RiceBran Technologies
Form 10-K
April 02, 2019

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2018

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 0-32565

RiceBran Technologies
(Exact name of registrant as specified in its Charter)

California	87-0673375
(State of Incorporation)	(I.R.S. Employer Identification No.)
1330 Lake Robbins Drive, Suite 250	
The Woodlands, TX	77380
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (281) 675-2421

Securities registered under Section 12(b) of the Exchange Act:
NONE
Securities registered under Section 12(g) of the Exchange Act:
Common Stock, no par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
			Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended). YES NO

As of June 30, 2018, the aggregate market value of our common stock held by non-affiliates was $36,839,005.

As of March 31, 2019, there were 33,023,658 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Definitive Proxy Statement for its annual meeting of shareholders, which Definitive Proxy Statement will be filed with the Commission not later than 120 days after the registrant's fiscal year ended December 31, 2018, are incorporated by reference into Part III of this Annual Report on Form 10-K.

FORM 10-K

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. Words such as “believes,” “anticipates,” “expects,” “estimates,” “intends,” “plans,” “projects,” “will,” “may” and similar expressions are intended to identify forward-lo statements, but are not the exclusive means of identifying such statements. These forward-looking statements are not guarantees of future performance and concern matters that could subsequently differ materially from those described in the forward-looking statements. Future events and actual results could differ materially from those discussed in this Annual Report. These risks and uncertainties include those described in “Risk Factors” and elsewhere in this Annual Report. Except as required by law, we undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Annual Report. We do not endorse any projections regarding future performance that may be made by third parties.

Unless the context requires otherwise, references to “we,” “us,” “our” and the “Company” refer to RiceBran Technologies, and its consolidated subsidiaries.

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PART I

ITEM 1. BUSINESS

Overview

Our Company

We are an ingredient company serving food, animal nutrition and specialty markets focused on value-added processing and marketing of healthy, natural and nutrient dense products derived from raw rice bran, an underutilized by-product of the rice milling industry.

We apply our proprietary and patented technologies and intellectual properties to convert raw rice bran into numerous high value products including:

- stabilized rice bran or SRB, and
- derivative products including:
  - RiBalance, a complete rice bran nutritional package derived from further processing of SRB;
  - RiSolubles, a highly nutritious, carbohydrate and lipid rich fraction of RiBalance;
  - RiFiber, a protein and fiber rich insoluble derivative of RiBalance; and
  - our family of ProRyza products, which includes derivatives composed of protein and protein/fiber blends.

We manufacture and distribute SRB (for food and animal nutrition customers) and derivative products with an emphasis on utilization of our proprietary and patented food ingredients. We process raw rice bran into various high quality, value-added constituents and finished products. Over the past decade, we have developed and optimized our proprietary processes to support the production of healthy, natural, and non-genetically modified ingredients that are free of all major allergens for use in meats, baked goods, cereals, coatings, health foods, high-end animal nutrition, and animal health products. Our target markets are food and animal nutrition manufacturers, wholesalers and retailers, both domestically and internationally.

We incorporated under the laws of the State of California in 2000. From July 2003 until October 2012, our corporate name was “NutraCea.” In October 2012, we changed our name to RiceBran Technologies. As of December 31, 2018, our corporate headquarters is located in Texas. Over the past several years, we have acquired and divested of certain investments:

- 2018 – Acquired Golden Ridge Rice Mills, LLC., a Wynne, Arkansas based company now operating as Golden Ridge Rice Mills, Inc. (Golden Ridge) which operates a rice mill in Wynne, Arkansas.
- 2017 – Divested of our majority interest in Nutra S.A. LLC (Nutra SA). Nutra SA’s only operating subsidiary was Industria Riograndens De Oleos Vegetais Ltda. (Irgovel), which operates a rice bran oil refining plant in Pelotas, Brazil.
- 2017 – Divested of Healthy Natural, Inc. (HN), which had a formulating, blending and co-packaging facility in Irving, Texas, where we manufactured blended and/or packaged functional food products for the nutrition and functional food markets.
- 2016 – Entered into a strategic supply partnership with the Thailand-based Narula Group of companies to add organic jasmine rice bran and organic red rice bran, as well as other organic products, to our portfolio of products.
- 2014 – Acquired H&N Distribution Inc., an Irving, Texas based company which operated as Healthy Natural, Inc. (HN).
- 2008 – Through our subsidiary Nutra S.A. LLC (Nutra SA), we initially acquired 100% ownership of Irgovel. In 2011, we sold a minority interest in Nutra SA to AF Bran Holdings-NL LLC and AF Bran Holding LLC.

We source SRB at four locations: two leased raw rice bran stabilization facilities located within supplier-owned rice mills in Arbuckle and West Sacramento, California, one company-owned rice bran stabilization facility in Mermentau, Louisiana and now our first company-owned rice mill, Golden Ridge, in Wynne, Arkansas, the largest rice producing state in the United States. We produce our process-patented Stage II products at our Dillon, Montana facility, including: RiSolubles, a highly nutritious, carbohydrate and lipid rich fraction of SRB; RiFiber, a fiber rich derivative of SRB; RiBalance, a complete rice bran nutritional package derived from further processed SRB, and our ProRyza family of products including, protein- and protein/fiber-based products. “Stage II” refers to the products produced using our patented process technology operated at our Dillon, Montana facility. We operate proprietary processing equipment and process-patented technology for the stabilization and further processing of rice bran into finished products.

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Rice Mill

On November 28, 2018 we completed our acquisition of the assets and operations of the Golden Ridge Rice Mills, LLC's rice milling and bran stabilization facility in Wynne, Arkansas. Golden Ridge is a recently constructed rice milling facility that encompasses nearly 32 acres and specializes in #1 and #2 Grade U.S. premium long and medium white rice milled to United States Department of Agriculture (USDA) standards. Golden Ridge also produces brown rice, brewers rice, and brokens. These are all synergistic ingredients for our target customers which should enable our sales team to deepen customer relationships in addition to leveraging Golden Ridge customers to our products. Golden Ridge gives us a substantial presence in Arkansas, where more U.S. rice is produced and processed than any other rice-producing state, and provides a source of SRB that is closer to many of our customers in the Midwest and Eastern U.S., with active and attractive freight lanes.

The physical manufacturing nature of the process is very similar to our other locations. All of our locations have similar standard operating procedures that are required of all food ingredient manufacturers to meet Good Manufacturing Practice (GMP) standards and Safe Quality Food (SQF) certifications. Golden Ridge not only sells rice, but also sells rice bran, husk byproducts, and a mix of both used for animal nutrition. Golden Ridge, like our existing businesses, is subject to the exact same regulatory rules that we already adhere to. It also obtains the same plant certifications and associated audits as our other locations. Strategically, the acquisition of Golden Ridge is an extension of our existing business model that provides considerable room for expansion to increase our SRB production capacity as well as to house additional product development capacity to further expand our portfolio.

Our Products

We believe our greatest market opportunities are in the food ingredient and animal nutrition markets. Nutritionally balanced, minimally processed, clean-label food and animal feed ingredients are in high demand and we are strategically positioned to take advantage of this growing and sustainable market opportunity as discussed below in "Our Growth Strategy."

Food Ingredients

Our SRB and derivative products are nutritional and beneficial food products that contain a unique combination of oil, protein, carbohydrates, vitamins, minerals, fibers, and antioxidants that enhance the nutritional value of popular consumer products. Foods that are ideally suited for the addition of our SRB to their products include processed meats, cereals, snacks, beverages, baked goods, breading, and batters.

In 2008, we received USDA Food Safety and Inspection Service (FSIS) approval to market rice bran as an ingredient to be used as a filler in comminuted meat products, such as meat and poultry sausages that contain binders, nugget-shaped patties, meatballs, meatloaf and meat and poultry patties. Our products replace ingredients like soy protein isolate, soy protein concentrate, modified food starch, pea protein and mustard flour at a significantly reduced cost. With strong application benefits such as reduced cost per unit, increased product yield and reduced purge, we believe our SRB has a significant market opportunity in the comminuted meat market both inside and outside of the United States.

Animal Nutrition

Our SRB is marketed as a feed ingredient in the United States and international animal nutrition markets, and we will continue to pursue sales opportunities with attractive margins in those markets. SRB is used as an equine feed ingredient and has been shown to provide health benefits. Show and performance horses represent the premium end of the equine market and are a key target for our animal nutrition products. We are also now pursuing numerous opportunities in the markets for companion animal products.

About Rice Bran

Rice is the staple food for over half of the world's population, especially in some of the world's most populous countries. Asia accounts for roughly 90% of global rice production and China is the world's number one rice producer. Globally, the United States ranks 11th in rice production with approximately 2% of the global total.

When harvested from the field, individual rice kernels are stored in common receiving locations such as farm silos for future delivery to grain dryers or area rice mills. At this stage, large quantities of individual rice kernels are collectively called "paddy rice," or "rough" rice. In this form, the rice kernel is fully enveloped by the rice hull, which serves as a protective cover, shielding the inner rice kernel from damage.

After storage and drying, if necessary, paddy rice is cleaned of foreign material (scalping, de-stoning and aspiration) just before it enters the first stage of milling, or paddy husking. In the paddy husker, the hull is removed from rough rice by differential speed rubber rollers. Loosened hulls are carried off by aspiration. After husking, a paddy separator uses a reciprocating motion to separate normal brown rice kernels (caryopsis) from unhusked kernels which are returned to the paddy husker.

In the second stage of milling, the outer brown layers of bran are removed from the inner white starch endosperm by an abrasive or frictional milling process which produces a milled, white rice kernel. After milling, white rice is typically sorted by size to remove broken pieces of rice kernels from whole kernels, as well as color sorting to remove discolored kernels. Additional stages may be required (per customer specifications) to polish the white rice to a smooth surface.

Raw rice bran collected from the milling process is composed of rice germ and several sub-layers (pericarp, testa, nucellus and aleurone) surrounding the white starchy endosperm. Commercial rice bran makes up approximately 10% of rough rice by weight. Rice germ, an especially nutrient rich material, makes up approximately 10% of commercial rice bran by weight.

As brown rice is milled into white rice, the oils present in raw rice bran come into contact with native lipase enzymes that are naturally present in the rice kernel. These lipase enzymes initiate a rapid enzymatic hydrolysis of the oil, converting oils (triglycerides) into monoglycerides, diglycerides and free fatty acids (FFA). As the FFA content builds in raw rice bran, the bran becomes unpalatable and off flavors (rancidity) develop. If left unchecked, enzymatic degradation at normal room temperatures can increase the FFA levels to 5-8% within 24 hours and can continue at a rate of approximately 4-5% per day thereafter. Enzymatic degradation is the most serious form of degradation of raw rice bran. Rice bran stabilization is the process of carefully deactivating native enzymes to prevent the increase of FFA otherwise caused by lipase enzyme activity. Proper stabilization is critical in the preservation of the nutritional value of the bran, an important nutrient source that is largely used as animal feed or otherwise wasted.

Historically, there have been a number of attempts to develop rice bran stabilization techniques, including the use of chemicals, microwave heating or variations of existing extrusion technology. Many of these approaches have had limited success in part because they have produced rice bran with limited shelf life or with significant degradation of nutrients.

Our Technologies

Our Proprietary Rice Bran Stabilization Technology

Our stabilization process uses proprietary innovations to create a combination of temperature, pressure and other conditions necessary to thoroughly deactivate enzymes without significantly damaging the structure or nutrient content of raw rice bran. This means that higher value compounds in bran, such as oils, proteins and phytonutrients are left undamaged and are available for utilization. Our process does not use chemicals to stabilize raw rice bran.

Our stabilizers are designed to be installed adjacent to, on the premises of or in near proximity to any conventional rice mill so that freshly milled raw rice bran can be quickly delivered to our proprietary stabilizers. Process logic controllers maintain exact process conditions within the prescribed pressure/temperature regime. In case of power failure or interruption of the flow of fresh bran into the system, the electronic control system is designed to purge the equipment of materials in process and resume production only after proper operating conditions are re-established.

SRB leaving our system is then discharged onto cooling units specifically designed to control air pressure and humidity. Cooled SRB can be loaded into bulk hopper trucks for large volume customers or sent by pneumatic conveyor to a bagging unit for packaging into various size bags or 2,000-pound sacks.

Each stabilization module can process approximately 2,000 pounds of bran per hour and has a capacity of over 7,200 tons per year. Stabilization production capacity can be doubled, tripled or further multiplied by installing additional units sharing a common conveyor and stage system, which we believe can handle the output of the world's largest rice mills. We have also developed and tested a smaller production unit, with a maximum production capacity of 600 pounds per hour, for installation in locations where rice mills are substantially smaller than those in the United States.

Additional patented and proprietary processes involve enzyme treatment of SRB to produce fractions enriched in one or more macronutrients, including proteins, fibers, lipids and micronutrients such as vitamins, minerals and phytosterols, among others. In these processes SRB in an aqueous slurry, is treated with one or more enzymes, centrifugally separated and the fractions dried on drum driers, spray driers or other drying systems.

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Our Stabilization Process

Rice bran is free of all major allergens and is a valuable source of protein with a balanced amino acid profile for food ingredient products and is rich in healthy oil, vitamins, antioxidants, dietary fiber and other nutrients. The approximate composition and caloric content of our SRB is as follows:

Fat (oil)	18-23%
Protein	12-16%
Total Dietary Fiber	20-30%
Moisture	4-8%
Ash	6-14%
Calories	3.2 kcal/gram

Rice bran contains approximately 18-23% oil, which has a favorable fatty acid composition and excellent heat stability.

Intellectual Property

We hold eight U.S. patents relating to the production or use of rice bran and rice bran derivatives. In addition to the issued U.S. patents, we have been issued fourteen foreign patents covering the subject areas. We intend to apply for additional patents in the future as new products, treatments and uses are developed.

Our stabilization and processing activities are an adaptation and refinement of standard food processing technology applied to rice bran. We have chosen to treat certain of our methods and processes as a trade secret and not to pursue process or process equipment patents on the original processes. However, as we develop improvements we intend to periodically review whether we should seek patent protection for them. We believe that certain unique products, and their biological effects, resulting from our SRB may be patentable in the future. We also hold a number of U.S. registered trademarks and trade names and have applied for additional marks.

We continue to support internal as well as external R&D efforts that improve on existing technologies or lead to the development of new technologies relating to rice bran processing and applications.

Our Growth Strategy

We are pursuing a simple growth strategy based on a few key initiatives. Management, working closely with our Board, is focused on growing our markets and business, generating positive adjusted EBITDA (earnings before depreciation, interest, taxes, amortization and share-based compensation to employees and directors), improving our financial condition, and maximizing shareholder value. The following points summarize our growth strategy:

1. Building a stronger pipeline of sales and growth from existing and new customers: During much of 2018 we repositioned and strengthened our sales team to take advantage of customer types and geographic reach. We continue to add expertise in companion animal, snacks and bakery, protein, and fiber areas to complement our existing selling strengths in equine and lifestyle markets.

The global and domestic markets are strong and rapidly expanding for minimally processed plant-based ingredients that provide dense and balanced nutrition in addition to evidence-based functionalities while also being free of all major allergens and being non-GMO. The regulatory requirements to add front-of-label warnings on food items and increasing demand from consumers for foods that list fewer and less processed ingredients is driving food companies to replace standard food ingredients with cleaner ingredients, such as stabilized rice bran. We anticipate further incorporation of our food ingredients by major consumer packaged goods food companies as more food companies adopt rice bran as a standard clean label food ingredient. This trend is not limited to food ingredients, as we are finding similar transition to clean ingredients among high-end animal nutrition companies. We believe this positions us well to pursue these growth opportunities.

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2. Concurrently working to strengthen our bran supply, with a particular focus on expanding in the Delta region of the U.S.: We continue to meet with numerous participants in the U.S. rice milling industry to expand our footprint with additional bran supplies. We are focused on building a stronger presence in the Delta region of the U.S. rice industry, particularly in Arkansas and Louisiana, which typically account for near 70% of the U.S. rice harvest (nearly 50% in Arkansas alone). As such, we acquired Golden Ridge in Wynne, Arkansas in November 2018. We believe that Golden Ridge's operations will add meaningful sales and EBITDA in 2019 with significant room for expansion of SRB production. We expect this mill to be an important component of our SRB supply in the Arkansas region. Building a stronger presence in the Delta will also provide us with logistical benefits to serve our customers located east of the Rocky Mountains. We intend to invest in strategic initiatives, including a significant expansion of the production capacity and construction of a world-class bran room capable of producing new, innovative, and technology-driven SRB products at Golden Ridge. We also remain committed to building a strong presence in California, which typically accounts for over 20% of the U.S. rice harvest.

3. Driving operational efficiencies and cost and expense reductions: We are focused on improving our operational efficiencies while driving cost and expense reductions. Accounting cost absorption has been an historical issue for us, and we hope to improve absorption by driving greater volumes through our existing facilities, which should reduce our costs per unit of production. We have made considerable efforts to lower costs and expenses as well in areas related to headcount, salaries and wages, travel and entertainment, and shop supply purchases.

4. Consolidation of our operating footprint: We are focused on building our market presence in the Delta (Arkansas and Louisiana) in addition to our traditional focus in the Sacramento Valley region of California. We recently occupied a 59,800 square foot distribution, processing, and office facility in West Sacramento, CA. This facility provides us with a food grade building that will help us better meet our customer needs. We transitioned to a new corporate office in The Woodlands, Texas, during the second quarter of 2018. The Woodlands is located near Houston-Bush Intercontinental Airport, one of the most active airports in the U.S., and is a suburb of Houston, one of the fastest growing SMAs in the U.S. The Woodlands is about a 2 to 3-hour drive from our existing facilities in Mermentau and Lake Charles, Louisiana, and provides us flights of 75 minutes or less to reach most of the key rice milling areas of the Delta states. The large corporate population – the Houston SMA is habited by 54 Fortune 1000 companies – provides us a large pool of possible employees versed in public company needs. In addition, both regions allow us to partner with an established scientific and university community at and around institutions like University of California-Davis and Texas A&M.

5. New product development: We are focused on extending our proprietary product and process technologies, finding new products and processes, and working to define new niches for existing products. We believe the acquisition of Golden Ridge will provide us with a platform to develop new products derived from SRB to expand growth opportunities.

Our Customers

We use internal sales staff, outside independent sales representatives and third-party distributors to market our portfolio of products to customers domestically and internationally. In 2018 and 2017, three customers accounted for 35% and 39% of our revenues, respectively. We continue to focus efforts on diversification of our customer base in an attempt to mitigate the concentration of customers.

Our Strategic Alliances

In February 2016, we entered into an exclusive supply and cooperation agreement with a Thailand-based entity (Youji) granting us the exclusive worldwide, supply and distribution rights, with certain exclusions, for their organic rice bran. In addition, as part of the agreement, we have agreed to lease two of our proprietary stabilization extruders to Youji for stabilization purposes at one of their rice mills.

Government Regulations

Our operations are subject to federal, foreign, state and local government laws and regulations, including those relating to zoning, workplace safety and accommodations for the disabled and our relationships with our employees are subject to regulations, including minimum wage requirements, anti-discrimination laws, overtime and working conditions and citizenship requirements.

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In both our United States and foreign markets, we are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints exist at the federal, state and local levels in the United States, and at all levels of government in foreign jurisdictions, including regulations pertaining to the formulation, manufacturing, packaging, labeling, distribution, sale and storage of our products. In addition, we are subject to regulations regarding product claims and advertising.

The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of our products are subject to regulation by one or more federal agencies, primarily the Food & Drug Administration (FDA), the Federal Trade Commission (FTC) and the USDA. Our activities are also regulated by various governmental agencies for the states and localities in which our products are manufactured and sold, as well as by governmental agencies in certain countries outside the United States, in which our products are manufactured and sold. Among other matters, regulation by the FDA and FTC is concerned with product safety and claims made with respect to a product's ability to provide health-related benefits. Specifically, the FDA, under the Federal Food, Drug and Cosmetic Act (FDCA), regulates the formulation, manufacturing, packaging, labeling, distribution and sale of food and food ingredients. The FTC regulates the advertising of these products.

Federal agencies, primarily the FDA and the FTC, have a variety of procedures and enforcement remedies available to them, including initiating investigations, issuing warning letters and cease-and-desist orders, requiring corrective labeling or advertising, requiring consumer redress such as requiring that a company offer to repurchase products previously sold, seeking injunctive relief or product seizures, imposing civil penalties or commencing criminal prosecution. In addition, certain state agencies have similar authority. These federal and state agencies have in the past used these remedies in regulating participants in the food and food ingredient industries, including the imposition of civil penalties.

The FDA Food Safety Modernization Act (FSMA), enacted January 4, 2011, amended the FDCA to significantly enhance the FDA's authority over various aspects of food regulation. The FSMA granted the FDA mandatory recall authority when the FDA determines there is a reasonable probability that a food is adulterated or misbranded and that the use of, or exposure to, the food will cause serious adverse health consequences or death to humans or animals. One of the more significant changes under FSMA is the requirement of hazard analysis and risk-based preventive controls (HARPC) for all human and animal food processing facilities. We are committed to FSMA compliance and completed our SQF certification for each of our facilities.

Any substance that is intentionally added to food is a food additive and is subject to premarket review and approval by the FDA, unless the substance is generally recognized, among qualified experts, as having been adequately shown to be safe under the conditions of its intended use, or unless the use of the substance is otherwise excluded from the definition of a food additive. When an additive is proposed for use in a meat, its safety, technical function and conditions of use must also be evaluated by the USDA. Because the USDA retains jurisdiction over meat products and food ingredients intended for use in meats, the use of our SRB meat enhancers is regulated by this agency. SRB has USDA approval for use in certain meat products.

Animal feed ingredients are regulated by the FDA at the federal level and by the individual states. Our SRB is defined for animal use as heat stabilized rice bran for use as a feed ingredient.

Our Competition

There are a number of companies that have invested significant resources to develop technologies for stabilizing and further processing rice bran and who market rice bran products with varying levels of stabilization into multiple markets around the world. We believe that we have best of breed technologies for stabilizing rice bran and, as such, have developed significant brand recognition in the animal feed and food ingredient product sectors both domestically and internationally. Together with our decades of application technology know-how and patented processing methods, we believe that we have a first-to-market advantage over the competition with respect to our SRB.

We are aware of several new producers of rice-based animal nutrition and food ingredient products in the United States, Europe and Asia. We believe that our major competitors include producers of isolated soy protein, wheat bran and oat bran, particularly in the food ingredients market segment.

We compete with other companies that offer products incorporating SRB as well as companies that offer other food ingredients. Many consumers may consider such products to be a replacement for the products we manufacture and distribute.

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Our Employees

As of December 31, 2018, we had 102 employees. From year to year we experience normal variable labor fluctuation at our production facilities. We believe relations with our employees are good. None of our employees are covered by collective bargaining agreements.

Available Information

We maintain an Internet website at the following address: www.ricebrantech.com. We make available on or through our Internet website certain reports and amendments to those reports that we file with the Securities and Exchange Commission (SEC) in accordance with the Securities Exchange Act of 1934 (Exchange Act). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and the reports of beneficial ownership. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. The contents of our website are not incorporated by reference in this report on Form 10-K and shall not be deemed “filed” under the Exchange Act.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our common stock. Investors or potential investors in our stock should carefully consider the risks described below.

RISK FACTORS

Risks Relating to Our Business

We have not yet achieved annual positive cash flows.

Our net cash used in operating activities of continuing operations was $5.2 million in 2018 and $5.0 million in 2017. We may not be able to achieve revenue growth, profitability or positive cash flow, on either a quarterly or annual basis, and that profitability, if achieved, may not be sustained. If we are unable to achieve or sustain profitability, we may not be financially viable in the future and may have to curtail, suspend, or cease operations, restructure existing operations to attempt to ensure future viability, or pursue other alternatives such as pursuing dissolution and liquidation, seeking to merge with another company, selling all or substantially all of our assets or raising additional capital through equity or debt financings.

We have generated significant losses since our inception in 2000, and losses in the future could cause the trading price of our stock to decline or have a material adverse effect on our financial condition, our ability to pay our debts as they become due and on our cash flows.

Since we began operations in February 2000, we have incurred an accumulated deficit in excess of $273 million. We may not be able to achieve or maintain profitable operations if achieved. If our losses continue, our liquidity may continue to be severely impaired, our stock price may fall and our shareholders may lose all or a significant portion of their investment. If we are not able to attain profitability in the near future our financial condition could deteriorate further which could have a material adverse impact on our business and prospects and result in a significant or complete loss of shareholder investment. Further, we may be unable to pay our debt obligations as they become due, which include obligations to secured creditors.

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We may need to raise additional funds through debt or equity financings in the future to achieve our business objectives and to satisfy our cash obligations, which would dilute the ownership of our existing shareholders and possibly subordinate certain of their rights to the rights of new investors.

We may need to raise additional funds through debt or equity financings in order to complete our ultimate business objectives. We also may choose to raise additional funds in debt or equity financings if they are available to us on reasonable terms to increase our working capital, strengthen our financial position or to make acquisitions. Our board of directors has the ability, without seeking shareholder approval, to issue convertible debt and additional shares of common stock or preferred stock that is convertible into common stock for such consideration as the board of directors may consider sufficient, which may be at a discount to the market price. Any sales of additional equity or convertible debt securities would result in dilution of the equity interests of our existing shareholders, which could be substantial. Additionally, if we issue shares of preferred stock or convertible debt to raise funds, the holders of those securities might be entitled to various preferential rights over the holders of our common stock, including repayment of their investment, and possibly additional amounts, before any payments could be made to holders of our common stock in connection with an acquisition of us. Such preferred shares, if authorized, might be granted rights and preferences that would be senior to, or otherwise adversely affect, the rights and the value of our common stock. Also, new investors may require that we and certain of our shareholders enter into voting arrangements that give them additional voting control or representation on our board of directors.

We have identified material weaknesses in our internal control over financial reporting, and if we are unable to achieve and maintain effective internal control over financial reporting, investors could lose confidence in our consolidated financial statements and our Company, which could have a material adverse effect on our business and our stock price.

In the course of preparing the financial statements for the fiscal year ended December 31, 2018, our management determined that we have material weaknesses in our internal control over financial reporting, which relate to our accounting for significant and complex acquisitions and equity transactions. We have concluded that these material weaknesses in our internal control over financial reporting is primarily due to our recent relocation from Arizona to Texas which reduced our accounting personnel that have the appropriate level of experience and technical expertise to oversee the accounting and financial reporting requirements related to significant and complex acquisitions and equity transactions. As a result of these material weaknesses, we have initiated and will continue to implement remediation measures including, but not limited to: hiring additional accounting staff or engaging a third party to (i) assist us in complying with the accounting and financial reporting requirements related to significant and complex acquisitions and equity transactions; and (ii) assist us with formalizing our business processes, accounting policies and internal control documentation, strengthening supervisory reviews by our management, and evaluating the effectiveness of our internal controls in accordance with the framework established by Internal Control - Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission. If we fail to fully remediate these material weaknesses or fail to maintain effective internal controls in the future, it could result in a material misstatement of our consolidated financial statements that would not be prevented or detected on a timely basis, which could cause investors to lose confidence in our financial information or cause the trading price of our common stock to decline.

There are significant market risks associated with our business.

We have formulated our business plan and strategies based on certain assumptions regarding the size of the rice bran market, our anticipated share of this market, the estimated price and acceptance of our products and other factors. These assumptions are based on our best estimates; however, our assessments may not prove to be correct. Any future success may depend upon factors including changes in governmental regulation, increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs including costs of rice bran, production, supplies, personnel, equipment and reduced margins caused by competitive pressures. Many of these factors are beyond our control.

We may face difficulties integrating businesses we acquire.

As part of our strategy, we may review opportunities to buy other businesses or technologies, such as the acquisition of Golden Ridge that was completed in 2018, that would complement our current products, expand the breadth of our markets or enhance technical capabilities, or that may otherwise offer growth opportunities. Such acquisitions involve numerous risks, including, but not limited to:

- problems combining the purchased operations, technologies or products;
- unanticipated costs;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees of purchased organizations.

We depend on a limited number of customers and their ability to meet their obligations.

In 2018, three customers accounted for 35% of revenues and the top ten customers accounted for 60% of revenues from continuing operations. As of December 31, 2018, the customers with the highest ten balances accounted for 69% of accounts receivable.

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We are dependent upon the continued growth, viability and financial stability of our customers. We expect to continue to depend upon a relatively small number of customers for a significant percentage of our revenues. Consolidation among our customers may further reduce the number of customers that generate a significant percentage of our revenues. This results in a concentration of credit risk with respect to our outstanding accounts receivable. We consider the financial strength of our customers, the remoteness of the possible risk that a default event will occur, the potential benefits to our future growth and development, possible actions to reduce the likelihood of a default event and the benefits from the transaction before entering into a large credit limit with a customer. Although we analyze these factors, the ultimate collection of the obligation from the customer may not occur. Although we continue to expand our customer base in an attempt to mitigate the concentration of credit risk, the writing off of an accounts receivable balance could have an adverse effect on our results of operations. Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash equivalents and trade receivables. Historically, we have not experienced any loss of our cash and cash equivalents, but we have experienced losses to our trade receivables. A significant reduction in sales to any of our significant customers could have a material adverse effect on our results of operations.

We may encounter difficulties in maintaining relationships with distributors and customers while enforcing our credit policies.

We define credit risk as the risk of loss from obligors or counterparty default. Our credit risks arise from both distributors and consumers. Many of these risks and uncertainties are beyond our control. Our ability to forecast future trends and spot shifts in consumer patterns or behavior even before they occur are vital for success in today's economy. In managing risk, our objective is to protect our profitability, but also to protect, to the extent we can, our ongoing relationships with our distributors and customers. However, as part of our credit risk policies, we occasionally must, among other things, cancel, reduce credit limits and place cash-only requirements for certain questionable accounts. These credit risk policies may negatively impact our relationships with our distributors and customers, which could adversely affect our results of operations.

We rely upon a limited number of product offerings.

The majority of the products that we have sold through December 31, 2018, have been based on SRB. Since the acquisition of Golden Ridge, we have also incorporated the sale of rice to our products sold towards the end of 2018. A decline in the market demand for our SRB or the products of other companies utilizing our SRB products would have a significant adverse impact on us.

Our ability to generate sales is dependent upon our ability to continue our ongoing marketing efforts to raise awareness of our products and benefits of rice bran products generally.

We are dependent on our ability to market products to animal food producers, food manufacturers, mass merchandisers, health food retailers and to other companies for use in their products. We must increase the level of awareness and benefits of rice bran products to be used in food and food ingredients in general and our products in particular. We will be required to devote substantial management and financial resources to these marketing and advertising efforts and such efforts may not be successful.

Our ability to adapt to sudden increases in demand of our product is limited by an adequate supply of raw rice bran and our ability to find additional facilities for production.

Many of our current products depend on our proprietary technology using raw rice bran, which is a by-product from milling paddy rice to white rice. Our ability to manufacture SRB is currently limited to the production capability of our equipment located at our two suppliers' rice mills in California, our own plant located adjacent to our supplier in Mermentau, Louisiana and our rice mill in Wynne, Arkansas. At these facilities and our value-added product plants in

Dillon, Montana, we currently are capable of producing enough finished products to meet current demand. If demand for our products were to increase dramatically in the future, we would need additional production capacity, which may take time and may expose us to additional long-term operating costs.

We may not be able to continue to secure adequate sources of raw rice bran to meet our future demand. Since rice bran has a limited shelf life, the supply of rice bran is affected by the amount of rice planted and harvested each year.

Adverse economic or weather conditions may impact our supply of raw rice bran.

If economic or weather conditions, for example drought conditions in California or flooding in Arkansas and Louisiana, adversely affect the amount of rice planted or harvested, the cost of rice bran products that we use may increase. We are not always able to immediately pass cost increases to our customers and any increase in the cost of SRB products could have an adverse effect on our results of operations.

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We face competition from other companies that produce bran, grains and other alternative ingredients with similar benefits as our rice brans.

Competition in our targeted industries, including food ingredients, animal feed supplements and companion pet food ingredients is vigorous, with a large number of businesses engaged in the various industries. Many of our competitors have established reputations for successfully developing and marketing their products, including products that incorporate bran from other cereal grains and other alternative ingredients that are widely recognized as providing similar benefits as rice bran. In addition, many of our competitors have greater financial, managerial and technical resources than we do. If we are not successful in competing in these markets, we may not be able to attain our business objectives.

We must comply with our contractual obligations.

We have numerous ongoing contractual obligations under various purchase, sale, supply, production and other agreements which govern our business operations. While we seek to comply at all times with these obligations, we may not be able to comply with the terms of all contracts during all periods of time, especially if there are significant changes in market conditions or our financial condition. If we are unable to comply with our material contractual obligations, there likely would be a material adverse effect on our financial condition and results of operations.

We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints both domestically and abroad and our failure to comply with these laws, regulations and constraints could lead to the imposition of significant penalties or claims, which could harm our financial condition and operating results.

In both the U.S. and foreign markets, the formulation, manufacturing, packaging, labeling, distribution, sale and storage of our products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints may exist at the federal, state or local levels in the United States and at all levels of government in foreign jurisdictions. We are subject to regulation by one or more federal agencies including the U.S. Food and Drug Administration, the U.S. Federal Trade Commission and the U.S. Department of Agriculture, state and local authorities and foreign governmental agencies. In addition, the adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or discontinuation of product sales and may negatively impact the marketing of our products, resulting in significant loss of sales revenues. Our failure to comply with these current and new regulations could lead to the imposition of significant penalties or claims, limit the production or marketing of any non-compliant products or advertising and could negatively impact our business.

Change in U.S. tax law in December 2017 could potentially impact the measurement of our financial condition and operating results.

On December 22, 2017, the United States enacted significant changes to U.S. tax law following the passage and signing of H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (the Tax Cuts and Jobs Act or TCJA). The Tax Act reduces the U.S. federal corporate tax rate to a maximum of 21 percent. The application of this rate reduction to the ending deferred tax assets and deferred tax liabilities impacted our expense for income taxes by $7.1 million which was fully offset by a corresponding change to our valuation allowance in 2017. We have completed the analysis of the Tax Act subject to Staff Accounting Bulletin No. 118 (SAB 118) and finalized the measurement of our tax balances in 2018. The Tax Act contains several base broadening provisions that became effective on January 1, 2018, that we do not expect to have a material impact on current year or future earnings.

We may be subject to product liability claims and product recalls.

We sell food and nutritional products for animal and human consumption, which involves risks such as product contamination or spoilage, product tampering and other adulteration of food products. We may be subject to liability if the consumption of any of our products causes injury, illness or death. We maintain a product liability policy for $5.0 million per year in the aggregate. In addition, we may voluntarily recall products in the event of contamination or damage. A significant product liability judgment or a widespread product recall may cause a material adverse effect on our financial condition. Even if a product liability claim is unsuccessful, there may be negative publicity surrounding any assertion that our products caused illness or injury which could adversely affect our reputation with existing and potential customers.

Many of the risks of our business have only limited insurance coverage and many of our business risks are uninsurable.

Our business operations are subject to potential product liability, environmental, fire, employee, manufacturing, shipping and other risks. Although we have insurance to cover some of these risks, the amount of this insurance is limited and includes numerous exceptions and limitations to coverage. In the event we were to suffer a significant uninsured claim, our financial condition would be materially and adversely affected.

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Our success depends in part on our ability to obtain, enforce and protect our patents, licenses and other intellectual property rights for our products and technology.

Our success is dependent upon our ability to protect and enforce the patents, trade secrets and trademarks that we have and to develop and obtain new patents and trademarks for future processes, machinery, compounds and products that we develop. The process of seeking patent protection may be long and expensive, and patents might not be issued or not be broad enough in scope. We may not be able to protect our technology adequately, and our competition may be able to develop similar technology that does not infringe or encroach upon any of our rights.

There currently are no claims or lawsuits pending or threatened against us regarding possible infringement claims, but infringement claims by third parties, or claims for indemnification resulting from infringement claims, could be asserted in the future or that such assertions, if proven to be accurate, could have a material adverse effect on our business, financial condition and results of operations. In the future, litigation may be necessary to enforce our patents, to protect our trade secrets or know-how or to defend against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of others. Any litigation could result in substantial cost and diversion of our efforts and other resources, which could have a material adverse effect on our financial condition and results of operations. Adverse determinations in any litigation could result in the loss of our proprietary rights, subjecting us to significant liabilities to third parties, require us to seek licenses from third parties or prevent us from manufacturing or selling our systems, any of which could have a material adverse effect on our financial condition and results of operations. A license under a third party’s intellectual property rights might not be available to us on reasonable terms, if at all.

We are dependent on key employees.

Our success depends upon the efforts of our top management team and certain other key employees, including the efforts of our chief executive officer and chief financial officer. Although we have written employment agreements with these employees, such individuals could die, become disabled or resign. In addition, our success is dependent upon our ability to attract and retain key management persons for positions relating to the marketing and distribution of our products. We may not be able to recruit and employ such executives at times and on terms acceptable to us. Also, volatility, lack of positive performance in our stock price and changes in our overall compensation program, including our equity incentive program, may adversely affect our ability to retain such key employees.

Compliance with corporate governance and public disclosure regulations may result in additional expenses.

In order to comply with laws, regulations and standards relating to corporate governance and public disclosure, including the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) entitled “Internal Control - Integrated Framework (the 2013 COSO Framework), and other regulations issued by the SEC, such as Dodd-Frank, we may need to invest substantial resources to comply with these evolving standards, and this investment would result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Our officers and directors have limited liability and have indemnification rights.

Our articles of incorporation and bylaws provide that we may indemnify our officers and directors against losses sustained or liabilities incurred which arise from any transaction in that officer’s or director’s respective managerial capacity, unless that officer or director violates a duty of loyalty, did not act in good faith, engaged in intentional misconduct or knowingly violated the law, approved an improper dividend or derived an improper benefit from the transaction.

Risks Relating to Our Stock

Our stock price is volatile.

The market price of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly in the future. The market price of the common stock may continue to fluctuate in response to a number of factors, including:

- fluctuations in our quarterly or annual operating results;
- fluctuations in the cost of raw rice bran;
- developments in our relationships with customers and suppliers;
- our ability to obtain financing;
- announcements of new products or product enhancements by us or our competitors;
- announcements of technological innovations or new systems or enhancements used by us or our competitors;
- the loss of services of one or more of our executive officers or other key employees;
- developments in our or our competitors' intellectual property rights;

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- adverse effects to our operating results due to the impairment of goodwill;
- failure to meet the expectation of securities analysts' or the public;
- general economic and market conditions;
- our ability to expand our operations, domestically and internationally;
- the amount and timing of expenditures related to any expansion;
- litigation involving us, our industry or both;
- actual or anticipated changes in expectations by investors or analysts regarding our performance; and
- price and volume fluctuations in the overall stock market from time to time.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Our stock price is volatile and we have been the target of shareholder litigation. Any shareholder litigation brought against us in the future could result in substantial costs and divert our management's attention and resources from our business.

We have significant "equity overhang" which could adversely affect the market price of our common stock and impair our ability to raise additional capital through the sale of equity securities.

As of March 31, 2019, 33,023,658 shares of common stock were outstanding (including 1,044,709 shares of nonvested stock), 10,767,255 shares of common stock were issuable upon exercise of our outstanding stock options and warrants, 213,524 shares of common stock were issuable upon conversion of preferred stock and 1,215,000 shares of common stock issuable upon vesting of restricted stock units. The possibility that substantial amounts of our common stock may be sold by investors or the perception that such sales could occur, often called "equity overhang," could adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities in the future. The issuance of the additional shares upon an increase in our authorized shares of common stock would significantly increase the amount of our common stock outstanding and the amount of the equity overhang.

The authorization and issuance of preferred stock may have an adverse effect on the rights of holders of our common stock.

Our Board, without further action or vote by holders of our common stock, has the right to establish the terms, preference, rights and restrictions and issue shares of preferred stock. Any series of preferred stock could be issued with terms, rights, preferences and restrictions that could adversely affect the rights of holders of our common stock and thereby reduce the value of our common stock. The designation and issuance of preferred stock favorable to current management or shareholders could make it more difficult to gain control of our board of directors or remove our current management and may be used to defeat hostile bids for control which might provide shareholders with premiums for their shares. We have designated and issued five series of preferred stock that no longer remain outstanding. In addition, in February 2017, we designated a seventh series of preferred stock, Series G. As of March 31, 2019, 225 shares of Series G preferred stock remain outstanding. We may issue additional series of preferred stock in the future.

If we fail to comply with the continuing listing standards of The NASDAQ Capital Market, our securities could be delisted.

Our common stock is listed on the NASDAQ Capital Market under the symbol "RIBT". For our common stock to continue to be listed on the NASDAQ Capital Market, we must meet the current NASDAQ Capital Market continued listing requirements, including maintaining a minimum of $2.5 million in shareholders' equity and maintaining a minimum common stock bid price of $1.00. If we were unable to meet these requirements, including, but not limited to, requirements to obtain shareholder approval of a transaction other than a public offering involving the sale or issuance equal to 20% or more of our common stock at a price that is less than the market value of our common stock, our common stock could be delisted from the NASDAQ Capital Market. If our securities were to be delisted from the NASDAQ Capital Market, our securities could continue to trade on the over-the-counter bulletin board following any delisting from the NASDAQ Capital Market, or on the Pink Sheets, as the case may be. Any such delisting of our securities could have an adverse effect on the market price of, and the efficiency of the trading market for our securities, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and less coverage of us by securities analysts, if any. Also, if in the future we were to determine that we need to seek additional equity capital, it could have an adverse effect on our ability to raise capital in the public or private equity markets.

There can be no assurance that we will continue to meet these continued listing requirements or other Nasdaq compliance standards in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2. PROPERTIES

We maintain various facilities that are used for manufacturing, warehousing, research and development, distribution and administrative functions. These facilities consist of both owned and leased properties. The following table summarizes the properties used to conduct our operations as of March 31, 2019:

Location	Status	Primary Use
West Sacramento, California	Leased	Warehousing
Mermentau, Louisiana	Owned	Manufacturing
Lake Charles, Louisiana	Building – owned Land – leased	Warehouse
Dillon, Montana	Owned	Manufacturing
The Woodlands, Texas	Leased	Administrative, corporate office
Wynne, Arkansas	Owned	Manufacturing

Our corporate headquarter is located in The Woodlands, Texas, where we lease approximately 5,380 square feet of administrative office space.

We believe that all facilities are in good operating condition, the machinery and equipment are well-maintained, the facilities are suitable for their intended purposes and they have capacities adequate for current operations. The properties are covered by insurance but insurance for the properties located in Louisiana is subject to high deductibles and limitations on damages due to tropical storms.

ITEM 3. LEGAL PROCEEDINGS

We currently are not a party to any material litigation or other material legal proceedings. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our common stock is traded on the NASDAQ Capital Market under the symbol "RIBT." Our CUSIP No. is 762831-10-5.

Holders

As of March 31, 2018, there were approximately 285 holders of record and 7,190 beneficial owners of our common stock.

Dividends

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

During the quarter ended December 31, 2018, we issued the securities described below without registration under the Securities Act. Unless otherwise indicated below, the securities were issued pursuant to the private placement exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended. All issuances below were made without any public solicitation, to a limited number of persons and were acquired for investment purposes only.

On November 30, 2018, we issued 106,762 shares of common stock upon the exercise of a warrant for $102,492.

During the quarter ended December 31, 2018, we issued 213,523 shares of common stock upon the conversion of 225 shares of Series G convertible preferred stock. These issuances were exempt from registration pursuant to Section 3(a)(9) of the Securities Act of 1933.

Share Repurchases

We did not repurchase any of our common stock in 2018.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See Note 4 of our Notes to Consolidated Financial Statements for a discussion of divestitures and discontinued operations.

Results of Operations

	Years Ended December 31		Change
	2018	2017	%
	(in thousands)		
Revenues	$ 14,762	$ 13,355	10.5
Cost of goods sold	11,780	9,564	(23.2)
Gross profit	2,982	3,791	(21.3)
Gross profit %	20.2 %	28.4 %	
Selling, general and administrative expenses	11,194	9,888	(13.2)
Loss from operations	(8,212)	(6,097)	(34.7)
Other income (expense):			
Interest expense	(12)	(1,623)	
Change in fair value of derivative warrant liabilities	-	670	
Loss on extinguishment of debt	-	(8,290)	
Other, net	168	125	
Total other (expense) income	156	(9,118)	
Loss before income taxes	$ (8,056)	$ (15,215)	

Revenues increased $1.4 million, or 10.5%, in 2018 compared to the prior year. Animal feed product revenues increased 5.7%. Animal feed product growth was primarily due to increased buying from our existing customer base driven by the cooperation agreement entered into with Kentucky Equine Research (KER) at the end of December 2015. Food product revenues increased 14.3% year over year, primarily due the addition of a new customer and increase in demands from existing customers along with the acquisition of Golden Ridge.

Gross profit percentage decreased 8.2 percentage points to 20.2% in 2018 from 28.4% in the prior year. The decrease in gross profit was primarily attributable to an approximately 16% increase in raw bran prices, product mix and reduced plant utilization during 2018 compared to 2017. The decrease in plant utilization was primarily due to closures or production delays caused by the drum dryer capital expenditure project and plant improvements related to the SQF certification project at the Dillon plant. Additionally, our Mermentau plant experienced a supply shortage which caused production to idle in the second quarter of 2018. Due to the supply shortage, we shipped our animal feed orders from California which resulted in higher production and freight costs. We anticipate our ability to control the production schedule and quality of milled rice at Golden Ridge will reduce our risk of experiencing supply shortages in 2019.

Selling, general and administrative (SG&A) expenses were $11.2 million in 2018, compared to $9.9 million in 2017, an increase of $1.3 million, or 13.2%. Salary, wages and benefit related expenses increased $0.7 million in 2018, compared to the prior year. The increase was primarily due to the increase in headcount related to building out our sales team and an increase in headcount related to operations and quality assurance staff to meet SQF certification. Outside services increased $0.2 million in 2018, compared to the prior year, primarily related to Golden Ridge along with our GRAS (generally recognized as safe) project. Rent expense increased $0.1 million in 2018, compared to the prior year. The increase is related to the full year rent expense for our distribution center in Northern California. Other increases in expenses of $0.4 million related to travel expenses of $0.1 million, increase in warehouse expenses related to SQF certification of $0.1 million and an increase in general administrative expenses and related to the acquisition of Golden Ridge.

Corporate portion of the SG&A expenses were relatively flat in 2018, compared to the prior year. In connection with the Golden Ridge acquisition, we incurred approximately $0.1 million in non-capitalized acquisition-related costs, primarily driven by professional fees.

Other income (expense) was $0.2 million for 2018 compared to $9.1 million of other expense for 2017. The $9.3 million decrease in expense is primarily related to an $8.3 million loss on extinguishment comprised of (i) a $6.6 million loss related to accreting the senior debentures and subordinated notes to face value when the notes were fully paid off in July 2017 from the HN divestiture proceeds and (ii) a $1.7 million loss on extinguishment of debt related to the extinguishment which occurred upon replacement of subordinated notes in February 2017. In addition, Golden Ridge was able to recover approximately $0.1 million in other income related to a previously uncollectible debt. Interest expense decreased $1.6 million from 2017.

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Liquidity, Going Concern and Capital Resources

See Note 1 of our Notes to Consolidated Financial Statements for a discussion of liquidity.

Cash Flows

Cash used in operating activities of continuing operations is presented below (in thousands).

	Years Ended December 31	
	2018	2017
Cash flow from operating activities of continuing operations:		
Loss from continuing operations	$ (8,101)	$ (10,185)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	773	757
Stock and share-based compensation	886	1,073
Change in fair value of derivative warrant and conversion liabilities	-	(670)
Loss on extinguishment of debt	-	8,290
Interest accreted	-	1,000
Deferred taxes	-	(5,046)
Other	(14)	32
Changes in operating assets and liabilities:		
Accounts receivable	331	(179)
Inventories	(138)	279
Accounts payable and accrued expenses	1,111	(679)
Other	(89)	303
Net cash used in operating activities of continuing operations	$ (5,241)	$ (5,025)

We used $5.2 million in operating cash during 2018, compared to $5.0 million of operating cash in 2017. We also funded $3.3 million of capital expenditures in 2018, compared to $0.9 million in in the prior year. These capital expenditures relate primarily to our specialty ingredients' equipment in our Dillon plant and our SQF projects to certify our facilities. Offsetting these uses of cash was $11.1 million of proceeds from warrant exercises.

As of December 31, 2018, our cash and cash equivalents balance was $7.0 million and our restricted cash balance was $0.2 million (see Note 1), compared to $6.2 million and $0.8 million of restricted cash as of December 31, 2017.

In March 2019, we completed a private placement of 3,046,668 shares of common stock and a pre-funded warrant exercisable into 1,003,344 shares of common stock for aggregate gross proceeds of approximately $12.1 million, discussed further in Note 9.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, other than normal operating leases and employee contracts, that have or are likely to have a current or future material effect on our financial condition, changes in financial condition, revenue, expenses, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies

The accompanying consolidated financial statements have been prepared in U.S. Dollars and in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in Note 2 to our Consolidated Financial Statements. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions. The following is a description of what we consider to be our most significant critical accounting policies.

Inventories - Inventories are stated at the lower of cost or net realizable value, with cost determined by the first-in, first-out method. We employed a full absorption procedure using standard cost techniques for the majority of our operations in 2018 and 2017. The standards are customarily reviewed and adjusted so that they are materially consistent with actual purchase and production costs. Provisions for potentially obsolete or slow-moving inventory are made based upon our analysis of inventory levels, historical obsolescence and future sales forecasts, while inventory determined to be obsolete is written off immediately.

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Property and Equipment – Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. Gains or losses on the sale of property and equipment are reflected in net income (loss).

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the undiscounted future cash flows estimated to be generated by the asset to be held and used are not sufficient to recover the unamortized balance of the asset. An impairment loss is recognized based on the difference between the carrying values and estimated fair value. The estimated fair value is determined based on either the discounted future cash flows or other appropriate fair value methods with the amount of any such deficiency charged to operations in the current year. Estimates of future cash flows are based on many factors, including current operating results, expected market trends and competitive influences. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value, less estimated costs to sell.

Goodwill – Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of net identified tangible and intangible assets acquired. Goodwill is tested for impairment at the reporting unit level on an annual basis in the fourth quarter and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. We may first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform a quantitative two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The quantitative two-step goodwill impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. Multiple valuation techniques can be used to assess the fair value of the reporting unit. All of these techniques include the use of estimates and assumptions that are inherently uncertain. Changes in these estimates and assumptions could materially affect the determination of fair value or goodwill impairment, or both.

Revenue Recognition – We account for a contract with a customer when the written contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection. Substantially all of our revenue is derived by fulfilling customer orders for the purchase of our products under contracts which contain a single performance obligation, to supply continually defined quantities of product at fixed prices. We account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfillment cost rather than as an additional promised service. We recognize revenue at the point in time that control of the ordered product(s) is transferred to the customer, which is upon delivery to the customer, or its designee at our location, a customer location or other customer-designated delivery point. For substantially all of our contracts, control of the ordered product(s) transfers at our location. Amounts invoiced to customers for shipping and handling are reported as revenues and the related costs incurred to deliver product to the customer are reported as cost of goods sold.

Amounts billed and due from our customers are classified as accounts receivables on our consolidated balance sheets and require payment on a short-term basis. Invoices are generally issued at the point control transfers and substantially all of our invoices due within 30 days or less. Periodically, we require payment prior to the point in time we recognize revenue. Amounts received from customers prior to revenue recognition on a contract are contract liabilities, are classified as unearned revenue on our consolidated balance sheets and are typically applied to an invoice within 30 days of receipt. Revenues recognized in 2018 include less than $0.1 million in unearned revenue as of January 1, 2018.

Revenue is measured as the amount of consideration we expect to receive in exchange for fulfilling product orders. Incidental items that are immaterial in the context of the contract are recognized as expense. Our contracts do not include a significant financing component. Our contracts may include terms that could cause variability in the transaction price, including, for example, rebates and volume discounts, or other forms of contingent revenue. The amount of consideration we expect to receive and revenue we recognize includes estimates of variable consideration, including costs for rebates and discounts. If the consideration promised in a contract includes a variable amount, we estimate the amount to which we expect to be entitled using either the expected value or most likely amount method. As of December 31, 2018, we have $0.1 million of contract liabilities recorded.

Changes in judgments and estimates regarding probability of collection and variable consideration might result in a change in the timing or amount of revenue recognized.

Incremental costs of obtaining a revenue contract are capitalized and amortized on a straight-line basis over the expected customer relationship period if we expect to recover those costs. As a practical expedient, we expense costs to obtain a contract as incurred if the amortization period would have been a year or less. Typically, costs to incur revenue contracts are not significant.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of RiceBran Technologies:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of RiceBran Technologies and subsidiaries (the Company) as of December 31, 2018, the related consolidated statements of operations, comprehensive loss, changes in shareholders’ equity and cash flows, for the year then ended, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. 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 U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the 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 financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company’s auditor since 2018.

Houston, Texas
April 1, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of RiceBran Technologies:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of RiceBran Technologies (the “Company”) as of December 31, 2017, the related consolidated statements of operations, comprehensive loss, changes in equity (deficit) and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the 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 financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Marcum LLP

We have served as the Company’s auditor from 2014 to 2018.

New York, NY
March 15, 2018

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RiceBran Technologies
Consolidated Balance Sheets
December 31, 2018 and 2017
(in thousands, except share amounts)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$7,044	$6,203
Restricted cash	225	775
Accounts receivable, net of allowance for doubtful accounts of $14 and $8	2,529	1,273
Purchase price working capital receivable	1,147	-
Inventories		
Finished goods	856	564
Packaging	102	114
Deposits and other current assets	610	519
Total current assets	12,513	9,448
Property and equipment, net	15,010	7,850
Goodwill	3,178	-
Other long-term assets, net	16	63
Total assets	$30,717	$17,361
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,583	$765
Commodities payable	2,735	-
Accrued salary, wages and benefits	933	773
Accrued expenses	520	741
Unearned revenue	145	75
Escrow liability	259	258
Note payable to seller of Golden Ridge	609	-
Long term debt, current portion	77	4
Total current liabilities	6,861	2,616
Long term debt, less current portion	145	12
Total liabilities	7,006	2,628
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, 20,000,000 shares authorized:		
Series G, convertible, 3,000 shares authorized, 405 and 630 shares issued and outstanding in 2018 and 2017, respectively	201	313
Common stock, no par value, 50,000,000 shares authorized, 29,098,207 and 18,046,731shares issued and outstanding	296,739	279,548
Accumulated deficit	(273,229)	(265,128)
Total shareholders' equity	23,711	14,733
Total liabilities and shareholders' equity	$30,717	$17,361

See Notes to Consolidated Financial Statements

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RiceBran Technologies
Consolidated Statements of Operations
Years Ended December 31, 2018 and 2017
(in thousands, except share and per share amounts)

	2018	2017
Revenues	$14,762	$13,355
Cost of goods sold	11,780	9,564
Gross profit	2,982	3,791
Selling, general and administrative expenses	11,194	9,888
Loss from continuing operations before other income (expense)	(8,212)	(6,097)
Other income (expense):		
Interest expense	(12)	(1,623)
Change in fair value of derivative warrant liabilities	-	670
Loss on extinguishment of debt	-	(8,290)
Other income	193	307
Other expense	(25)	(182)
Total other income (expense)	156	(9,118)
Loss from continuing operations before income taxes	(8,056)	(15,215)
Income tax (expense) benefit	(45)	5,030
Loss from continuing operations	(8,101)	(10,185)
Income from discontinued operations, net of tax	-	3,983
Net loss	(8,101)	(6,202)
Less - Net loss attributable to noncontrolling interest in discontinued operations	-	(1,671)
Net loss attributable to RiceBran Technologies shareholders	(8,101)	(4,531)
Less - Dividends on preferred stock, beneficial conversion feature	-	778
Net loss attributable to RiceBran Technologies common shareholders	$ (8,101)	$(5,309)
Basic earnings (loss) per common share:		
Continuing operations	$(0.37)	$(0.92)
Discontinued operations	-	0.47
Basic loss per common share - RiceBran Technologies	$(0.37)	$(0.45)
Diluted earnings (loss) per common share:		
Continuing operations	$(0.37)	$(0.92)
Discontinued operations	-	0.47
Diluted loss per common share - RiceBran Technologies	$(0.37)	$(0.45)
Weighted average number of shares outstanding:		
Basic	22,099,149	11,923,923
Diluted	22,099,149	11,923,923

See Notes to Consolidated Financial Statements

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RiceBran Technologies
Consolidated Statements of Comprehensive Loss
Years ended December 31, 2018 and 2017
(in thousands)

	2018	2017
Net loss	$ (8,101)	$ (6,202)
Other comprehensive income - foreign currency translation, net of tax	-	184
Comprehensive loss, net of tax	(8,101)	(6,018)
Less - Comprehensive loss attributable to noncontrolling interest, net of tax	-	(1,614)
Total comprehensive loss attributable to RiceBran Technologies shareholders	$ (8,101)	$ (4,404)

See Notes to Consolidated Financial Statements

Index
RiceBran Technologies
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2018 and 2017
(in thousands, except share amounts)

	Shares						Accumulated Deficit Attributable to Noncontrolling Interest in Discontinued	Accumulated Other Comp-rehensive	
	Preferred Series F	Series G	Common	Preferred Stock	Common Stock	Accumulated Deficit	Operations	Loss	Equity
Balance, January 1, 2017	-	-	10,790,351	$ -	$ 264,232	$ (259,819)	$ (699)	$ (4,346)	$ (632)
Common stock awards under equity incentive plans	-	-	642,839	-	947	-	-	-	947
Dividend on preferred stock - beneficial conversion feature	-	-	-	-	778	(778)	-	-	-
Modification of senior debenture holder warrants	-	-	-	-	582	-	-	-	582
Modification of subordinated note holder warrants	-	-	-	-	117	-	-		