIONS**

1.1 Specific Definitions. As used herein, the following terms shall have meanings as defined below:

1904 Pipeline shall mean those collective interests described as the 1904 Pipeline described on Exhibit A attached hereto.

Agreement shall mean this Purchase and Sale Agreement, including the Exhibits and Schedules attached hereto, as amended, modified, and supplemented from time to time, which are hereby incorporated by this reference as if restated fully herein.

Books and Records shall include all records relating directly to the 1904 Pipeline, Contracts, Permits or Real Property Interests, but shall not include attorney-client privileged communications and/or any materials obtained by EPNG under the terms of effective confidentiality and/or non-disclosure agreements.

Business Day shall mean Monday, Tuesday, Wednesday, Thursday and Friday, but excluding Federal bank holidays.

Claims shall mean any demand, claim, loss, cost (including costs of defense, attorney's and expert's fees), damage, expense, action, suit, Proceeding, judgment and liability of any nature.

Close or Closing shall mean the closing of the sale of the 1904 Pipeline to Cadiz.

Closing Date shall mean the date on which Closing occurs in accordance with Section 7.

Closing Year shall mean the calendar year in which the Closing occurs.

Conveyance Documents shall mean all deeds, bills of sale, assignments, grants and other good and sufficient instruments of transfer, conveyance and assignment, to effect or evidence the conveyance, assignment, transfer, and delivery of the 1904 Pipeline to Cadiz.

Disposition shall have the meaning set forth in Section 8.1.

Effective Time shall have the meaning set forth in Section 2.2.

Environment shall mean soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwater, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environment medium or natural resource.

Environmental Condition shall mean any on-site or off-site condition associated with the 1904 Pipeline which (i) constitutes a Release of a Hazardous Material requiring Remediation under any applicable Environmental Law, (ii) constitutes a violation of any applicable Environmental Law, or (iii) any threatened Release which, if such threatened Release occurred, would likely require Remediation under any applicable Law or likely constitute a violation of any applicable Environmental Law.

Environmental Law shall mean any applicable federal, state, tribal or local legal requirement that requires or relates to:

- (a) Advising appropriate authorities, employees and the public of intended or actual Releases of Hazardous Materials, violations of discharge limits or other prohibitions;
- (b) Preventing or reducing to acceptable levels the Release of Hazardous Materials or other contaminants into the Environment;
- (c) Reducing the quantities, preventing the Release or minimizing the hazardous characteristics of wastes, substances or materials that are generated;
- (d) Assuring that products are designed, formulated, packaged and used so that they do not present unreasonable risk to human health or the Environment when used or disposed of;
- (e) Protecting natural resources, species or ecological amenities;
- (f) Reducing to acceptable levels the risks inherent in the transportation of Hazardous Materials; or
- (g) Remediation of Hazardous Materials that have been released, preventing the threat of Release, or paying the costs of such cleanup or prevention.

Such Environmental Laws shall include, without limitation: (i) the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §§ 6901 et seq.; (ii) the Comprehensive Environmental Response, Compensation, and Liability Act, as amended, 42 U.S.C. §§ 9601 et seq.; (iii) the Federal Water Pollution Control Act (Clean Water Act), as amended, 33 U.S.C. §§ 1251 et seq.; (iv) the Safe Drinking Water Act, as amended, 42 U.S.C. §§ 300f et seq.; (v) the Toxic Substances Control Act, as amended, 15 U.S.C. §§ 2601 et seq.; (vi) the Emergency Planning and Community Right-to-Know Act of 1986, as amended, 42 U.S.C. §§ 11001 et seq.; (vii) the National Environmental Policy Act, as amended, 42 U.S.C. §§ 4321 et seq.; (viii) the Occupational Safety and Health Act, as amended, 29 U.S.C. §§ 651 et seq.; (ix) the Pollution Prevention Act of 1990, as amended, 42 U.S.C. §§ 13101 et seq.; (x) the Oil Pollution Act of 1990, as amended, 33 U.S.C. §§ 2702 et seq.; (xi) the Hazardous Materials Transportation Act, as amended, 49 U.S.C. §§ 1801 et seq.; (xii) the Clean Air Act, as amended, 42 U.S.C. §§ 7401 et seq.; (xiii) the National Environmental Policy Act, 42 U.S.C. 4321 et seq.; (xiv) the California Environmental Quality Act, Cal. Pub. Resources Code §§ 21000 et seq.; (xv) any rules or regulations promulgated under (i) through (xiv); and (xvi) any comparable tribal, state or local statutes, ordinances, rules and regulations.

Governmental Authority shall mean any federal, state, local, foreign, tribal, or other governmental or administrative authority or agency.

Hazardous Material shall mean any waste, Petroleum substance, pollutant, contaminant or other substance or material, including any admixture or solution thereof that is listed, defined, designated or classified pursuant to any Environmental Law as being, for example, hazardous, radioactive, deleterious or toxic.

Indemnified Party shall have the meaning set forth in Section 9.5.

Indemnifying Party shall have the meaning set forth in Section 9.5.

Law shall mean all applicable local, state, federal, tribal and foreign law and rules, regulations, codes, and ordinances promulgated thereunder, including all local, state, federal, tribal and foreign laws, rules, and regulations.

Lien shall mean any lien, claim, charge, encumbrance, mortgage, pledge, security interest, equity, covenant, condition, or restriction.

Mountain Clock Time or MCT shall mean Mountain Standard Time (MST) except for that period when daylight savings is in effect. During this period, MCT shall mean Mountain Daylight Time (MDT). Unless otherwise stated, all times in this Agreement are Mountain Clock Time.

Offer Notice shall have the meaning set forth in Section 8.1.

Offer Period shall have the meaning set forth in Section 8.1.

Offer Price shall have the meaning set forth in Section 8.1.

Party or Parties shall mean EPNG or Cadiz, or both, respectively.

Permit shall mean any license, permit, franchise, authority, consent, or approval of a Governmental Authority relating directly to the 1904 Pipeline.

Person shall mean any natural person, corporation, company, limited liability company, partnership (general or limited), trust, joint venture, association, joint stock company, trust, unincorporated organization, government (or agency or political subdivision thereof), or any other entity or association recognized by applicable Law.

Petroleum has the same definition as in the Resource Conservation and Recovery Act, as amended, 42 U.S.C. § 6901 et seq.

Proceeding shall mean any action, suit, claim, investigation, review, or other proceeding, at law or in equity, before any federal, state, municipal, or other governmental court, department, commission, board, bureau, agency, or other instrumentality or any arbitrator, board of arbitration, or similar entity.

Purchase Offer shall have the meaning set forth in Section 8.1.

Purchase Price shall mean the total dollar amount payable by Cadiz to EPNG for the 1904 Pipeline as described in Section 3.1 of this Agreement.

Purchaser shall have the meaning set forth in Section 8.1.

Real Property Interests shall mean EPNG's interests in any fee or leased property underlying the 1904 Pipeline or any Right-of-Way pertaining to real property underlying the 1904 Pipeline and appurtenant fixtures, whatever they may be, including the property interests to be conveyed, as described on Exhibit A attached hereto.

Reasonable Efforts shall mean efforts in accordance with reasonable commercial practice and without the incurrence of unreasonable delay or expense.

Release shall mean any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping or other releasing into or migrating within the Environment, whether intentional or unintentional (including the abandonment or discarding of barrels, containers, and other closed receptacles containing any Hazardous Material).

Right-of-Way shall mean any right-of-way, easement, or prescriptive right that pertains to real property underlying the 1904 Pipeline.

Tax shall mean, as relating to the 1904 Pipeline, any federal, state, or local income tax, ad valorem tax, excise tax, sales tax, use tax, franchise tax, real or personal property tax, transfer tax, gross receipts tax, or other tax, assessment, duty, fee, levy, or other governmental charge, together with and including without limitation, any and all interest, fines, penalties and additions to tax resulting from, relating to, or incurred in connection with any such tax or any contest or dispute thereof.

1.2 Other Terms. Other terms may be defined elsewhere in the text of this Agreement and shall have the meaning indicated throughout this Agreement.

1.3 Other Definitional Provisions.

(a) When used in this Agreement, the words "hereof," "herein," and "hereunder," and words of similar import shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(b) The terms defined in the singular shall have a comparable meaning when used in the plural and vice versa.

(c) Whenever a statement of fact is qualified by the term "known," "knowledge," "best knowledge," or similar term or phrase, it is intended to indicate actual knowledge, obtained through a Party's Reasonable Efforts to ascertain the factual basis of the statement. Reasonable Efforts by the Party making such statement shall include the interviewing of the Party's current officers, directors, members, agents, contractors, or employees who, in the reasonable exercise of the discretion of the Party making the statement, are most likely to possess the facts being sought. Where such interview(s) indicate that the facts being sought are exclusively in the possession of a former officer, director, member, agent, or employee of the Party, the Party shall make a Reasonable Effort to contact such person(s) and obtain the facts being sought.

## **SECTION 2. SALE OF THE 1904 PIPELINE**

2.1 Sale of 1904 Pipeline. At the Closing, EPNG shall sell, transfer and deliver to Cadiz all of EPNG's right, title, and interest in the 1904 Pipeline, and Cadiz shall purchase and acquire from EPNG, all of EPNG's right, title, and interest thereto.

2.2 Title and Risk of Loss. Title and risk of loss with respect to the 1904 Pipeline shall pass to Cadiz at 5:00 p.m. Mountain Clock Time on the Closing Date (the "Effective Time").

## **SECTION 3. PURCHASE PRICE**

3.1 Purchase Price. The Purchase Price of the 1904 Pipeline shall be Forty Million Dollars (\$40,000,000), which shall be paid to EPNG at Closing.

3.2 Allocation of Purchase Price. EPNG and Cadiz agree to allocate the Purchase Price for federal, state and local Tax purposes to Class V Assets and to prepare Form 8594 (Asset Acquisition Statement under Section 1060), in a manner consistent therewith. EPNG and Cadiz shall not take any position inconsistent with such allocation upon examination of any Tax return, in any refund claim, in any litigation, investigation or otherwise, unless required to do so by applicable Law after notice to the other Party or with such other Party's prior consent.

#### **SECTION 4. REPRESENTATIONS AND WARRANTIES OF EPNG**

EPNG represents and warrants to Cadiz that the statements contained in this section are true and correct as of the date of this Agreement and as of Closing Date.

4.1 Organization and Good Standing. EPNG is a corporation duly organized, validly existing, and in good standing under the Laws of the State of Delaware, with all necessary organizational power and authority to carry on its business as presently conducted.

4.2 Corporate Authority: Authorization of Agreement. EPNG has all requisite corporate power and authority to execute and deliver this Agreement, to consummate the transactions contemplated hereby, and to perform all the terms and conditions hereof to be performed by it. The execution and delivery of this Agreement by EPNG and the consummation of the transactions contemplated hereby have been duly authorized and approved by all requisite corporate actions on the part of EPNG.

4.3 No Broker. EPNG has not retained or employed any broker, finder, or similar agent, or otherwise taken any action in connection with the negotiations relating to this Agreement and the transactions contemplated hereby in a manner so as to give rise to any legally justifiable claims against either of the Parties for any brokerage commission, finder's fee, or other similar payment.

4.4 Governmental Approvals. Except for any Real Property Interests which require consent to assign, no consent, approval, waiver, order, or authorization of, or registration, declaration, or filing with any Governmental Authority is required to be obtained or made in conjunction with the execution and delivery of this Agreement by EPNG or the consummation by EPNG of the transactions contemplated hereby. (This representation and warranty shall expire five (5) years after the Closing.)

4.5 No Other Representations or Warranties. Except for the representations and warranties of EPNG in this Agreement, neither EPNG nor any other Person makes or shall be deemed to have made any other representations or warranties on behalf of EPNG, express or implied, and EPNG hereby disclaims any such representations and warranties, whether by EPNG, any of EPNG's employees, agents, or representatives, or any other Person. **EXCEPT AS SET FORTH IN THIS AGREEMENT, THE 1904 PIPELINE IS SOLD TO CADIZ "AS IS, WHERE IS" WITH ALL FAULTS. EXCEPT AS SPECIFICALLY SET FORTH HEREIN, EPNG HEREBY EXPRESSLY DISCLAIMS AND NEGATES TO CADIZ AND ALL THIRD PERSONS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, DESIGN, PERFORMANCE, CONDITION, CERTIFICATE, MAINTENANCE, OR SPECIFICATION.**

#### **SECTION 5. REPRESENTATIONS AND WARRANTIES OF CADIZ**

Cadiz represents and warrants to EPNG that the statements contained in this section are true and correct as of the date of this Agreement and as of Closing Date.

5.1 Organization and Good Standing. Cadiz is a corporation duly organized, validly existing, and in good standing under the Laws of the State of Delaware with all necessary organizational power and authority to carry on its business as presently conducted.

5.2 Corporate Authority: Authorization of Agreement. Cadiz has all requisite organizational power and authority to execute and deliver this Agreement, to consummate the transactions contemplated hereby, and to perform all the terms and conditions hereof to be performed by it. The execution and delivery of this Agreement by Cadiz and the consummation of the transactions contemplated hereby have been duly authorized and approved by all requisite organizational actions on the part of Cadiz.

5.3 No Violation. This Agreement and the execution and delivery hereof by Cadiz does not, and the fulfillment and compliance with the terms and conditions hereof, and the consummation of the transactions contemplated hereby will not:

- (a) violate or conflict with any provision of the Articles of Incorporation or Bylaws of Cadiz;
- (b) violate or conflict with any provision of any Law or any judicial, administrative or arbitration order, award, judgment, writ, injunction, or decree applicable to or binding upon Cadiz.; or
- (c) conflict with or result in a breach of, constitute a default under (whether with notice or lapse of time or both), or accelerate or permit the acceleration of performance required by, or require any consent or approval under any Law, order, judgment, decree, Permit, or contract to which Cadiz is a party or by which it is bound or to which any of its properties is subject.

5.4 No Broker. Cadiz has not retained or employed any broker, finder, or similar agent, or otherwise taken any action in connection with



the negotiations relating to this Agreement and the transactions contemplated hereby in a manner so as to give rise to any legally justifiable claims against either of the Parties for any brokerage commission, finder's fee, or other similar payment.

5.5 Governmental Approval. No consent, approval, waiver, order, or authorization of, or registration, declaration, or filing with any Governmental Authority is required to be obtained or made in connection with the execution and delivery of this Agreement by Cadiz or the consummation by Cadiz of the transactions contemplated hereby. (This representation shall expire five (5) years after the Closing.)

## **SECTION 6. DISCLAIMERS AND ACKNOWLEDGEMENTS**

6.1 Title. Title to the 1904 Pipeline is being conveyed herein by assignment without warranty of Title.

6.2 Environmental Condition. **AT CLOSING CADIZ EXPRESSLY ASSUMES ALL ENVIRONMENTAL LIABILITIES UNDER ANY ENVIRONMENTAL LAW WITH RESPECT TO THE 1904 PIPELINE, AND RELEASES EPNG FROM SAME.**

6.3 Physical/Environmental Condition of the 1904 Pipeline.

(a) Cadiz has investigated and/or inspected the 1904 Pipeline and is familiar and satisfied with the physical and environmental condition of the 1904 Pipeline. Cadiz has made its own determination of the merchantability, quality and environmental condition of the 1904 Pipeline and its suitability and fitness for any particular purpose of use. Cadiz acknowledges that the 1904 Pipeline has previously been used for the transport of crude oil and that Hazardous Materials may have been transported in the 1904 Pipeline and that releases of Hazardous Materials could have occurred in connection with such operations.

(b) Cadiz specifically acknowledges the 1904 Pipeline may contain Hazardous Materials and that special procedures may be required for the removal and disposal of certain Hazardous Materials.

(c) Cadiz acknowledges that EPNG is making no warranty or representation regarding the physical and/or environmental condition of the 1904 Pipeline and that following the Closing, EPNG will have no obligation to undertake or participate in any repair, alteration, remediation or other work with regard to the 1904 Pipeline.

6.4 Status of Permits/Licenses/Authorizations. Cadiz has reviewed the available Permits, Licenses and Authorizations that EPNG currently holds with respect to the 1904 Pipeline. Cadiz acknowledges that EPNG is making no warranty or representations regarding the sufficiency or adequacy of such Permits, Licenses and/or Authorizations for the operations of the 1904 Pipeline for its current or any anticipated use. EPNG will have no obligation to acquire any Permit, License or Authorization to permit the operation of the 1904 Pipeline. Cadiz acknowledges that its compliance with any applicable Governmental Agency regulatory requirements, including obtaining any required permits or compliance with NEPA or CEQA or other state and federal environmental statute, may be required to use the 1904 Pipeline to convey water, recycled water, waste water and brine (hereinafter "Water").

6.5 Opportunity for Inspection. Cadiz acknowledges that prior to Closing, EPNG has provided Cadiz with satisfactory opportunities to inspect the 1904 Pipeline and the Books and Records relating thereto.

## **SECTION 7. CLOSING**

7.1 Closing Date. The Closing of the transaction contemplated by this Agreement shall take place on February \_\_, 2012 at the offices of EPNG in Colorado Springs, Colorado.

7.2 Deliveries by Cadiz. At the Closing, Cadiz shall deliver the Purchase Price to EPNG by wire transfer in immediately available funds. EPNG shall provide wiring instructions to Cadiz at least five (5) Business Days prior to the Closing.

7.3 Deliveries by EPNG. At the Closing, EPNG shall deliver to Cadiz:

(a) A duly executed Assignment, Bill of Sale and Conveyance, substantially in the form attached hereto as Exhibit B;

(b) Duly executed Deed(s), substantially in the form attached hereto as Exhibit C;

(c) The Books and Records; and

(d) A properly executed certificate of non-foreign status in accordance with Treas. Reg. §1.1445-2(b), which shall be substantially in the form of Exhibit D to this Agreement, certifying under penalties of perjury that EPNG is not a foreign person within the meaning of section 1445(f) of the Internal Revenue Code of 1986 and Treas. Reg. §1.1445-2(b).

## **SECTION 8. POST CLOSING COVENANTS**

8.1 Right of First Refusal. Cadiz agrees that it will not sell or otherwise dispose of all or part of the 1904 Pipeline for a use other than the conveyance of Water (a "Disposition") without having first complied with the following requirements of this Section 8.1:

(a) No Disposition may be made under this Section 8.1 unless Cadiz has received a bona fide written offer (the "Purchase Offer") from a prospective purchaser (the "Purchaser") to purchase the 1904 Pipeline, or any portion thereof, for a purchase price (the "Offer Price") denominated and payable in United States Dollars, and which shall not be comprised of any other form(s) of consideration, which offer shall be in writing signed by the Purchaser and shall be irrevocable for a period ending no sooner than the Business Day following the end of the Offer Period (hereafter defined).

(b) Prior to making any Disposition which is subject to this Section 8.1, Cadiz shall give to EPNG written notice (the "Offer Notice") which shall include a copy of the Purchase Offer and an offer to sell the 1904 Pipeline, or the applicable portion thereof, to EPNG for an amount that is equal to the lesser of the Offer Price or the Purchase Price established in Section 3.1 of this Agreement, and in accordance with the same terms those contained in the Purchase Offer.

(c) The offer to EPNG shall be irrevocable for a period ending at 5:00 p.m. Mountain Clock Time on the thirtieth (30th) Day following the Day the Offer Notice is delivered (the "Offer Period").

(d) In the event that EPNG does not accept the offer as to all of the 1904 Pipeline, or the applicable portion thereof that is the subject of the Purchase Offer, Cadiz shall be free to sell to the Purchaser only that portion of the 1904 Pipeline not accepted by EPNG in accordance with the terms and conditions of this Section 8.1.

(e) In the event that the offer to sell the 1904 Pipeline, or the applicable portion thereof, is accepted by EPNG, the closing date of the sale shall take place within thirty (30) Days after the offer is accepted or, if later, the date of the closing set forth in the Purchase Offer. Cadiz and EPNG shall execute such documents and instruments as may be necessary or appropriate to effect the sale of the 1904 Pipeline, or the applicable portion thereof, so accepted pursuant to the terms of the offer.

(f) To the extent the offer is rejected, Cadiz may sell the 1904 Pipeline, or the applicable portion thereof, so rejected to the Purchaser at any time within sixty (60) Days after the last Day of the Offer Period; provided that such sale shall be made on terms no more favorable to the Purchaser than the terms contained in the Purchase Offer. The offer shall be deemed to be rejected by EPNG if EPNG fails to accept by the expiration of the Offer Period.

8.2 Removal/Replacement of Signage. As soon as reasonably practical following the Closing, representatives of EPNG and Cadiz will jointly remove and replace any signage on or relating to the 1904 Pipeline in order to properly designate the 1904 Pipeline as the property of Cadiz. After the Closing Cadiz shall not refer to the 1904 Pipeline in a manner that identifies EPNG as a prior owner of the 1904 Pipeline.

8.3 Restriction on Use of 1904 Pipeline. Cadiz agrees and covenants that it will not use the 1904 Pipeline for any use other than the transportation of Water, and agrees that a restrictive covenant shall be included in the Deed for the real property conveyed as part of the 1904 Pipeline. In addition to any other rights provided hereunder, any attempt by Cadiz or its successors or assigns to use the 1904 Pipeline for any purpose other than the transportation of Water shall provide EPNG a right to purchase the 1904 Pipeline for the Purchase Price on commercially reasonable terms.

8.4 Memorandum of Covenants. A memorandum of the Covenants contained in this Section 8, in recordable form describing the restrictions on the use of the 1904 Pipeline, the Right of First Refusal and Purchase Rights described above, may be prepared by EPNG and executed by Cadiz. EPNG shall have the right to cause such memorandum to be recorded in the real property records of San Bernardino and Kern Counties, California.

## SECTION 9. INDEMNIFICATION

9.1 Indemnification by EPNG. Upon and after Closing, EPNG shall to the fullest extent permitted by Law, release, defend, indemnify, and hold harmless Cadiz, its parent and subsidiary companies, and affiliated entities and each of their respective directors, officers, employees, agents and other representatives from and against all Claims:

- (a) arising from the breach by EPNG of any effective representation or warranty or covenant of EPNG set forth in this Agreement;
- and
- (b) for Taxes attributable to periods prior to the Closing.

9.2 Indemnification by Cadiz. Upon and after Closing, Cadiz shall to the fullest extent permitted by Law, release, defend, indemnify, and hold harmless EPNG, its parent and subsidiary companies, and affiliated entities and each of their respective directors, officers, employees, agents and other representatives from and against all Claims:

- (a) arising from the breach by Cadiz of any representation or warranty or covenant of Cadiz set forth in this Agreement;
- (b) for Taxes attributable to periods after the Closing; and
- (c) arising out of the ownership and/or operation of the 1904 Pipeline during the period after the Closing.

9.3 Limitation on Liability of EPNG. **IN NO EVENT SHALL EPNG BE LIABLE TO CADIZ HEREUNDER FOR EXEMPLARY, PUNITIVE, INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES OF ANY KIND SUSTAINED BY CADIZ, ARISING DIRECTLY OR INDIRECTLY FROM, INCIDENT TO, OR CONNECTED WITH THE 1904 PIPELINE OR THE SALE THEREOF, REGARDLESS OF SOLE OR CONCURRENT NEGLIGENCE OF EPNG OR THIRD PARTIES, STRICT LIABILITY, OR DEFECT IN PREMISES, EQUIPMENT OR MATERIAL, AND REGARDLESS OF WHETHER PREEXISTING THIS SALE (EXCEPT TO THE EXTENT CADIZ IS OBLIGATED TO PAY NON-AFFILIATED THIRD PARTIES SUCH DAMAGES).**

9.4 Limitation on Liability of Cadiz. **IN NO EVENT SHALL CADIZ BE LIABLE TO EPNG HEREUNDER FOR EXEMPLARY, PUNITIVE, INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES OF ANY KIND SUSTAINED BY EPNG, ARISING DIRECTLY OR INDIRECTLY FROM, INCIDENT TO, OR CONNECTED WITH THE 1904 PIPELINE OR THE SALE THEREOF, REGARDLESS OF SOLE OR CONCURRENT NEGLIGENCE OF CADIZ OR THIRD PARTIES, STRICT LIABILITY, OR DEFECT IN PREMISES, EQUIPMENT OR MATERIAL, AND REGARDLESS OF WHETHER PREEXISTING THIS SALE (EXCEPT TO THE**

## **EXTENT EPNG IS OBLIGATED TO PAY NON-AFFILIATED THIRD PARTIES SUCH DAMAGES).**

9.5 Notices, Etc. Each Party entitled to indemnification hereunder (the "Indemnified Party") agrees that upon obtaining knowledge of facts indicating that it is entitled to indemnification, including receipt by it of notice of any Claim with respect to any matter as to which it may be entitled to indemnity hereunder, it will give prompt notice thereof in writing to the other Party (the "Indemnifying Party") together with a statement of such information respecting any of the foregoing as it shall then have; provided, however, that the failure to give any such notice shall not affect the rights of the Indemnified Party to indemnification hereunder unless (a) the Indemnified Party has proceeded to contest, defend, or settle the Claim with respect to which it has failed to give prior notice to the Indemnifying Party (unless the status of the Claim is such that the Indemnified Party is required to take action) or (b) the Indemnifying Party is otherwise harmed or damaged by such failure.

9.6 Right to Contest and Defend. The Indemnifying Party shall be given the opportunity, at its cost and expense, to contest and defend by all appropriate legal Proceedings any Claim with respect to which it is called upon to indemnify the Indemnified Party under the provisions of this Agreement; provided, however, that notice of the intention so to contest and defend shall be delivered by the Indemnifying Party to the Indemnified Party within thirty (30) days following receipt of the notice provided for in Section 9.5 above. If the Indemnifying Party does not give notice to the Indemnified Party of its election to contest and defend any such Claim within such period, then the Indemnifying Party shall be bound by the result obtained with respect thereto by the Indemnified Party and shall be responsible for all costs incurred in connection therewith. The Proceedings with respect to any such Claim that the Indemnifying Party elects to contest and defend may be conducted in the name and on behalf of the Indemnifying Party or the Indemnified Party as may be appropriate. Such Proceedings shall be conducted by counsel employed by the Indemnifying Party, but the Indemnified Party shall have the right to participate in such Proceedings and to be represented by counsel of its own choosing at its cost and expense. If the Indemnified Party joins in any such Proceedings, the Indemnifying Party shall have full authority over all action to be taken with respect thereto; provided that if the Indemnifying Party reserves its rights with respect to its indemnification obligations under this Agreement as to such Proceedings, then the Indemnified Party shall have the full authority to determine all action to be taken with respect thereto. At any time after the commencement of defense of any Claim, the Indemnifying Party may request the Indemnified Party to agree in writing to the abandonment of such contest or to the payment or compromise by the Indemnifying Party of the asserted Claim, provided the Indemnifying Party agrees in writing to be solely liable for all losses relating to such Claim; whereupon such Claim shall be abandoned or settled unless the Indemnified Party determines that the contest should be continued and notifies the Indemnifying Party in writing within fifteen (15) days of such request from the Indemnifying Party. In the event that the Indemnified Party determines that the contest should be continued, the amount for which the Indemnifying Party would otherwise be liable hereunder shall not exceed the amount which the Indemnifying Party had agreed to pay in payment or consideration of such Claim, provided the other Party to the contested Claim had agreed in writing to accept such amount in payment or compromise of the Claim as of the time the Indemnifying Party made its request therefor to the Indemnified Party.

### 9.7 Cooperation.

(a) If requested by the Indemnifying Party, the Indemnified Party agrees to cooperate with the Indemnifying Party and its counsel in contesting any Claim which the Indemnifying Party elects to contest or, if appropriate, in making any counterclaim against the Person asserting the Claim, or any cross-complaint against any Person; provided that the Indemnifying Party will reimburse the Indemnified Party for any reasonable expenses incurred by it in so cooperating at the request of the Indemnifying Party.

(b) If requested by the Indemnified Party, the Indemnifying Party agrees to cooperate with the Indemnified Party and its counsel in contesting any Claim which the Indemnifying Party contests or, if appropriate, in making any counterclaim against the Person asserting the Claim, or any cross-complaint against any Person; provided that the Indemnified Party will reimburse the Indemnifying Party for any reasonable expenses incurred by it in so cooperating at the request of the Indemnified Party.

9.8 Right to Participate. The Indemnified Party agrees to afford the Indemnifying Party and its counsel the opportunity, at the Indemnifying Party's expense, to be present at, and to participate in, conferences with all Persons asserting any Claim against the Indemnified Party and conferences with representatives of or counsel for such Persons.

## **SECTION 10. TAX MATTERS**

10.1 Transfer Taxes and Recording Fees. Any transfer, excise, and documentary Taxes incident to the sale of the 1904 Pipeline shall be paid by EPNG. Cadiz shall pay all recording fees for the Assignment and Bill of Sale delivered hereunder.

10.2 Ad Valorem Taxes. Cadiz shall be responsible for the payment of all ad valorem and property taxes with respect to the 1904 Pipeline for the Closing Year; provided, however, that EPNG shall reimburse Cadiz for its pro rata share of such taxes by applying a fraction based on the number of days in the calendar year prior to the Closing Date to the total amount of such taxes for the Closing Year. Upon payment of such taxes by Cadiz (after Closing), Cadiz shall invoice EPNG for such share.

## **SECTION 11. GENERAL PROVISIONS**

11.1 Further Assurances. At any time or from time to time at and after the Closing, each of the Parties shall, at the request of the other, execute and deliver or cause to be executed and delivered all such assignments, consents, documents, and instruments, and take or cause to be taken all such other reasonable actions as may be necessary or desirable in order to more fully and effectively carry out the intents and purposes of this Agreement.

11.2 Expenses. Each Party shall pay and discharge all liabilities and expenses incurred by or on behalf of it in connection with the preparation, authorization, execution, and performance of this Agreement and the transactions contemplated herein, including but not limited to all liabilities and expenses incurred by its agents, representatives, counsel, and accountants.

11.3 Notices. All notices, requests, demands, and other communications required or permitted to be given under this Agreement shall be deemed to have been duly given if in writing and delivered personally or received via first-class, postage prepaid, certified mail, or by facsimile transmission

addressed as follows:

If to EPNG:

For U.S. Mail Delivery:

El Paso Natural Gas Company  
Colorado Springs, CO 80944  
Attention: Edward J. Miller  
Fax No.: (719) 520-3792

For courier Delivery:

El Paso Natural Gas Company  
2 North Nevada Avenue  
Colorado Springs, CO 90903  
Attention: Edward J. Miller  
Fax No.: (719) 520-3792

If to Cadiz:

Cadiz, Inc.  
550 South Hope Street, Suite 2850  
Los Angeles, CA 90017  
Attention: Scott Slater  
Fax No. (805) 965-4333

Any Party may change the address to which such communications are to be directed to it by giving notice to the other in the manner provided in this Section 11.3. All notices by facsimile transmission shall be confirmed by the sender promptly after transmission in writing by mail or personal delivery.

11.4 **Governing Law.** THIS AGREEMENT AND THE PERFORMANCE OF THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF THE STATE OF COLORADO, WITHOUT REGARD TO ANY CONFLICT-OF-LAWS PROVISION THEREOF THAT WOULD OTHERWISE REQUIRE THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

11.5 **Entire Agreement.** This Agreement, exhibits and the instruments executed and delivered in the form of the exhibits hereto, set forth the entire agreement and understanding of the Parties with respect of the transaction contemplated hereby and supersede all prior agreements, arrangements, and understandings relating to the subject matter hereof. No representation, promise, inducement, or statement of intention with respect to the subject matter of this Agreement has been made by any Party which is not embodied in this Agreement (together with the attachments hereto), and none of the Parties shall be bound by or liable for any alleged representation, promise, inducement, or statement of intention not so set forth.

11.6 **Severability.** If any provision of this Agreement is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.7 **Assignment: Successors.** All of the terms, covenants, representations, warranties, and conditions of this Agreement shall be binding upon, and inure to the benefit of and be enforceable by the Parties hereto and their respective successors, but excepting an assignment by Cadiz to an entity controlled by Cadiz, neither this Agreement nor the rights and obligations of any of the Parties hereunder shall be assigned or otherwise transferred to any Person without the other Party's written consent. For purposes of this Section 11.7, "control" shall mean a direct or indirect voting and ownership interest in such other entity of greater than 50%.

11.8 **Amendments: Waiver.** This Agreement may be amended, modified, superseded, or canceled, and any of the terms hereof may be waived, only by a written instrument specifically stating that it amends, modifies, supersedes, or cancels this Agreement or waives any of the terms herein, executed by all Parties or, in the case of a waiver, by the Party waiving compliance. The failure of any Party at any time to require performance of any provision herein shall in no manner affect its right at a later time to enforce the same. No waiver by any Party of any condition, or of any breach of any term, covenant, representation, or warranty, shall be deemed or constitute a waiver of any other condition, or breach of any other term, covenant, representation, or warranty, nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

11.9 **Survival of Representations, Warranties, Covenants and Indemnities.** Other than as specifically provided herein, the representations, warranties, covenants, and indemnities provided for in this Agreement shall survive the Closing and shall not be extinguished by the doctrine of merger by deed, confusion or any similar doctrine and no waiver, release or forbearance of the application of same in any given circumstance shall operate as a waiver, release or forbearance of same as to any other circumstance.

11.10 **Convenient Reference.** Section headings contained in this Agreement are for convenient reference only, and shall not in any way affect the meaning or interpretation of this Agreement.

11.11 **No Third-Party Beneficiaries.** Nothing in this Agreement, whether express or implied, confers any rights or remedies under or by reason of this Agreement on any Person other than the Parties.

11.12 Counterparts/Facsimile Signatures. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. Facsimile, PDF and other similar signatures shall be treated for all purposes as if they were original signatures.

11.13 Confidentiality. As of the Effective Time, the Confidentiality Agreement previously executed between the Parties relating to the transactions contemplated hereunder shall terminate.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date first set forth above.

**EL PASO NATURAL GAS COMPANY**

By: \_\_\_\_\_  
James J. Cleary  
President

**CADIZ, INC.**

By: \_\_\_\_\_  
Scott S. Slater  
President and General Counsel

- -

**Exhibit A**  
**Description of 1904 Pipeline**

The “1904 Pipeline” shall be that portion of pipeline that was constructed and formerly utilized as an oil transportation pipeline commonly known as the “All American Pipeline” and those facilities, inclusive of all appurtenant easements, rights of way and fixtures, whatever they may be, as well as EPNG’s interests in any fee or leased property underlying such portion of the pipeline and facilities, which are located within the State of California and commencing at a point near the unincorporated community of Cadiz, in eastern San Bernardino County and extending in a north-westerly direction for approximately 220 miles to a point of termination near the unincorporated community of Wheeler Ridge in Kern County, California. The 1904 Pipeline does not include any pipeline facilities, easements or rights currently utilized by El Paso in connection with the operation of that portion of the All American Pipeline that was converted to natural gas service and is currently being operated as part of the FERC regulated facilities of El Paso Natural Gas Company.

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**Exhibit B**  
**Assignment, Bill of Sale and Deed**

## Exhibit C Deed



**Exhibit D**  
**Form of Certificate of Non-Foreign Status**

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**First Amendment to the  
Option Agreement for Purchase of Line No. 1904 Facilities**

This First Amendment to the Option Agreement for Purchase of Line No. 1904 Facilities is entered into as of the 8<sup>th</sup> day of February 2012, between Cadiz, Inc. ("Cadiz"), and El Paso Natural Gas Company ("EPNG") (collectively, the "Parties").

WHEREAS, the Parties executed the original Option Agreement for Purchase of Line No. 1904 Facilities ("Option Agreement") on September 8, 2011; and

WHEREAS, the Option Period specified in that Option Agreement dated September 8, 2011 expires at 5:00 p.m., Mountain Time, on April 9, 2012; and

WHEREAS, Cadiz desires to extend the Option Period through April 9, 2013, so that it may complete its inspections, testing, and other due diligence concerning the Line No. 1904 Facilities, as provided for in the Option Agreement, and EPNG is willing to grant such an extension on the terms set forth herein.

In consideration of the mutual covenants and conditions hereinafter contained, Cadiz and EPNG hereby agree as follows:

**Section 2 of the Option Agreement is amended to read as follows:**

2. Option. In consideration for the payment by Cadiz of the sum of One Million and Seventy Thousand Dollars (\$1,070,000) (the "Option Payment"), EPNG hereby gives and grants to Cadiz the exclusive right and option (the "Option") to elect to purchase the 1904 Pipeline on the terms set forth herein. The Option Payment is non-refundable and will be forfeited in the event that Cadiz fails to exercise the Option. If Cadiz exercises the Option prior to the expiration of the Option Period provided in Section 3 below, Five Hundred Thousand Dollars (\$500,000) of the Option Payment shall be credited against the purchase price of Line No. 1904 Facilities.

**Section 3 of the Option Agreement is amended to read as follows:**

3. Option Period. The Option may be exercised by Cadiz by giving EPNG written notice of such exercise (the "Exercise Notice") in the manner set forth in Section 9 below. Cadiz may exercise the Option at any time after the earlier of: (i) the close of the announced merger of El Paso Corporation and Kinder Morgan, Inc., (ii) December 31, 2012; or (iii) such date as is mutually agreed upon by Cadiz and EPNG, and before April 9, 2013 (the "Option Period"). Until the expiration of the Option Period, Cadiz shall evaluate the feasibility of using the 1904 Pipeline to convey water, recycled water, wastewater and brine (hereinafter "Water") by, among other things, conducting Due Diligence Review as set forth in Section 5, and Inspections and Testing in Section 6. Cadiz acknowledges that it may not be possible to obtain federal, state, or local government permits and further regulatory approvals, including compliance with NEPA or CEQA, as may be required to use the 1904 Pipeline to convey Water. Cadiz acknowledges that compliance with any applicable governmental regulatory requirements, including obtaining any required permits or compliance with NEPA or CEQA, may be required to use the 1904 Pipeline for the conveyance of Water.

**Section 4 of the Option Agreement is amended to read as follows:**

4. Purchase Agreement; Purchase Price. In the event that Cadiz elects to exercise the Option, then within three (3) business days following EPNG's receipt of the Exercise Notice, EPNG and Cadiz shall enter into the Purchase Agreement, which sets forth the terms and conditions of the sale of the 1904 Pipeline by EPNG and the purchase of such assets by Cadiz. The Purchase Agreement shall provide for a total purchase price for the 1904 Pipeline of Forty Million Dollars (\$40,000,000), payable on the Closing Date. Five Hundred Thousand Dollars (\$500,000) of the Option Payment shall be applied against the Purchase Price. The remaining Five Hundred and Seventy Thousand Dollars (\$570,000) of the Option Payment shall not offset any portion of the Purchase Price that is due at Closing.

**Section 4 of the Option Agreement is amended to read as follows:**

- e. The inspections, tests, surveys and studies conducted pursuant to this Section 6 shall be at Cadiz's expense, including all costs to remediate any effects of the inspections, test, surveys and studies (including but not limited to any spills or releases of materials that would require environmental remediation). However, unless otherwise agreed in writing by the Parties, Cadiz shall not be obligated to pay for or reimburse EPNG for any costs or expenses that may be incurred by EPNG, including costs associated with having EPNG personnel present for any inspection, examination or test.

**Except as otherwise provided in this First Amendment, all of the provisions of the Option Agreement are hereby ratified and confirmed and shall continue to be in full force and effect in accordance with their respective terms.**

IN WITNESS WHEREOF, the Parties have duly executed this First Amendment to the Option Agreement of as of the date first set forth above.

**EL PASO NATURAL GAS COMPANY**

By: /s/ James J. Cleary  
James J. Cleary  
President

**CADIZ, INC.**

By: /s/ Scott Slater  
Scott Slater  
General Counsel

**ADDENDUM TO EMPLOYMENT AGREEMENT**

This ADDENDUM TO EMPLOYMENT AGREEMENT ("Addendum") is entered into effective as of February 14, 2012, among Cadiz Inc., a Delaware corporation ("Cadiz") and Timothy J. Shaheen ("Shaheen or Employee"). The parties to this Addendum are hereinafter sometimes referred to collectively as the "Parties".

**RECITALS:**

WHEREAS, the Parties have entered into an Employment Agreement effective as of May 22, 2009 (the "Agreement"); and

WHEREAS, the Parties desire to amend the Agreement with respect to the term of the Employee's compensation;

NOW THEREFORE, in consideration of the above recitals, the promises and the mutual representations, warranties, covenants and agreements herein contained, the Parties hereby agree as follows. Defined terms used herein shall, if not otherwise defined in this Addendum, have the same meaning as set forth in the Agreement.

1. Compensation. Effective from and after February 14, 2012, Employee shall be paid a base salary of \$330,000 per annum.
2. Existing Agreement. Except as otherwise amended or modified herein or hereby, the provisions of the Agreement are hereby reaffirmed and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Addendum to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

CADIZ INC.

By: /s/ Keith Brackpool  
Keith Brackpool, CEO

SHAHEEN

By: /s/ Timothy J. Shaheen  
Timothy J. Shaheen

ACKNOWLEDGED AND AGREED

By: /s/ Murray H. Hutchison  
Murray H. Hutchison  
Chair, Compensation Committee

**CADIZ INC.**

**SUBSIDIARIES OF THE COMPANY**

Cadiz Real Estate LLC  
Rancho Cadiz Mutual Water Company  
SWI Estate, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-156502, 333-163321, 333-136117, 333-126117, 333-130338, 333-171179, and 333-174752), and Form S-8 (No. 333-163823, 333-144862, 333-124626, and 333-138674) of Cadiz Inc. of our report dated March 15, 2012 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP  
Los Angeles, California  
March 15, 2012

**CERTIFICATION PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Keith Brackpool, certify that:

1. I have reviewed this annual report on Form 10-K of Cadiz Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 15, 2012

By: /s/ Keith Brackpool  
Keith Brackpool  
Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Timothy J. Shaheen, certify that:

1. I have reviewed this annual report on Form 10-K of Cadiz Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 15, 2012

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



**STATEMENT PURSUANT TO SECTION 906 THE SARBANES-OXLEY ACT OF 2002  
BY PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER**

I, Keith Brackpool, hereby certify, to my knowledge, that:

1. the accompanying Annual Report on Form 10-K of Cadiz Inc. for the year ended December 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Cadiz Inc.

IN WITNESS WHEREOF, the undersigned has executed this Statement as of the date first written above.

Dated: March 15, 2012

By: /s/ Keith Brackpool  
Keith Brackpool  
Chairman and Chief Executive Officer

**STATEMENT PURSUANT TO SECTION 906 THE SARBANES-OXLEY ACT OF 2002  
BY PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER**

I, Timothy J. Shaheen, hereby certify, to my knowledge, that:

1. the accompanying Annual Report on Form 10-K of Cadiz Inc. for the year ended December 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Cadiz Inc.

IN WITNESS WHEREOF, the undersigned has executed this Statement as of the date first written above.

Dated: March 15, 2012

By: /s/ Timothy J. Shaheen

Timothy J. Shaheen

Chief Financial Officer and Secretary

