CADIZ INC
Form 10-Q
May 08, 2015

United States
Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-Q

(Mark One)
þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended March 31, 2015
OR
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from …… to …….

Commission File Number 0-12114

Cadiz Inc.

(Exact name of registrant specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes √ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes √ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer √ Non-accelerated filer Smaller Reporting Company
Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No √

As of May 5, 2015, the Registrant had 17,724,099 shares of common stock, par value $0.01 per share, outstanding.

Index

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

($ in thousands except per share data)	For the Three Months Ended March 31, 2015	2014
Revenues	$ 18	$ 4
Costs and expenses:		
Cost of sales	-	-
General and administrative	2,675	2,588
Depreciation	61	64
Total costs and expenses	2,736	2,652
Operating loss	(2,718)	(2,648)
Interest expense, net	(2,193)	(2,045)
Other income	70	-
Loss before income taxes	(4,841)	(4,693)
Income tax provision	1	1
Net loss and comprehensive loss applicable to common stock	$ (4,842)	$ (4,694)
Basic and diluted net loss per common share	$ (0.27)	$ (0.29)
Basic and diluted weighted average shares outstanding	17,707	16,166

See accompanying notes to the consolidated financial statements.

Index

Cadiz Inc.

Consolidated Balance Sheets (Unaudited)

($ in thousands except share data)	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,548	$ 16,206
Accounts receivable	69	239
Inventories	105	-
Prepaid expenses and other	719	346
Total current assets	14,441	16,791
Property, plant, equipment and water programs, net	43,596	43,640
Goodwill	3,813	3,813
Debt issuance costs	779	837
Other assets	3,403	3,131
Total assets	$ 66,032	$ 68,212
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 615	$ 302
Accrued liabilities	1,333	1,580
Current portion of long-term debt	35,441	11
Total current liabilities	37,389	1,893
Long-term debt, net	71,086	104,384
Deferred revenue	750	750
Other long-term liabilities	923	923
Total liabilities	110,148	107,950
Stockholders' deficit:		
Common stock - $.01 par value; 70,000,000 shares authorized; shares issued and outstanding – 17,719,251 at March 31, 2015 and 17,681,274 at December 31, 2014	177	177
Additional paid-in capital	320,068	319,604
Accumulated deficit	(364,361)	(359,519)
Total stockholders' deficit	(44,116)	(39,738)
Total liabilities and stockholders' deficit	$ 66,032	$ 68,212

See accompanying notes to the consolidated financial statements.

Index
2

Consolidated Statements of Cash Flows (Unaudited)

($ in thousands)	For the Three Months Ended March 31, 2015		2014	
Cash flows from operating activities:				
Net loss	$(4,842	)	(4,694	)
Adjustments to reconcile net loss to				
net cash used for operating activities:				
Depreciation	61		64	
Amortization of debt discount and issuance costs	222		207	
Interest expense added to loan principal	1,971		1,838	
Compensation charge for stock and share option awards	260		30	
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable	170		(10	)
Increase in prepaid expenses and other	(478	)	(298	)
Increase in other assets	(272	)	(271	)
Increase (decrease) in accounts payable	315		(746	)
Decrease in accrued liabilities	(43	)	(554	)
Net cash used for operating activities	(2,636	)	(4,434	)
Cash flows from investing activities:				
Additions to property, plant and equipment	(19	)	-	
Net cash used for investing activities	(19	)	-	
Cash flows from financing activities:				
Principal payments on long-term debt	(3	)	(3	)
Net cash used for by financing activities	(3	)	(3	)
Net decrease in cash and cash equivalents	(2,658	)	(4,437	)
Cash and cash equivalents, beginning of period	16,206		11,887	
Cash and cash equivalents, end of period	$13,548		$7,450	

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Stockholders' Deficit (Unaudited)

($ in thousands except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance as of December 31, 2014	17,681,274	$177	$319,604	$ (359,519)	$ (39,738)
Stock-based compensation expense	37,977	-	464	-	464
Net loss and comprehensive loss	-	-	-	(4,842)	(4,842)
Balance as of March 31, 2015	17,719,251	$177	$320,068	$ (364,361)	$ (44,116)

See accompanying notes to the consolidated financial statements.

Index

Notes to the Consolidated Financial Statements

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

The Consolidated Financial Statements have been prepared by Cadiz Inc., also referred to as “Cadiz” or “the Company”, without audit and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company’s Form 10-K for the year ended December 31, 2014.

Basis of Presentation

The foregoing Consolidated Financial Statements include the accounts of the Company and contain all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair statement of the Company’s financial position, the results of its operations and its cash flows for the periods presented and have been prepared in accordance with generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates and such differences may be material to the financial statements. The results of operations for the three months ended March 31, 2015, are not necessarily indicative of results for the entire fiscal year ending December 31, 2015.

Liquidity

The Consolidated Financial Statements of the Company have been prepared using accounting principles applicable to a going concern, which assumes realization of assets and settlement of liabilities in the normal course of business. The Company incurred losses of $4.8 million for the three months ended March 31, 2015, and $4.7 million for the three months ended March 31, 2014. The Company had a working capital deficit of $22.9 million at March 31, 2015, and used cash in operations of $2.6 million for the three months ended March 31, 2015, and $4.4 million for the three months ended March 31, 2014.

Cash requirements during the three months ended March 31, 2015, primarily reflect certain administrative and litigation costs related to the Company’s water project development efforts. Currently, the Company’s sole focus is the development of its land and water assets.

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

Index

In July 2013, the Company filed a new shelf registration statement on Form S-3 registering the issuance of up to $40 million in shares of the Company's common stock, preferred stock, warrants, subscription rights, units and certain debt instruments in one or more public offerings. In November 2014, the Company raised approximately $14.6 million with the sale of 1,435,713 shares at $10.1751 per share by way of a takedown from this shelf registration.

The $14.6 million in additional working capital raised in November 2014, as discussed above, together with the Company's existing cash resources, provides the Company with sufficient funds to meet its expected working capital needs through the end of February 2016.

The Company has a first mortgage debt obligation of $35.4 million coming due in March 2016. Based upon the Company's current and anticipated usage of cash resources, and depending on its progress toward implementation of the Cadiz Valley Water Conservation, Recovery and Storage Project ("Water Project" or "Project"), the first mortgage obligation may be extinguished, extended or replaced. Further, the Company may require additional working capital during 2016. The Company is evaluating the amount of cash needed, and the manner in which such cash will be raised, on an ongoing basis. The Company may meet any future cash requirements through a variety of means, including equity or debt placements, or through the sale or other disposition of assets. Equity placements would be undertaken only to the extent necessary, so as to minimize the dilutive effect of any such placements upon the Company's existing stockholders. The Company has engaged an investment bank and is currently pursuing an alternative for the first mortgage obligation that is compatible with the construction financing need necessary for the implementation of the Water Project.

Limitations on the Company's liquidity and ability to raise capital may adversely affect it. Sufficient liquidity is critical to meet its resource development activities. Although the Company currently expects its sources of capital to be sufficient to meet its near-term liquidity needs, there can be no assurance that its liquidity requirements will continue to be satisfied. If the Company cannot raise needed funds or refinance its current $35.4 million debt obligation prior to maturity in March 2016, it might default on its debt obligations, which would adversely affect its ability to implement its current business plan and ultimately its viability as a company.

Supplemental Cash Flow Information

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

Recent Accounting Pronouncements

Accounting Guidance Not Yet Adopted

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

In August 2014, the FASB issued an accounting standards update requiring an entity's management to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The Company is currently evaluating this new guidance which is effective for fiscal years beginning after December 15, 2016, and all annual and interim periods thereafter, and cannot determine the impact of this standard at this time.

On April 7, 2015, the FASB issued an accounting standards update that will require debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. Currently, these costs are presented as a deferred charge asset. The Company is currently evaluating this new guidance which is effective for fiscal years beginning after December 15, 2015, and all annual and interim periods thereafter, and cannot determine the impact of this standard at this time.

NOTE 2 – LONG-TERM DEBT

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

NOTE 3 – STOCK-BASED COMPENSATION PLANS AND WARRANTS

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

2003 Management Equity Incentive Plan

In December 2003, the Company's board of directors authorized the adoption of a Management Equity Incentive Plan. As of March 31, 2015, a total of 315,000 common stock options remain outstanding under this plan.

2009 Equity Incentive Plan

The 2009 Equity Incentive Plan was approved by stockholders at the 2009 Annual Meeting. The plan provides for the grant and issuance of up to 850,000 shares and options to the Company's employees and consultants. The plan became effective when the Company filed a registration statement on Form S-8 on December 18, 2009. All options issued under the 2009 Equity Incentive Plan have a ten-year term with vesting periods ranging from issuance date to 24 months. As of March 31, 2015, 507,500 common stock options remain outstanding under this plan.

Index

2014 Equity Incentive Plan

The 2014 Equity Incentive Plan was approved by stockholders at the June 10, 2014 Annual Meeting. The plan provides for the grant and issuance of up to 675,000 shares and options to the Company's employees, directors and consultants. Upon approval of the 2014 Equity Incentive Plan, all shares of common stock that remained available for award under the 2009 Equity Incentive Plan were cancelled. Following registration of the 2014 Plan on Form S-8, the Company entered into revised employment agreements with certain senior management that provide for the issuance of up to 162,500 Restricted Stock Units ("RSU's") during the period July 1, 2014 through December 31, 2016 and the issuance of up to 200,000 RSU's in connection with obtaining construction financing for the Water Project. Of the 162,500 restricted stock units granted on July 1, 2014 pursuant to these employment agreements, 48,750 shares are vested as of March 31, 2015.

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

All options that have been issued under the above plans have been issued to officers, employees and consultants of the Company. In total, options to purchase 822,500 shares were unexercised and outstanding on March 31, 2015, under the three equity incentive plans.

The Company recognized no stock option related compensation costs in each of the three months ended March 31, 2015 and 2014. No options were exercised during the three months ended March 31, 2015.

Stock Awards to Directors, Officers, and Consultants

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

Of the total 850,000 shares reserved under the 2009 Equity Incentive Plan, 115,000 restricted shares of common stock were granted on January 14, 2010, and 140,000 restricted shares of common stock were granted on January 10, 2011. Of the remaining 595,000 shares reserved under the 2009 Equity Incentive Plan, 42,265 shares of common stock were awarded to directors, 507,500 were issued as options as described above as of March 31, 2015. Upon approval of the 2014 Equity Incentive Plan in June 2014, 45,235 shares remaining available for award under the 2009 Equity Incentive Plan were cancelled.

Under the 2014 Equity Incentive Plan, 30,821 shares have been awarded to the Company directors and consultants as of March 31, 2015. Of the 30,821 shares awarded, 14,514 shares were awarded for services during the plan year ended June 30, 2014, became effective on that date and vested on January 31, 2015.

The Company recognized stock-based compensation costs of $260,000 and $30,000 for the three months ended March 31, 2015 and 2014, respectively.

Index

NOTE 4 – INCOME TAXES