INGRAM MICRO INC
Form 10-Q
October 30, 2015
Table of Contents

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 3, 2015

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: 1-12203

Ingram Micro Inc.
(Exact name of Registrant as specified in its charter)

Delaware	62-1644402
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3351 Michelson Drive, Suite 100
Irvine, California 92612-0697
(Address, including zip code, of principal executive offices)
(714) 566-1000
(Registrant's telephone number, including area code)

1600 E. St. Andrew Place, Santa Ana, California 92705-4926
(Former name, former address and former fiscal year, if changed since last report)

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 x No ¨

Indicate by check mark whether the registrant had 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large Accelerated Filer	x	Accelerated Filer	¨
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The Registrant had 149,688,793 shares of Class A Common Stock, par value $0.01 per share, outstanding at October 3, 2015.

Table of Contents

INGRAM MICRO INC.
INDEX

Table of Contents

Part I. Financial Information
Item 1. Financial Statements
INGRAM MICRO INC.
CONSOLIDATED BALANCE SHEET
(In 000s, except par value)
(Unaudited)

	October 3, 2015	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$945,317	$692,777
Trade accounts receivable (less allowances of $65,478 and $70,716 at October 3, 2015 and January 3, 2015, respectively)	4,938,021	6,115,328
Inventory	3,668,590	4,145,012
Other current assets	627,286	532,406
Total current assets	10,179,214	11,485,523
Property and equipment, net	356,665	432,430
Goodwill	543,366	532,483
Intangible assets, net	326,734	318,689
Other assets	55,770	62,318
Total assets	$11,461,749	$12,831,443
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$5,622,480	$6,522,369
Accrued expenses	585,950	542,038
Short-term debt and current maturities of long-term debt	127,245	372,026
Total current liabilities	6,335,675	7,436,433
Long-term debt, less current maturities	1,097,189	1,096,889
Other liabilities	113,219	132,295
Total liabilities	7,546,083	8,665,617
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Preferred Stock, $0.01 par value, 25,000 shares authorized; no shares issued and outstanding	—	—
Class A Common Stock, $0.01 par value, 500,000 shares authorized; 194,923 and 193,563 shares issued and 149,689 and 156,214 shares outstanding at October 3, 2015 and January 3, 2015, respectively	1,949	1,935
Class B Common Stock, $0.01 par value, 135,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	1,484,306	1,461,705
Treasury stock, 45,234 and 37,349 shares at October 3, 2015 and January 3, 2015, respectively	(839,524)	(636,493)
Retained earnings	3,386,886	3,328,178
Accumulated other comprehensive income (loss)	(117,951)	10,501
Total stockholders’ equity	3,915,666	4,165,826
Total liabilities and stockholders’ equity	$11,461,749	$12,831,443

See accompanying notes to these consolidated financial statements.

Table of Contents

INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF INCOME
(In 000s, except per share data)
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales	$10,515,880	$11,237,840	$31,713,584	$32,531,208
Cost of sales	9,852,297	10,591,751	29,775,715	30,640,794
Gross profit	663,583	646,089	1,937,869	1,890,414
Operating expenses:				
Selling, general and administrative	510,990	494,507	1,526,340	1,481,743
Amortization of intangible assets	14,206	14,567	47,226	43,140
Reorganization costs	18,958	17,300	29,234	79,237
Impairment of internally developed software	—	—	115,856	—
	544,154	526,374	1,718,656	1,604,120
Income from operations	119,429	119,715	219,213	286,294
Other expense (income):				
Interest income	(991)	(1,045)	(2,650)	(3,782)
Interest expense	18,429	16,659	61,799	54,406
Net foreign exchange loss (gain)	12,264	(3,323)	26,540	(1,153)
Other	313	4,467	7,256	13,011
	30,015	16,758	92,945	62,482
Income before income taxes	89,414	102,957	126,268	223,812
Provision for income taxes	24,492	30,723	52,364	76,132
Net income	$64,922	$72,234	$73,904	$147,680
Basic earnings per share	$0.43	$0.46	$0.48	$0.95
Diluted earnings per share	$0.42	$0.45	$0.47	$0.93
Cash dividends paid per common share	$0.10	$—	$0.10	$—

See accompanying notes to these consolidated financial statements.

Table of Contents

INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In 000s)
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net income	$64,922	$ 72,234	$73,904	$147,680
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(63,195)	(37,788)	(128,452)	(38,217)
Other comprehensive loss, net of tax	(63,195)	(37,788)	(128,452)	(38,217)
Comprehensive income (loss)	$1,727	$ 34,446	$(54,548)	$109,463

See accompanying notes to these consolidated financial statements.

Table of Contents

INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In 000s)
(Unaudited)

	Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014
Cash flows from operating activities:		
Net income	$73,904	$147,680
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Depreciation and amortization	113,435	108,202
Stock-based compensation	28,291	24,761
Excess tax benefit from stock-based compensation	(4,334)	(4,338)
Loss on write-off of assets	—	8,302
Gain on sale of property and equipment	(272)	—
Impairment of internally developed software	115,856	—
Noncash charges for interest and bond discount amortization	2,212	1,769
Deferred income taxes	1,553	(30,973)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	1,078,501	566,097
Inventory	400,880	(551,609)
Other current assets	(107,241)	(30,350)
Accounts payable	(663,616)	(603,481)
Change in book overdrafts	(70,825)	166,361
Accrued expenses	(2,463)	(196,364)
Cash provided (used) by operating activities	965,881	(393,943)
Cash flows from investing activities:		
Capital expenditures	(99,022)	(52,369)
Sale of marketable securities, net	5,000	1,100
Proceeds from sale of property and equipment	1,145	—
Cost-based investment	—	(10,000)
Acquisitions, net of cash acquired	(100,855)	(18,880)
Cash used by investing activities	(193,732)	(80,149)
Cash flows from financing activities:		
Proceeds from exercise of stock options	10,279	16,943
Repurchase of Class A Common Stock	(205,608)	—
Excess tax benefit from stock-based compensation	4,334	4,338
Other consideration for acquisitions	(2,358)	—
Dividends paid to shareholders	(15,196)	—
Net proceeds from (repayments of) revolving credit facilities	(301,156)	283,133
Cash provided (used) by financing activities	(509,705)	304,414
Effect of exchange rate changes on cash and cash equivalents	(9,904)	(6,892)
Increase (decrease) in cash and cash equivalents	252,540	(176,570)
Cash and cash equivalents, beginning of period	692,777	674,390
Cash and cash equivalents, end of period	$945,317	$497,820

See accompanying notes to these consolidated financial statements.

Table of Contents

INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In 000s, except per share data)
(Unaudited)

Note 1 – Organization and Basis of Presentation

Ingram Micro Inc. and its subsidiaries are primarily engaged in the distribution of information technology ("IT") products, commerce and fulfillment services and mobile device lifecycle services worldwide. Ingram Micro Inc. and its subsidiaries operate in North America; Europe; Asia-Pacific (which includes Middle East and Africa); and Latin America.

The consolidated financial statements include the accounts of Ingram Micro Inc. and its subsidiaries. Unless the context otherwise requires, the use of the terms "Ingram Micro," "we," "us" and "our" in these notes to the consolidated financial statements refers to Ingram Micro Inc. and its subsidiaries. These consolidated financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). In the opinion of management, the accompanying unaudited consolidated financial statements contain all material adjustments (consisting of only normal, recurring adjustments) necessary to fairly state our consolidated financial position as of October 3, 2015, our consolidated results of operations and comprehensive income for the thirteen and thirty-nine weeks ended October 3, 2015 and September 27, 2014 and our consolidated cash flows for the thirty-nine weeks ended October 3, 2015 and September 27, 2014. All significant intercompany accounts and transactions have been eliminated in consolidation. As permitted under the applicable rules and regulations of the SEC, these consolidated financial statements do not include all disclosures and footnotes normally included with annual consolidated financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed with the SEC for the year ended January 3, 2015. The consolidated results of operations for the thirteen and thirty-nine weeks ended October 3, 2015 may not be indicative of the consolidated results of operations that can be expected for the full year.

Book Overdrafts

Book overdrafts of $329,498 and $400,323 as of October 3, 2015 and January 3, 2015, respectively, represent checks issued on disbursement bank accounts but not yet paid by such banks. These amounts are classified as accounts payable in our consolidated balance sheet. We typically fund these overdrafts through normal collections of funds or transfers from other bank balances at other financial institutions. Under the terms of our facilities with the banks, the respective financial institutions are not legally obligated to honor the book overdraft balances as of October 3, 2015 and January 3, 2015, or any balance on any given date.

Trade Accounts Receivable Factoring Programs

We have several uncommitted factoring programs under which trade accounts receivable of several large customers may be sold, without recourse, to financial institutions. Available capacity under these programs is dependent on the amount of trade accounts receivable already sold into these programs and the financial institutions' willingness to purchase such receivables. At October 3, 2015 and January 3, 2015, we had a total of $293,097, and $276,808, respectively, of trade accounts receivable sold to and held by financial institutions under these programs. Factoring fees of $947 and $1,058 incurred for the thirteen weeks ended October 3, 2015 and September 27, 2014, respectively, and $3,263 and $3,276 incurred for the thirty-nine weeks ended October 3, 2015 and September 27, 2014, respectively, related to the sale of trade accounts receivable under these facilities are included in "other" in the other expense (income) section of our consolidated statement of income.

Impairment of Internally Developed Software

We began our program to deploy a new global ERP system seven years ago. Over that period, the business has significantly diversified and new technologies allow legacy systems and diverse applications to easily be connected in a modular way, which allows these legacy systems to be part of a flexible, powerful and efficient solution. After careful evaluation, we have concluded that this combined systems strategy is better aligned with our evolving business model and is more flexible and economical than a single global system. Accordingly, we have stopped our global ERP deployment and recorded a non-cash, pre-tax charge related to the impairment of internally developed software of $115,856 during the second quarter of 2015. We recognized a tax benefit on the impairment at the applicable rates, partially offset by an increase in the valuation allowance on foreign tax credits of $14,580 as a result of the decision to stop deployments.

Table of Contents
INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In 000s, except per share data)

Note 2 – Stock Repurchase and Dividends

Dividends Paid to Shareholders

On July 30, 2015, we announced that our Board of Directors had authorized the adoption of a quarterly cash dividend policy. Under the cash dividend policy, holders of our common stock receive dividends as declared by our Board of Directors. During the thirteen and thirty-nine weeks ended October 3, 2015, we declared a cash dividend of $0.10 per share, totaling $15,196, to stockholders of record as of the close of business on September 1, 2015, which was paid on September 15, 2015. We may modify, suspend or cancel our cash dividend policy in any manner and at any time.
Share Repurchase Program
In July 2015, our Board of Directors authorized a new three-year, $300,000 share repurchase program, which supplemented our previously authorized $400,000 share repurchase program and has been completely utilized at October 3, 2015. Our new $300,000 share repurchase program expires on July 29, 2018, and has $218,487 remaining for repurchase at October 3, 2015.
Under these programs, we may repurchase shares in the open market and through privately negotiated transactions. Our repurchases are funded with available borrowing capacity and cash. The timing and amount of specific repurchase transactions will depend upon market conditions, corporate considerations and applicable legal and regulatory requirements. We account for repurchased shares of common stock as treasury stock. Treasury shares are recorded at cost and are included as a component of stockholders' equity in our consolidated balance sheet. We have issued shares of common stock out of our cumulative balance of treasury shares. Such shares are issued to certain of our associates upon the exercise of their options or vesting of their equity awards under the Ingram Micro Inc. 2011 Incentive Plan, as amended (the "2011 Incentive Plan") (see Note 4).
Our treasury stock repurchase and issuance activity for the thirty-nine weeks ended October 3, 2015 is summarized in the table below:

	Shares	Weighted Average Price Per Share	Amount
Cumulative balance of treasury stock at January 3, 2015	37,349	$17.04	$636,493
Repurchase of Class A Common Stock	8,032	25.60	205,608
Issuance of Class A Common Stock	(147)	16.77	(2,577)
Cumulative balance of treasury stock at October 3, 2015	45,234	$18.56	$839,524

Note 3 – Earnings Per Share
We report a dual presentation of Basic Earnings per Share ("Basic EPS") and Diluted Earnings per Share ("Diluted EPS"). Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS uses the treasury stock method to compute the potential dilution that could occur if stock-based awards and other commitments to issue common stock were exercised. In periods when we recognize a net loss, we exclude the impact of outstanding stock awards from the diluted loss per share calculation, as their inclusion would have an anti-dilutive effect.

Table of Contents
INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In 000s, except per share data)

The computation of Basic EPS and Diluted EPS is as follows:

	Thirteen Weeks Ended			Thirty-nine Weeks Ended
	October 3, 2015	3.1	Cadiz Certificate of Incorporation, as amended [(1)]	

3.2 Amendment to Cadiz Certificate of Incorporation dated November 8, 1996[(2)]

3.3 Amendment to Cadiz Certificate of Incorporation dated September 1, 1998[(3)]

3.4 Amendment to Cadiz Certificate of Incorporation dated December 15, 2003[(4)]

3.5 Certificate of Amendment to the Certificate of Incorporation of Cadiz Inc. effective June 10, 2016[(33)]

3.6 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[(4)]

3.7 Certificate of Elimination of Series A Junior Participating Preferred Stock of Cadiz Inc., dated March 25, 2004[(4)]

3.8 Amended and Restated Certificate of Designations of Series F Preferred Stock of Cadiz Inc.[(5)]

3.9 Cadiz Bylaws, as amended[(6)]

3.10 Amendment to the Bylaws of Cadiz Inc. effective June 10, 2016[(33)]

3.11 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[(8)]

3.12 Certificate of Elimination of Series F Preferred Stock of Cadiz Inc. (as filed August 3, 2007)[(9)]

4.1 Indenture, dated as of December 10, 2015 between Cadiz Inc. and U.S. Bank National Association[(28)]
38

4.2 First Supplemental Indenture, dated as of April 28, 2016, by and between Cadiz Inc. and U.S. Bank National Association[(32)]

4.3 Form of Senior Indenture between Cadiz Inc. and U.S. Bank National Association[(34)]

4.4 Form of Subordinated Indenture between Cadiz Inc. and U.S. Bank National Association[(34)]

4.5 Warrant dated May 25, 2017 issued to Apollo Special Situations Fund, L.P.[(35)]

4.6 Form of Senior Indenture[(41)]

4.7 Form of Subordinated Indenture[(41)]

10.1 Limited Liability Company Agreement of Cadiz Real Estate LLC dated December 11, 2003[(4)]

10.2 Amendment No. 1, dated October 29, 2004, to Limited Liability Company Agreement of Cadiz Real Estate LLC[(7)]

10.3 Amendment No. 2 dated March 5, 2013, to Limited Liability Company Agreement of Cadiz Real Estate LLC[(22)]

10.4 Longitudinal Lease Agreement dated September 17, 2008 between Arizona & California Railroad Company and Cadiz Real Estate, LLC[(10)]

10.5 2009 Equity Incentive Plan[(11)]

10.6 Services and Exclusivity Agreement with Layne Christensen Company dated November 2, 2009, as amended by amendments dated January 4, 2010, January 27, 2010[(12)]

10.7 Form of Option Agreement with Santa Margarita Water District[(13)]

10.8 Form of Environmental Processing and Cost Sharing Agreement with Santa Margarita Water District[(13)]

10.9 Form of Environmental Processing and Cost Sharing Agreement with Three Valleys Municipal Water District[(13)]

10.10 Option Agreement with Golden State Water Company dated June 25, 2010[(14)]

10.11 Option Agreement with Suburban Water Systems dated October 4, 2010[(15)]

39

10.12	Amendment No. 3 to the Services and Exclusivity Agreement with Layne Christensen Company dated April 8, 2010(16)
10.13	Letter agreement with Scott S. Slater dated April 12, 2011(17)
10.14	Option Agreement with California Water Service Company dated December 1, 2011(18)
10.15	Form of Memorandum of Understanding by and among Cadiz Inc., County of San Bernardino and Santa Margarita Water District(19)
10.16	Water Purchase and Sale Agreement among Cadiz Inc., Cadiz Real Estate LLC, Fenner Valley Mutual Water Company and Santa Margarita Water District dated July 31, 2012(20)
10.17	Groundwater Management, Monitoring, and Mitigation Plan for the Cadiz Valley Groundwater Conservation, Recovery and Storage Project approved by the Santa Margarita Water District and the County of San Bernardino Board of Supervisors effective October 1, 2012(20)
10.18	Second Amended Option Agreement with El Paso Natural Gas Company dated December 7, 2012(21)
10.19	Revised Terms of Engagement with Brownstein Hyatt Farber and Schreck dated January 9, 2013(22)
10.20	Letter agreement with Scott Slater dated January 10, 2013(22)
10.21	Lease Agreement, dated as of July 1, 2013, by and between Cadiz Inc. and Limoneira Company(23)
10.22	Form of Note Exchange Agreement, by and between Cadiz Inc. and the convertible note holder party thereto(27)
10.23	Track Utilization Agreement dated September 16, 2013, between Arizona & California Railroad Company and Cadiz Real Estate LLC(24)
10.24	Amended and Restated Employment Agreement between Keith Brackpool and Cadiz Inc. dated June 13, 2014(25)
10.25	Amended and Restated Employment Agreement between Timothy J. Shaheen and Cadiz Inc. dated June 13, 2014(25)
10.26	Form of Water Purchase and Sale Agreement, dated as of December 29, 2014, by and between Cadiz Inc. and San Luis Water District(26)
10.27	Lease Agreement, dated as of December 23, 2015, by and among Cadiz Real Estate LLC, Cadiz Inc. and Water Asset Management LLC(28)

40

10.28	Amended and Restated Lease Agreement, dated as of February 8, 2016, by and among Cadiz Real Estate LLC, Cadiz Inc. and Fenner Valley Farm, LLC[29]
10.29	Waiver Agreement under Amended and Restated Credit Agreement, dated as of March 9, 2016, by and among Cadiz Inc., Cadiz Real Estate LLC and the Required Lenders[30]
10.30	Private Placement Purchase Agreement, dated as of April 26, 2016, by and among Cadiz Inc. and the purchasers party thereto[31]
10.31	Registration Rights Agreement, dated as of April 28, 2016, by and among Cadiz Inc. and the holders party thereto[32]
10.32	$60,000,000 Credit Agreement, dated as of May 1, 2017, by and among Cadiz Inc. and Cadiz Real Estate LLC as borrowers, Apollo Special Situations Fund, L.P. and the other lenders from time to time party thereto, and Wells Fargo Bank, National Association, as administrative agent[36]
10.33	Amended and Restated Payoff Agreement and Stipulation dated as of May 24, 2017, by Cadiz Inc., Cadiz Real Estate LLC, MSD Credit Opportunity Master Fund, L.P., Milfam II L.P., WPI-Cadiz Farm CA, LLC and Wells Fargo Bank, National Association, as administrative agent[35]
10.34	Security Agreement made by Cadiz Inc. and Cadiz Real Estate LLC, as loan parties, in favor of Wells Fargo Bank, National Association, as Agent, dated as of May 25, 2017[35]
10.35	Deed of Trust, Assignment of Leases and Rents, Security Agreement, Financing Statement and Fixture Filing dated as of May 25, 2017 from Cadiz Inc., Cadiz Real Estate LLC, and Octagon Partners, LLC, collectively, as Trustor to Chicago Title Company, as Trustee and Wells Fargo Bank, National Association, as Agent for the Lenders from time to time under the Credit Agreement, as Beneficiary[35]
10.36	Settlement Agreement and Release, dated as of October 2, 2017, by and among Cadiz Inc., Cadiz Real Estate LLC, MSD Master Credit Opportunity Fund, L.P., Milfam II L.P. and WPI-Cadiz Farm CA, LLC[37]
10.37	Letter Agreement, dated November 8, 2017, by and among Cadiz Inc., and Apollo Special Situations Fund. L.P.[38]
10.38	At Market Issuance Sales Agreement, dated March 27, 2018, by and between Cadiz Inc., and B. Riley FBR, Inc.[39]
10.39	Cooperation Agreement, dated as of May 1, 2018, between WAM Asset Management, LLC and Cadiz Inc.[40]

41

10.40 At Market Issuance Sales Agreement, by and between Cadiz Inc. and B. Riley FBR, Inc. dated November 16, 2018[41]

10.41 Purchase and Sale Agreement between El Paso Natural Gas Company, LLC, and Cadiz Inc. dated December 31, 2018

21.1 Subsidiaries of the Registrant

23.1 Consent of Independent Registered Public Accounting Firm

31.1 Certification of Scott Slater, Chief Executive Officer of Cadiz Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Timothy J. Shaheen, Chief Financial Officer and Secretary of Cadiz Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Scott Slater, Chief Executive Officer of Cadiz Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Timothy J. Shaheen, Chief Financial Officer and Secretary of Cadiz Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Previously filed as an Exhibit to our Registration Statement on 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 Quarterly 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed on March 31, 2005
(8) 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
(9) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 filed on August 6, 2007
(10) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 filed on November 10, 2008
(11) Previously filed as Appendix A to our definitive proxy dated November 3, 2009, and filed on November 5, 2009

42

(12) 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
(13) Previously filed as an Exhibit to our Current Report on Form 8-K dated June 23, 2010 and filed on June 24, 2010
(14) Previously filed as an Exhibit to our Current Report on Form 8-K dated June 25, 2010 and filed on June 30, 2010
(15) Previously filed as an Exhibit to our Current Report on Form 8-K dated October 4, 2010 and filed on October 7, 2010
(16) 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
(17) 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
(18) Previously filed as an Exhibit to our Current Report on Form 8-K dated December 1, 2011, and filed on December 7, 2011
(19) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed on May 9, 2012
(20) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed on November 8, 2012
(21) Previously filed as an Exhibit to our Current Report on Form 8-K dated December 7, 2012, and filed on December 12, 2012
(22) Previously filed as an Exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed on March 15, 2013
(23) Previously filed as an Exhibit to our Current Report on Form 8-K dated July 1, 2013 and filed on July 2, 2013
(24) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, filed on November 8, 2013
(25) Previously filed as an Exhibit to our Current Report on Form 8-K dated June 10, 2014 and filed on June 13, 2014
(26) Previously filed as an Exhibit to our Current Report on Form 8-K dated December 19, 2014 and filed on December 22, 2014
(27) Previously filed as an Exhibit to our Current Report on Form 8-K dated November 23, 2015 and filed on November 30, 2015
(28) Previously filed as an Exhibit to our Current Report on Form 8-K dated December 10, 2015 and filed on December 16, 2015
(29) Previously filed as an Exhibit to our Current Report on Form 8-K dated December 23, 2015 and filed on December 30, 2015
(30) Previously filed as an Exhibit to our Current Report on Form 8-K dated February 8, 2016 and filed on February 12, 2016
(31) Previously filed as an Exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed on March 14, 2016
(32) Previously filed as an Exhibit to our Current Report on Form 8-K dated April 26, 2016 and filed on April 29, 2016
(33) Previously filed as an Exhibit to our Current Report on Form 8-K dated June 9, 2016 and filed on June 14, 2016
(34) Previously filed as an Exhibit to our Registration Statement on Form S-3 (Registration No. 333-214318) filed on October 28, 2016

(35) Previously filed as an Exhibit to our Current Report on form 8-K dated May 24, 2017 and filed on May 26, 2017
(36) Previously filed as an Exhibit to our Current Report on Form 8-K dated May 1, 2017 and filed on May 2, 2017
(37) Previously filed as an Exhibit to our Current Report on Form 8-K dated October 2, 2017 and filed on October 3, 2017
(38) Previously filed as an Exhibit to our Quarter Report on Form 10-Q for the quarter ended September 30, 2017, filed on November 8, 2017
(39) Previously filed as an Exhibit to our Current Report on Form 8-K dated March 27, 2018 and filed on March 27, 2018
(40) Previously filed as an Exhibit to our Current Report on Form 8-K dated May 1, 2018 and filed on May 3, 2018
(41) Previously filed as an Exhibit to our registration statement on Form S-3 (Registration No. 333-228433) filed on November 16, 2018

ITEM 16. Form 10-K Summary

None.

44

CADIZ INC. CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Cadiz Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive loss, stockholders' deficit and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, 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 the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

46

Definition and Limitations of Internal Control over Financial Reporting

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 18, 2019

We have served as the Company's auditor since at least 1995. We have not been able to determine the specific year we began serving as auditor of the Company.
47

Cadiz Inc.

Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except per share data)	December 31, 2018	2017
Total revenues (rental income)	$440	$437
Costs and expenses:		
General and administrative	11,402	12,803
Depreciation	258	274
Total costs and expenses	11,660	13,077
Operating loss	(11,220)	(12,640)
Interest expense	(15,270)	(17,770)
Interest income	223	51
Loss on extinguishment of debt and debt refinancing	-	(3,501)
Loss before income taxes	(26,267)	(33,860)
Income tax expense	6	4
Net loss and comprehensive loss	$(26,273)	$(33,864)
Basic and diluted net loss per share	$(1.09)	$(1.50)
Weighted-average shares outstanding	23,998	22,535

See accompanying notes to the consolidated financial statements.
48

Cadiz Inc.

Consolidated Balance Sheets

($ in thousands, except per share data)	December 31, 2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$12,558	$13,030
Accounts receivable	38	36
Prepaid expenses and other	408	411
Total current assets	13,004	13,477
Property, plant, equipment and water programs, net	46,619	45,269
Long-term deposit/prepaid expenses	2,000	-
Goodwill	3,813	3,813
Other assets	3,873	3,946
Total assets	$69,309	$66,505
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$225	$411
Accrued liabilities	2,070	2,281
Current portion of long-term debt	59	1,408
Warrant liabilities	865	2,387
Other liabilities	923	-
Total current liabilities	4,142	6,487
Long-term debt	136,246	123,768
Long-term lease obligations with related party, net	14,411	13,276
Deferred revenue	750	750
Other long-term liabilities	-	923
Total liabilities	155,549	145,204
Commitments and contingencies (Note 11)		
Stockholders' deficit:		
Common stock - $0.01 par value; 70,000,000 shares authorized; shares issued and outstanding: 24,654,911 at December 31, 2018, and 22,987,434 at December 31, 2017	247	230
Additional paid-in capital	383,521	364,806
Accumulated deficit	(470,008)	(443,735)
Total stockholders' deficit	(86,240)	(78,699)

Total liabilities and stockholders' deficit	$69,309	$66,505

See accompanying notes to the consolidated financial statements.
49

Cadiz Inc.

Consolidated Statements of Cash Flows

($ in thousands)	Year Ended December 31, 2018	2017
Cash flows from operating activities:		
Net loss	$(26,273)	$(33,864)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	258	274
Unrealized (gain) loss on warrant derivative liabilities	(1,522)	2,608
Amortization of deferred loan costs	103	193
Amortization of debt discount	3,920	3,644
Interest expense added to loan principal	9,767	9,269
Interest expense added to lease liability	1,111	964
Loss on debt conversions	175	58
Loss on early extinguishment of debt and debt refinancing	-	3,501
Compensation charge for stock awards and share options	473	2,304
Changes in operating assets and liabilities:		
Accounts receivable	(2)	3
Prepaid expenses and other current assets	3	2,980
Other assets	73	(444)
Accounts payable	(98)	(79)
Accrued liabilities	(181)	(1,877)
Net cash used for operating activities	(12,193)	(10,466)
Cash flows from investing activities:		
Additions to long-term deposit	(2,000)	-
Additions to property, plant and equipment	(1,726)	(1,006)
Net cash used for investing activities	(3,726)	(1,006)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	15,503	-
Net proceeds from issuance of long-term debt	-	57,253
Principal payments on long-term debt	(56)	(44,923)
Net cash provided by financing activities	15,447	12,330
Net (decrease) increase in cash and cash equivalents and restricted cash	(472)	858
Cash and cash equivalents and restricted cash, beginning of period	13,163	12,305
Cash and cash equivalents and restricted cash, end of period	$12,691	$13,163

See accompanying notes to the consolidated financial statements.
50

Cadiz Inc.

Consolidated Statements of Stockholders' Deficit

($ in thousands)	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance as of December 31, 2016	21,768,864	$ 218	$ 355,336	$ (409,871)	$ (54,317)
Issuance of shares to lenders	293,802	3	3,731	-	3,734
Issuance of shares pursuant to bond conversions	413,335	4	2,821	-	2,825
Stock compensation expense	511,433	5	2,918	-	2,923
Net Loss	-	-	-	(33,864)	(33,864)
Balance as of December 31, 2017	22,987,434	230	364,806	(443,735)	(78,699)
Issuance of shares pursuant to ATM offerings	1,256,824	13	15,490	-	15,503
Issuance of shares pursuant to bond conversions	376,463	4	2,752	-	2,756
Stock compensation expense	34,190	-	473	-	473
Net loss	-	-	-	(26,273)	(26,273)
Balance as of December 31, 2018	24,654,911	$ 247	$ 383,521	$ (470,008)	$ (86,240)

See accompanying notes to the consolidated financial statements.

51

Cadiz Inc.

Notes To The Consolidated Financial Statements

NOTE 1 – DESCRIPTION OF BUSINESS

Cadiz Inc. ("Cadiz" or "the Company") is a land and water resource development company with over 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"), California's primary mode of water transportation for imports from the Colorado River into the State. The Company's properties are suitable for various uses, including large-scale agricultural development, groundwater storage and water supply projects. The Company's main objective is to realize the highest and best use of its land and water resources in an environmentally responsible way.

The Company has been primarily focused on the development of the Cadiz Valley Water Conservation, Recovery and Storage Project ("Water Project" or "Project"), which will capture and conserve millions of acre-feet of native groundwater currently being lost to evaporation from the aquifer system beneath the Company's 34,500-acre property in the Cadiz and Fenner valleys of eastern San Bernardino County (the "Cadiz/Fenner Property"), and deliver it to water providers throughout Southern California.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Consolidated Financial Statements of the Company have been prepared on a going concern basis, which contemplates the continuity of operations, the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company incurred losses of $26.3 million and $33.9 million for the years ended December 31, 2018 and 2017, respectively. The Company had working capital of $8.9 million at December 31, 2018, and used cash in operations of $12.2 million for the year ended December 31, 2018. Cash requirements during the year ended December 31, 2018 primarily reflect certain administrative costs related to the Company's water project development efforts. Currently, the Company's sole focus is the development of its land and water assets.

In November 2018, the Company entered into an At Market Issuance Sales Agreement under which the Company could issue and sell shares of its common stock having an aggregate offering price of up to $25 million from time to time in an "at-the-market" offering (the "November 2018 ATM Offering"). As of December 31, 2018, the Company issued 97,106 shares of common stock in the November 2018 ATM Offering for gross proceeds of $1.05 million and aggregate net proceeds of approximately $0.9 million. The Company has and may continue to issue equity securities pursuant to the November 2018 ATM Offering (see Note 13, "Subsequent Events").

In March 2018, the Company entered into an At Market Issuance Sales Agreement under which the Company could issue and sell shares of its common stock having an aggregate offering price of up to $15 million from time to time in an "at the market" offering (the "March 2018 ATM Offering"). The Company completed the offering during May 2018, having issued 1,159,718 shares of common stock in the March 2018 ATM Offering for gross proceeds of $15 million and aggregate net proceeds of approximately $14.6 million.

52

In May 2017, the Company entered into a new $60 million credit agreement ("Credit Agreement") with funds affiliated with Apollo Global Management, LLC ("Apollo") that replaced and refinanced its then existing $45 million senior secured mortgage debt ("Prior Senior Secured Debt") and provided $15 million of new senior debt to fund immediate construction related expenditures ("Senior Secured Debt"). The Company's Senior Secured Debt and its convertible notes contain representations, warranties and covenants that are typical for agreements of this type, including restrictions that would limit the Company's ability to incur additional indebtedness, incur liens, pay dividends or make restricted payments, dispose of assets, make investments and merge or consolidate with another person. However, while there are affirmative covenants, there are no financial maintenance covenants and no restrictions on the Company's ability to issue additional common stock to fund future working capital needs. The debt covenants associated with the Senior Secured Debt 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, 2018, the Company was in compliance with its debt covenants.

The Company has principal and interest payments aggregating approximately $79.6 million coming due in March 2020 related to its 7.00% Convertible Senior Notes ("Convertible Senior Notes") to the extent the noteholders, who have the right to convert at any time into the Company's common stock at a conversion rate of $6.75 per share, do not convert prior to March 2020 or the Company does not exercise the option agreements it currently has with parties holding 95% of its Convertible Senior Notes that allow the Company, at its sole option, at any time prior to December 5, 2019, to extend the maturity date of the Convertible Senior Notes to September 5, 2021, as further discussed in Note 13, "Subsequent Events". Additionally, the Company's Senior Secured Debt of approximately $66.1 million as of December 31, 2018, could also become due as early as December 2019, if the Company has not exercised the option agreements or the Convertible Senior Notes have not been converted by that time and the Company's stock price is less than 120% of the conversion rate and according to additional terms of the debt agreement. Specifically, the Springing Maturity Date is not applicable if less than $10 million of original, outstanding principal related to the Convertible Senior Notes is outstanding at that time (see Note 6, "Long-Term Debt and Lease Obligation"). Further, the Company's option to acquire an additional 124-mile extension of its' Northern Pipeline will require an $18 million payment upon completion of certain conditions precedent under the purchase agreement with EPNG. If the acquisition of the 124-mile segment is not completed, then the Company's Northern Pipeline opportunities will be limited to the 96-mile segment it already owns. The Company may meet its debt and working capital requirements through a variety of means, including extension, refinancing, equity placements, the sale or other disposition of assets, or reductions in operating costs.

Limitations on the Company's liquidity and ability to raise capital may adversely affect it. Sufficient liquidity is critical to meet the Company's resource development activities. Although the Company currently expects its sources of capital to be sufficient to meet its near-term liquidity needs, there can be no assurance that its liquidity requirements will continue to be satisfied. If the Company cannot raise needed funds, it might be forces to make substantial reductions in its operating expenses, which could adversely affect its ability to implement its current business plan and ultimately impact its viability as a company.

53

Principles of Consolidation

The consolidated financial statements include the accounts of Cadiz Inc. and all subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

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 rental income through its lease with Fenner Valley Farms LLC.

Stock-Based Compensation

General and administrative expenses include $0.5 million and $2.3 million of stock-based compensation expenses in the years ended December 31, 2018 and 2017, 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 charged to expense on the 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.

As of December 31, 2018, all options outstanding are fully vested; therefore, there is no potential impact of forfeitures. The Company is in a tax loss carryforward position and is not expected to realize a benefit from any additional compensation expense recognized under Topic 718. See Note 7, "Income Taxes".

Net Loss Per Common Share

Basic net loss per share is computed by dividing the net loss by the weighted-average common shares outstanding. Options, deferred stock units, warrants, and the zero coupon term loan convertible into or exercisable for certain shares of the Company's common stock were not considered in the computation of net loss per share because their inclusion would have been antidilutive. Had these instruments been included, the fully diluted weighted average shares outstanding would have increased by approximately 11,398,000 shares and 10,894,000 shares for the years ended December 31, 2018 and 2017, respectively.

54

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 amortized 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 additional 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 Accounting Standards Codification 350, "Intangibles – Goodwill and Other" ("ASC 350") on January 1, 2002. Since the adoption of ASC 350, there have been no goodwill impairments recorded. The Cadiz reporting unit to which $3.8 million of goodwill is allocated had a negative carrying amount on December 31, 2018 and 2017.

Deferred loan costs represent costs incurred to obtain debt financing. Such costs are amortized over the life of the related loan using the interest method. At December 31, 2018, the deferred loan fees relate to the Senior Secured Debt, as described in Note 6, "Long-Term Debt and Lease Obligation".

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 potential impairment charge is measured by using the projected discounted cash-flow method.

The Company uses a one-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). This quantitative assessment is performed at least annually in the fourth quarter and compares a reporting unit's fair value to its carrying amount to determine if there is a potential impairment. An impairment loss will be recognized for the amount by which the reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill in that reporting unit.

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 secured debt approximates fair value, based on interest rates available to the Company for debt with similar terms. The fair value of the Company's convertible debt exceeds its carrying value due to the increased value of its conversion feature, which is determined using the Black-Scholes model. See Note 6, "Long-Term Debt and Lease Obligation", for discussion of fair value of debt.

Supplemental Cash Flow Information

Under the terms of the Senior Secured Debt, the Company is required to pay 25% of all future quarterly interest payments in cash. During the year ended December 31, 2018, approximately $1.29 million in interest payments on the Senior Secured Debt was paid in cash. No other payments are due on the Senior Secured Debt or the Company's Convertible Senior Notes prior to their maturities.

During the year ended December 31, 2018, approximately $2.8 million in convertible notes were converted by certain of the Company's lenders. As a result, 376,463 shares of common stock were issued to the lenders.

Cash payments for income taxes were $6,000 and $4,000 for each of the years ended December 31, 2018 and 2017.

Recent Accounting Pronouncements

Accounting Guidance Not Yet Adopted

In August 2018, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which modifies the disclosure requirements for fair value measurements. This update is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.
56

In June 2018, the FASB issued an accounting standards update which simplifies the accounting for share-based payments granted to nonemployees for goods and services. This update is effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. The Company is currently assessing this new guidance, and expects this new standard will not have a material impact on the consolidated financial statements.

In July 2017, the FASB issued an accounting standards update to provide new guidance for the classification analysis of certain equity-linked financial instruments, or embedded features, with down round features, as well as clarify existing disclosure requirements for equity-classified instruments. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently assessing this new guidance and cannot determine the impact of this standard at this time.

In February 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update related to lease accounting including enhanced disclosures. The new standard requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. This guidance is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted this guidance on January 1, 2019, using an optional transition method with a cumulative effect adjustment to the beginning balance or retained earnings in the period of adoption without restating the 2018 and 2017 financial statement for comparable amounts.

The Company will elect to utilize the transition package of practical expedients permitted within the new standard, which among other things, allows the Company to carryforward the historical lease classification. The Company will make an accounting policy election that will keep leases with an initial term of 12 months or less off the Company's Consolidated Statements of Financial Position which will result in recognizing those lease payments in the Consolidated Statements of Operations on a straight-line basis over the lease term.

The Company expects adoption of the new standard will result in the recording of additional net lease assets and lease liabilities of approximately $151 thousand and $100 thousand, respectively, as of January 1, 2019. Adoption of the standard will not materially impact the Company's Consolidated Statements of Operations nor the Consolidated Statements of Cash Flows.

The Company does not believe the new standard will have a material impact on its liquidity and will have no impact on the Company's debt-covenant compliance under its current agreements.

The Company is in the process of evaluating changes to its business processes, systems and controls needed to support recognition and disclosure under the new standard. Further, the Company is continuing to assess any incremental disclosures that will be required in the Company's consolidated financial statements.
57

Accounting Guidance Adopted

In May 2014, the FASB issued an accounting standards update on revenue recognition including enhanced disclosures. Under the new standard, revenue is recognized when (or as) a good or service is transferred to the customer and the customer obtains control of the good or service. The Company adopted this guidance on January 1, 2018, and the new standard did not have a material impact on the Company's condensed consolidated financial statements or financial statement disclosures.

In August 2016, the FASB issued an accounting standards update which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. The Company adopted this guidance on January 1, 2018, and the new standard had no impact on the Company's condensed consolidated financial statements.

In November 2016, the FASB issued an accounting standards update which requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The Company adopted this guidance in the first quarter of 2018. The balance of cash, cash equivalents, and restricted cash as shown in the condensed consolidated statements of cash flows is comprised of the following:

Cash, Cash Equivalents and Restricted Cash (in thousands)	December 31, 2018	December 31, 2017
Cash and Cash Equivalents	$ 12,558	$ 13,030
Restricted Cash included in Other Assets	133	133
Cash, Cash Equivalents and Restricted Cash in the Consolidated Statement of Cash Flows	$ 12,691	$ 13,163

The restricted cash amounts included in Other Assets primarily represent a deposit from a water project participant related to a cost-sharing agreement.

In May 2017, the FASB issued an accounting standards update which clarifies which changes to terms or conditions of a share-based payment award require an entity to apply modification accounting, in accordance with Topic 218. This guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this guidance on January 1, 2018, and the new standard had no impact on the Company's condensed consolidated financial statements.

58

NOTE 3 – PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

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

	December 31, 2018	December 31, 2017
Land and land improvements	$25,064	$24,781
Water programs	23,812	22,595
Buildings	1,572	1,572
Leasehold improvements	570	570
Furniture and fixtures	461	461
Machinery and equipment	1,422	1,337
Construction in progress	146	123
	53,047	51,439
Less accumulated depreciation	(6,428)	(6,170)
	$46,619	$45,269

NOTE 4 – OTHER ASSETS

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

	December 31, 2018	December 31, 2017
Prepaid rent	$3,740	$3,554
Security deposits	133	392
	$3,873	$3,946

Prepaid rent primarily consists of fees incurred to obtain the right-of-way for the Water Project. Amortization of prepaid rent was approximately $115,000 for each of the years ended December 31, 2018 and 2017.

59

NOTE 5 – ACCRUED LIABILITIES

At December 31, 2018 and 2017, accrued liabilities consist of the following (dollars in thousands):

	December 31, 2018	December 31, 2017
Payroll, bonus, and benefits	$1,163	$1,204
Legal and consulting	405	550
Stock-based compensation	71	71
Other accrued expenses	431	456
	$2,070	$2,281

NOTE 6 – LONG-TERM DEBT AND LEASE OBLIGATION

At December 31, 2018 and 2017, the carrying amount of the Company's outstanding debt is summarized as follows (dollars in thousands):

	December 31, 2018	December 31, 2017
Senior secured debt due May 25, 2021 Interest accrues at 8% per annum	$67,401	$62,701
Convertible note instrument due March 5, 2018 Interest accrues at 7% per annum	-	1,371
Convertible note instrument due March 5, 2020 Interest accrues at 7% per annum	73,158	69,488
Lease Obligation	14,831	13,720
Other loans	104	160
Debt discount and debt issuance costs, net of accumulated accretion	(4,778)	(8,988)
	150,716	138,452
Less current portion	59	1,408
	$150,657	$137,044

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

The fair value of the Company's convertible debt exceeds its carrying value of approximately $71.0 million, which includes accreted interest, by approximately $42.2 million due to the increased value of its conversion feature. The conversion feature's fair value increases as the Company's common stock price increases. The fair value of the conversion feature (Level 3) is determined using the Black-Scholes model. Significant inputs to the model were the conversion price ($6.75), the number of shares of common stock that could be acquired upon conversion as of December 31, 2018, the Company's stock price as of December 31, 2018 of $10.30 and stock volatility of 40%, which was determined using our publicly-traded stock price over the last 1.2 years.

Pursuant to the Company's loan agreements, annual maturities of long-term debt outstanding on December 31, 2018, are as follows:

Year Ending December 31	($ in thousands)
2019	$ 59
2020	73,189
2021	67,416
2022	-
2023+	14,830
Total	$ 155,494

Credit Agreement

On May 25, 2017 ("Closing Date"), the Company entered into a new $60 million credit agreement with funds affiliated with Apollo that replaced and refinanced the Company's then existing $45 million senior secured mortgage debt and provided $15 million of new senior debt to fund immediate construction related expenditures. The Senior Secured Debt will mature on the earlier of (a) March 5, 2021, or (b) the "Springing Maturity Date" that is 91 days prior to the maturity date of the 7.00% Convertible Senior Notes of Cadiz due 2020 (the "Convertible Senior Notes"), which is March 5, 2020. However, the Company has entered into option agreements with parties holding 95% of the Convertible Senior Notes that allow the Company, at its sole option, at any time prior to December 5, 2019, to extend the maturity date of the Convertible Senior Notes to September 5, 2021 (see Note 13, "Subsequent Event"). The Springing Maturity Date is only applicable if at that time (a) there is at least $10.0 million of original, outstanding principal related to the Convertible Senior Notes, and (b) the 5-Day VWAP, as defined in the Credit Agreement, is less than 120% of the $6.75 per share conversion rate ((a) or (b), as applicable, the "Maturity Date").

The proceeds from the Credit Agreement were used to repay the then existing senior secured mortgage debt resulting in a loss on extinguishment of $3.5 million which consisted of the write-off of unamortized debt discount, unamortized debt issuance costs and fees paid to the former lenders. In addition, the Company incurred $1.5 million in legal and finders' fees which was recorded as additional debt discount and is being amortized through December 2019, which is the Springing Maturity Date as discussed above.

Interest on the Senior Secured Debt is due quarterly on each March 31, June 30, September 30 and December 31 (each an "Interest Date") beginning on June 30, 2017. Interest on the Senior Secured Debt will (i) accrete to the outstanding principal amount at a rate per annum equal to 6% (the "PIK Rate") compounded quarterly on each Interest Date and (ii) accrue on the outstanding principal amount at a rate per annum equal to 2% (the "Cash Rate"). The Company, in its discretion, may make any quarterly interest payment in cash on the applicable Interest Date at the PIK Rate, in lieu of accretion of such interest to the principal amount at the PIK Rate.

61

The Accreted Loan Value plus the Applicable Prepayment Premium will be due and payable on the Maturity Date. "Accreted Loan Value" means, as of the date of determination, the outstanding principal amount of the applicable Loan, plus all accreted interest as of the calendar day immediately prior to such date of determination. "Applicable Prepayment Premium" means with respect to any repayment of the Senior Secured Debt (a) the Accreted Loan Value of the Senior Secured Debt being prepaid or repaid, as applicable, multiplied by (b) 3.00%.

The Company may prepay the Senior Secured Debt, in whole or in part, for an amount equal to the Accreted Loan Value plus the Applicable Prepayment Premium; provided that if the Springing Maturity Date has not occurred, the Company may not prepay the Senior Secured Debt, without the prior written consent of the holders of more than 50% of the aggregate unpaid principal amount of the Senior Secured Debt, during the period commencing on the date that is 91 days prior to the maturity date of the Convertible Senior Notes and ending on the maturity date of the Convertible Senior Notes.

The Company paid Apollo an upfront fee of 2.00% of the aggregate principal amount of the Senior Secured Debt funded on the Closing Date. This amount was recorded as additional debt discount and is being amortized over the remaining term of the loan.

In conjunction with the closing of the Senior Secured Debt, the Company issued to Apollo a warrant to purchase an aggregate 362,500 shares of its common stock ("2017 Warrant"). The Company recorded a debt discount at the time of the closing of the Senior Secured Debt in the amount of $2.9 million which was the fair value of the 2017 Warrant issued. The debt discount is being amortized through December 2019, which is the Springing Maturity Date as discussed above. The fair value of the 2017 Warrant derivative liability is remeasured each reporting period, and the change in fair value is recorded as an adjustment to the derivative liability with unrealized gains or losses reflected in interest expense. The warrant has a five-year term and an exercise price of $14.94 per share, subject to adjustment for corporate actions including, but not limited to, stock dividends, stock splits, reverse stock splits, corporate reorganizations and mergers.

Total unrealized gains of $1.5 million for warrant liabilities accounted for as derivatives have been recorded in interest expense in the year ended December 31, 2018.

Convertible Notes

On April 26, 2016, the Company entered into a note purchase agreement with new and existing investors (the "Investors"), pursuant to which the Company issued approximately $10.0 million of its 7.00% Convertible Senior Notes due 2020 ("Convertible Senior Notes") in aggregate principal and accrued interest. The proceeds from this issuance of the Convertible Senior Notes to the Investors (such Convertible Senior Notes, the "New Notes"), approximately $8.0 million before fees and expenses, were used for general working capital purposes.
62

The Convertible Senior Notes accrue interest at 7.00% per year, with no principal or interest payments due prior to maturity on March 5, 2020. However, the Company entered into option agreements with parties holding 95% of its Convertible Senior Notes that allow the Company, at its sole option, at any time prior to December 5, 2019, to extend the maturity date of the Convertible Senior Notes to September 5, 2021 (see Note 13, "Subsequent Event"). The Convertible Senior Notes, including original principal and accrued interest, are convertible at any time into the Company's common stock at a price of $6.75 per share, pursuant to the terms of the Indenture dated as of December 10, 2015, by and between the Company and U.S. Bank National Association (the "Indenture"), under which the New Notes were issued. As a result of this transaction, the Company recorded a debt discount in the amount of $2.0 million which was the difference between the proceeds from this transaction and the principal and accrued interest of New Notes on the day of the issuance. In addition, based on the conversion rate of $6.75 per share, the fair value of the shares receivable on conversion exceed the $8.0 million in net proceeds; therefore, a beneficial conversion feature was recorded in the amount of $1.48 million. This amount was recorded as additional debt discount with a corresponding amount recorded as additional paid-in capital. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan. Furthermore, the Company incurred $400 thousand in placement agent fees which was recorded as additional debt discount and is being amortized over the remaining term of the loan.

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

The Company's Senior Secured Debt and its Convertible Senior Notes contain representations, warranties and covenants that are typical for agreements of this type, including restrictions that would limit the Company's ability to incur additional indebtedness, incur liens, pay dividends or make restricted payments, dispose of assets, make investments and merge or consolidate with another person. However, while there are affirmative covenants, there are no financial maintenance covenants and no restrictions on the Company's ability to issue additional common stock to fund future working capital needs. The debt covenants associated with the Senior Secured Debt 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, 2018, the Company was in compliance with its debt covenants.

Lease Obligation

In February 2016, the Company entered into a lease agreement with Fenner Valley Farms LLC ("FVF") (the "lessee"), a subsidiary of Water Asset Management LLC, a related party, pursuant to which FVF is leasing, for a 99-year term, 2,100 acres owned by Cadiz in San Bernardino County, California, to be used to plant, grow and harvest agricultural crops ("FVF Lease Agreement"). As consideration for the lease, FVF paid the Company a one-time payment of $12.0 million upon closing.

Under the FVF Lease Agreement, the Company has a repurchase option to terminate the lease at any time during the twenty (20) year period following the effective date of the lease ("Termination Option Period") upon (1) repayment of the one-time $12 million lease payment plus a ten percent (10%) compounded annual return (provided that the amount of such payment shall be not less than $14,400,000), (2) reimbursement of water-related infrastructure on the leased property plus 8% per annum as well as the actual costs of any farming-related infrastructure installed on the leased property and (3) reimbursement of certain pipeline-related development expenses, working in coordination with Cadiz, not to exceed $3,000,000 (such payments, the " Termination Payments ").

63

If (x) Cadiz does not exercise its termination right within such 20-year period or (y) the Agent under Cadiz's credit agreement declares an event of default under Cadiz's Senior Secured Debt and accelerates the indebtedness due and owing thereunder by Cadiz (or such indebtedness automatically accelerates under the terms of Cadiz's Senior Secured Debt), then the lessee may purchase the leased property for $1.00. The Company has recorded the one-time payment of $12 million, before legal fees, paid by FVF as a long-term lease liability. The Company's consolidated statement of operations reflects a net charge equal to a 10% finance charge compounding annually over the 20-year Termination Option Period. The net charge to the consolidated statement of operations reflects (1) rental income associated with the use of the land by FVF over the 20-year termination option period and (2) interest expense at a market rate reflective of a 20-year secured loan transaction. As a result of this transaction, the Company incurred approximately $490 thousand of legal fees which was recorded as a debt discount and is being amortized over the 20-year Termination Option Period.

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, 2018 and 2017 are as follows (dollars in thousands):

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Net operating losses	$65,852	$59,551
Fixed asset basis difference	4,551	4,559
Contributions carryover	32	4
Deferred compensation	1,073	1,352
Accrued liabilities	492	971
Total deferred tax assets	72,000	66,437
Valuation allowance for deferred tax assets	(72,000)	(66,437)
Net deferred tax asset	$-	$-

The valuation allowance increased $5,563,000 and decreased $21,189,000 in 2018 and 2017, respectively. The change in deferred tax assets resulted from current year net operating losses and changes to future tax deductions resulting from terms of stock compensation plans, fixed assets, and accrued liabilities. The 2017 change in deferred tax assets was impacted significantly by the passage of the 2017 Tax Act Reform. One of the law changes in the tax act was to reduce the effective federal corporate tax rate to 21%, effective January 1, 2018.

64

As of December 31, 2018, the Company had net operating loss (NOL) carryforwards of approximately $308.8 million for federal income tax purposes and $188.8 million for California income tax purposes. Such carryforwards expire in varying amounts through the year 2038. For federal losses arising in tax years ending after December 31, 2017, the NOL carryforwards are allowed indefinitely. Use of the carryforward amounts is subject to an annual limitation as a result of a previous ownership change.

As of December 31, 2018, the Company possessed unrecognized tax benefits totaling approximately $1.8 million. None of these, if recognized, would affect the Company's effective tax rate because the Company has recorded a full valuation allowance against these tax assets.

The Company's tax years 2015 through 2018 remain subject to examination by the Internal Revenue Service, and tax years 2014 through 2018 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):

	Year Ended December 31,	
	2018	2017
Expected federal income tax benefit:		
(2018 at 21%; 2017 at 34%)	$(5,516)	$(11,477)
Loss with no tax benefit provided	4,175	8,156
State income tax	6	4
Non-deductible expenses and other	1,341	3,321
Income tax expense	$6	$4

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 – COMMON STOCK

In January 2013, the Company revised its then existing agreement with the law firm of Brownstein Hyatt Farber Schreck LLP ("Brownstein"), a related party. Under this agreement, the Company is to issue up to a total of 400,000 shares of the Company's common stock, with 100,000 shares earned upon the achievement of each of four enumerated milestones as follows:

i. 100,000 shares earned upon the execution of the revised agreement;

ii. 100,000 shares earned upon receipt by the Company of a final judicial order dismissing all legal challenges to the Final Environmental Impact Report for the Project;

iii. 100,000 shares earned upon the signing of binding agreements for more than 51% of the Project's annual capacity; and

iv. 100,000 shares earned upon the commencement of construction of all of the major facilities contemplated in the Final Environmental Impact Report necessary for the completion and delivery of the Project.

All shares earned upon achievement of any of the four milestones will be payable three years from the date earned.

The first of the four milestones was satisfied in January 2013, and at that time, the Company recorded a stock compensation expense for the first 100,000 shares earned. In May 2016, the second milestone was earned when a three-judge Appellate judge panel unanimously sustained the six trial court decisions and validated the Project's environmental review and approvals. As a result, the Company accrued and recognized stock compensation in 2016 in the amount of $520,000 for the second of the four milestones. Because the shares were payable three years from the date earned, the fair value of these shares was measured by applying a discount which was determined by using the Finnerty model for discounts for lack of marketability. In December 2017, the Company eliminated the holding period for these shares which required the Company to re-measure the award at the time the shares were issued. The Company recognized additional stock compensation during the fourth quarter of 2017 in the amount of $171,000 to reflect the issuance of these shares. Additionally, the Company incurred direct expenses to Brownstein associated with the Water Project of approximately $1.9 million and $1.8 million in 2018 and 2017, respectively.

On October 2, 2017, the Company agreed to issue an aggregate of 264,096 shares (the "Shares") of the Company's common stock with an aggregate value of $3.3 million in connection with a Payoff Agreement the Company entered into with prior lenders on May 24, 2017. Effective upon the delivery of the Shares, outstanding warrants registered in the name of the prior lenders (the "2016 Warrants"), pursuant to which the prior lenders had a right to purchase up to 357,500 shares of the Company's common stock, were cancelled. The Company recorded a $3.1 million expense in 2017 for the issuance of these shares and cancellation of the warrants. The expense is included in interest expense.

NOTE 9 – STOCK-BASED COMPENSATION PLANS AND WARRANTS

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

2009 Equity Incentive Plan

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

2014 Equity Incentive Plan

The 2014 Equity Incentive Plan was approved by stockholders at the June 10, 2014 Annual Meeting. The plan provides for the grant and issuance of up to 675,000 shares and options to the Company's employees, directors and consultants. Upon approval of the 2014 Equity Incentive Plan, all shares of common stock that remained available for award under the 2009 Equity Incentive Plan were cancelled. Following registration of the 2014 Plan on Form S-8, the Company entered into revised employment agreements with certain senior management that provided for the issuance of up to 162,500 Restricted Stock Units ("RSU's") during the period July 1, 2014 through December 31, 2016, and the issuance of up to 200,000 RSU's in connection with obtaining construction financing for the Water Project ("Milestone RSUs"). The Milestone RSUs vested in June 2017, and the Company recorded stock compensation expense of $1.7 million during the year ended December 31, 2017, to reflect the issuance of these shares.

Under the 2014 Equity Incentive Plan, each outside director receives $30,000 of cash compensation and receives a deferred stock award consisting of shares of the Company's common stock with a value equal to $20,000 on June 30 of each year. The award accrues on a quarterly basis, with $7,500 of cash compensation and $5,000 of stock earned for each fiscal quarter in which a director serves. The deferred stock award vests automatically on January 31 in the year following the award date.

All options that have been issued under the above plans have been issued to officers, employees and consultants of the Company. In December 2018, unexercised options to purchase 15,000 shares were forfeited under the 2009 Equity Incentive Plan. As of December 31, 2018, options to purchase 492,500 shares were unexercised and outstanding on December 31, 2018, under the 2009 and 2014 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 using the Black-Scholes option pricing model and recorded as a liability until the award is settled.

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.

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.

The Company recognized no stock-option-related compensation costs for the years ended December 31, 2018 and 2017 relating to these options. No stock options were exercised during 2018.

No options were granted in 2018 and 2017. A summary of option activity under the plans as of December 31, 2018, and changes during the year ended December 31, 2017 are presented below:

Shares		Weighted-Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value ($000's)
Outstanding at January 1, 2017	507,500	$ 11.66	3.3	$ 3,934
Granted	-	$ -		
Forfeited, Expired or canceled	-	$ -		$ -
Exercised	-	$ -		
Outstanding at December 31, 2017	507,500	$ 11.66	2.3	$ 3,934
Granted	-	$ -		
Forfeited, Expired or canceled	15,000	$ 11.75		$ 100
Exercised	-	$ -		
Outstanding at December 31, 2018	492,500 (a)	$ 11.66	1.3	$ 3,834
Options exercisable at December 31, 2018	492,500	$ 11.66	1.3	$ 3,834
Weighted-average years of remaining contractual life of options outstanding at December 31, 2018	1.3			

(a) Exercise prices vary from $9.88 to $12.51, and expiration dates vary from January 2020 to December 2021.

Stock Awards to Directors, Officers, Consultants and Employees

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

Of the total 850,000 shares reserved under the 2009 Equity Incentive Plan, 297,265 shares were issued as share grants and 507,500 were issued as options. Upon approval of the 2014 Equity Incentive Plan in June 2014, 45,235 shares remaining available for award under the 2009 Equity Incentive Plan were cancelled.

Of the total 675,000 shares reserved under the 2014 Equity Incentive Plan, 641,668 shares have been awarded to the Company's directors, consultants and employees. Of the 641,668 shares awarded, 10,224 shares were awarded for service during the plan year ended June 30, 2018, became effective on that date and vested on January 31, 2019.

68

The accompanying consolidated statements of operations and comprehensive loss include approximately $473,000 and $2,304,000 of stock-based compensation expense related to stock awards in the years ended December 31, 2018 and 2017, respectively.

A summary of stock awards activity under the plans during the years ended December 31, 2017 and 2018 is presented below:

	Shares	Weighted-Average Grant-date Fair Value
Nonvested at December 31, 2016	17,365	$ 5.76
Granted	231,762	$ 13.22
Forfeited or canceled	-	$ -
Vested	(240,433)	$ 12.66
Nonvested at December 31, 2017	8,694	$ 13.81
Granted	35,720	$ 12.67
Forfeited or canceled	-	$ -
Vested	(34,190)	$ 12.94
Nonvested at December 31, 2018	10,224	$ 12.71

NOTE 10 – 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 11 – COMMITMENTS AND CONTINGENCIES

The Company leases equipment and office facilities under operating leases that expire through April 2019. Aggregate rental expense under all operating leases was approximately $529,000 and $224,000 in the years ended December 31, 2018 and 2017 respectively. At December 31, 2018, the future minimum rental commitments under existing non-cancelable operating leases totaled $1,377,000.

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") during November 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.

69

In exchange for the Services and Exclusivity Agreement, Layne has agreed to forego $923,000 for work performed. This amount is recorded as an other current liability as of December 31, 2018, and will be credited toward future work performed during the construction phase of the Water Project.

Pursuant to cost-sharing agreements that have been entered into by participants in the Company's Water Project, $750,000 in funds have been received in order to 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, 2018.

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

NOTE 12 – FAIR VALUE MEASUREMENTS

The following table presents information about warrant derivative liabilities that are measured at fair value on a recurring basis as of December 31, 2018, 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. 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.

	Derivatives at Fair Value as of December 31, 2018			
(in thousands)	Level 1	Level 2	Level 3	Total
Warrant liabilities	-	-	(865)	(865)
Total warrant liabilities	$-	$ -	$(865)	$(865)

	Derivatives at Fair Value as of December 31, 2017			
(in thousands)	Level 1	Level 2	Level 3	Total
Warrant liabilities	-	-	(2,387)	(2,387)
Total warrant liabilities	$-	$ -	$(2,387)	$(2,387)

70

The following table presents a reconciliation of Level 3 activity for the years ended December 31, 2017 and 2018:

(in thousands)	Level 3 Liabilities Warrant Liabilities
Balance at January 1, 2017	$ -
New warrants issued	3,080
Unrealized losses, net	2,608
Settlement of warrants	(3,301)
Balance at December 31, 2017	$ 2,387
Unrealized gains, net	(1,522)
Balance at December 31 ,2018	$ 865

The 2017 Warrants are Level 3 derivative liabilities and are valued using a lattice model that uses unobservable inputs such as volatility and future probability of issuing new shares.

NOTE 13 – SUBSEQUENT EVENTS

In November 2018, the Company entered into an At Market Issuance Sales Agreement under which the Company could issue and sell shares of its common stock having an aggregate offering price of up to $25 million from time to time in an "at-the-market" offering (the "November 2018 ATM Offering"). From January 1, 2019, to February 28, 2019, the Company has issued 782,814 shares of common stock in the November 2018 ATM Offering for gross proceeds of $8.08 million and aggregate net proceeds of approximately $7.92 million.

In March 2019, the Company entered into option agreements with parties holding 95% of its Convertible Senior Notes that allow the Company, at its sole option, at any time prior to December 5, 2019, to extend the maturity date of the Convertible Senior Notes to September 5, 2021.

NOTE 14 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per share data)

	Quarter Ended March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Revenues	$ 108	$ 109	$ 112	$ 111
Gross profit	108	109	112	111
Operating loss	(2,486)	(2,255)	(2,488)	(3,992)
Net loss	(5,971)	(6,032)	(6,240)	(8,030)
Basic and diluted net loss per common share	$ (0.26)	$ (0.25)	$ (0.26)	$ (0.33)

	Quarter Ended March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Revenues	$ 108	$ 108	$ 111	$ 110
Gross profit (loss)	108	108	111	110
Operating loss	(4,113)	(2,105)	(2,414)	(4,008)
Net loss	(7,227)	(13,570)	(5,992)	(7,075)
Basic and diluted net loss per common share	$ (0.33)	(0.60)	$ (0.26)	$ (0.31)

72

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/ Scott S. Slater
Scott S. Slater,
Chief Executive Officer

Date: March 18, 2019

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
/s/ Keith Brackpool Keith Brackpool, Chairman	March 18, 2019
/s/ Scott S. Slater Scott S. Slater, Chief Executive Officer, President and Director (Principal Executive Officer)	March 18, 2019
/s/ Timothy J. Shaheen Timothy J. Shaheen, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 18, 2019
* John A. Bohn, Director	March 18, 2019
/s/ Jeffrey J. Brown Jeffrey J. Brown, Director	March 18, 2019
/s/ Geoffrey T. Grant Geoffrey T. Grant, Director	March 18, 2019
/s/ Winston H. Hickox Winston H. Hickox, Director	March 18, 2019
/s/ Murray H. Hutchison Murray H. Hutchison, Director	March 18, 2019
/s/ Raymond J. Pacini Raymond J. Pacini, Director	March 18, 2019
/s/ Stephen E. Courter Stephen E. Courter, Director	March 18, 2019

/s/ Richard Nevins March 18, 2019
Richard Nevins, Director

73