

RiceBran Technologies
Form 10-Q
May 13, 2015

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

TRANSITION REPORT UNDER 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 or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6720 North Scottsdale Road, Suite 390 85253
Scottsdale, AZ (Zip Code)
(Address of Principal Executive Offices)

Issuer's telephone number, including area code: (602) 522-3000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of May 13, 2015, shares of the registrant's common stock outstanding totaled 9,386,822.

RiceBran Technologies
 Index
 Form 10-Q

PART I. FINANCIAL INFORMATION	Page
Item 1. <u>Financial Statements</u>	2
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014</u>	3
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2015 and 2014</u>	4
<u>Condensed Consolidated Balance Sheets as of March 31, 2015, and December 31, 2014</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	25
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	26
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
Item 3. <u>Defaults Upon Senior Securities</u>	26
Item 4. <u>Mine Safety Disclosures</u>	26
Item 5. <u>Other Information</u>	26
Item 6. <u>Exhibits</u>	26
<u>Signatures</u>	28

Cautionary Note about Forward-Looking Statements

This quarterly report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue, liquidity or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services, products or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “contingent,” “believe,” “expect” or “anticipate” or other similar words. The forward-looking statements contained herein reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Actual results may differ materially from those projected in such forward-looking statements due to a number of factors, risks and uncertainties, including the factors that may affect future results set forth in this Current Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2014. We disclaim any obligation to update any forward looking statements as a result of developments occurring after the date of this quarterly report.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

2

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Index

RiceBran Technologies
 Condensed Consolidated Statements of Operations
 Three Months Ended March 31, 2015 and 2014
 (Unaudited) (in thousands, except share and per share amounts)

	2015	2014
Revenues	\$9,659	\$7,684
Cost of goods sold	8,605	6,270
Gross profit	1,054	1,414
Operating expenses:		
Selling, general and administrative	3,487	3,315
Depreciation and amortization	505	818
Total operating expenses	3,992	4,133
Loss from operations	(2,938)	(2,719)
Other income (expense):		
Interest income	49	15
Interest expense	(799)	(1,188)
Change in fair value of derivative warrant and conversion liabilities	173	2,058
Foreign currency exchange, net	(219)	75
Financing expense	-	(1,122)
Other income	157	46
Other expense	(75)	(198)
Total other income (expense)	(714)	(314)
Loss before income taxes	(3,652)	(3,033)
Income tax benefit	6	248
Net loss	(3,646)	(2,785)
Net loss attributable to noncontrolling interest in Nutra SA	644	920
Net loss attributable to RiceBran Technologies shareholders	\$(3,002)	\$(1,865)
Loss per share attributable to RiceBran Technologies shareholders		
Basic	\$(0.33)	\$(0.62)
Diluted	\$(0.33)	\$(0.62)
Weighted average number of shares outstanding		
Basic	9,154,134	3,017,408
Diluted	9,154,134	3,017,408

See Notes to Unaudited Condensed Consolidated Financial Statements

Index

RiceBran Technologies
 Condensed Consolidated Statements of Comprehensive Loss
 Three Months Ended March 31, 2015 and 2014
 (Unaudited) (in thousands)

	2015	2014
Net loss	\$(3,646)	\$(2,785)
Other comprehensive loss - foreign currency translation, net of tax	(1,417)	372
Comprehensive loss, net of tax	(5,063)	(2,413)
Comprehensive loss attributable to noncontrolling interest, net of tax	1,125	752
Total comprehensive loss attributable to RiceBran Technologies shareholders	\$(3,938)	\$(1,661)

See Notes to Unaudited Condensed Consolidated Financial Statements

Index

RiceBran Technologies
Condensed Consolidated Balance Sheets
March 31, 2015 (Unaudited) and December 31, 2014
(in thousands, except share amounts)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,249	\$3,610
Restricted cash	1,920	1,920
Accounts receivable, net of allowance for doubtful accounts of \$512 and \$574 (variable interest entity restricted \$1,727 and \$1,980)	2,703	3,055
Inventories	4,270	3,508
Income and operating taxes recoverable	745	737
Deferred tax asset	171	171
Deposits and other current assets	909	1,071
Total current assets	11,967	14,072
Property, net (variable interest entity restricted \$2,945 and \$3,727)	21,436	24,753
Goodwill	3,796	4,431
Intangible assets, net	2,298	2,740
Other long-term assets	158	88
Total assets	\$39,655	\$46,084
LIABILITIES, TEMPORARY EQUITY AND EQUITY		
Current liabilities:		
Accounts payable	\$3,300	\$3,286
Accrued salary, wages and benefits	2,258	2,206
Accrued expenses	4,652	4,257
Other liabilities	716	573
Current maturities of debt (variable interest entity nonrecourse \$3,877 and \$4,758)	3,931	4,808
Total current liabilities	14,857	15,130
Long-term debt, less current portion (variable interest entity nonrecourse \$5,022 and \$6,203)	10,297	11,288
Deferred tax liability	391	396
Derivative warrant liabilities	782	955
Total liabilities	26,327	27,769
Commitments and contingencies		
Temporary Equity - Redeemable noncontrolling interest in Nutra SA	1,376	2,643
Equity:		
Equity attributable to RiceBran Technologies shareholders:		
Preferred stock, 20,000,000 shares authorized and none issued	-	-
Common stock, no par value, 25,000,000 shares authorized, 9,386,822 and 9,383,571 shares issued and outstanding	261,518	261,299
Accumulated deficit	(245,472)	(242,470)
Accumulated other comprehensive loss	(4,094)	(3,157)

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Total equity attributable to RiceBran Technologies shareholders	11,952	15,672
Total liabilities, temporary equity and equity	\$39,655	\$46,084

See Notes to Unaudited Condensed Consolidated Financial Statements

5

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Index

RiceBran Technologies
 Condensed Consolidated Statements of Cash Flows
 Three Months Ended March 31, 2015 and 2014
 (Unaudited) (in thousands)

	2015		2014
Cash flow from operating activities:			
Net loss	\$ (3,646	)	\$ (2,785)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,162		1,495
Stock and share-based compensation	219		78
Change in fair value of derivative warrant and conversion liabilities	(173	)	(2,058)
Financing expense	-		1,122
Deferred tax benefit	(6	)	(248)
Interest accreted	208		271
Other	59		54
Changes in operating assets and liabilities:			
Accounts receivable	(31	)	678
Inventories	(871	)	(551)
Accounts payable and accrued expenses	1,294		533
Other	(180	)	(138)
Net cash used in operating activities	(1,965	)	(1,549)
Cash flows from investing activities:			
Acquisition of HN, net of cash acquired	-		(725)
Purchases of property	(307	)	(2,203)
Proceeds from sale of property	-		20
Net cash used in investing activities	(307	)	(2,908)
Cash flows from financing activities:			
Payments of debt	(3,886)	(4,782)
	3,721		4,258

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Proceeds from issuance of debt, net of issuance costs				
Redemption of stock	-		(450)
Proceeds from issuance of convertible debt and related warrants, net of costs	-		4,303	
Proceeds from issuance of common stock and warrants, net of costs	-		764	
Net cash provided by (used in) financing activities	(165	)	4,093	
Effect of exchange rate changes on cash and cash equivalents	76		71	
Net change in cash and cash equivalents	(2,361	)	(293)
Cash and cash equivalents, beginning of period	3,610		5,091	
Cash and cash equivalents, end of period	\$	1,249	\$	4,798
Supplemental disclosures:				
Cash paid for interest	\$	441	\$	580
Cash paid for income taxes	-		-	

See Notes to Unaudited Condensed Consolidated Financial Statements

Index

RiceBran Technologies

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of RiceBran Technologies and subsidiaries were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q; therefore, as permitted under these rules, certain footnotes and other financial information included in audited financial statements were condensed or omitted. The interim financial statements contain all adjustments necessary to present fairly the interim results of operations, financial position and cash flows for the periods presented.

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2014. The report of our independent registered public accounting firm that accompanies the audited consolidated financial statements for the year ended December 31, 2014, included in that Annual Report on Form 10-K, contains a going concern explanatory paragraph in which our independent registered public accounting firm expressed substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

The interim results reported in these condensed consolidated financial statements are not necessarily indicative of the results to be expected for the full fiscal year, or any other future period, and have been prepared assuming we will continue as a going concern based on the realization of assets and the satisfaction of liabilities in the normal course of business.

Certain reclassifications have been made to amounts reported for the prior year to achieve consistent presentation with the current year.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance on revenue from contracts with customers, which supersedes current revenue recognition guidance and most industry-specific guidance. Under the new standard we will recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which we expect to be entitled in exchange for those goods or services. Revenue from a contract that contains multiple performance obligations will be allocated to each performance obligation generally on a relative standalone selling price basis. The guidance is effective for our annual and interim periods beginning in 2017. Early adoption is prohibited. We have not yet determined the impact that the new guidance will have on our results of operations and financial position and have not yet determined the method by which we will adopt the standard in 2017.

In February 2015, the FASB issued guidance which makes targeted amendments to current consolidation guidance. Among other things, the standard changes the manner in which we would assess one of the characteristics of variable interest entities (VIEs) and introduces a separate analysis specific to limited partnerships and similar entities (such as Nutra SA) for assessing if the equity holders at risk lack decision making. Limited partnerships and similar entities will be a VIE unless the limited partners hold substantive kick-out rights or participating rights. A right to liquidate an entity is akin to a kick-out right. Guidance for limited partnerships under the voting model has been eliminated. A limited partner and similar partners with a controlling financial interest obtained through substantive kick-out rights would consolidate a limited partnership or similar entity. The guidance is effective for our annual and interim periods beginning in 2016. Early adoption is allowed. We have not yet determined the impact that the new guidance will

have on our results of operations and financial position and have not yet determined if we will early adopt the standard.

In April 2015, the FASB issued guidance on the presentation and disclosure of debt issuance costs. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. Early adoption permitted for financial statements that have not been previously issued. The adoption of this statement will impact future presentation and disclosures of the financial statements.

NOTE 2. BUSINESS

We are a human food ingredient, nutritional supplement and animal nutrition company focused on value-added processing and marketing of healthy, natural and nutrient dense products derived from raw rice bran (RRB), an underutilized by-product of the rice milling industry. Using our bio-refining business model, we apply our proprietary and patented technologies and intellectual properties to convert RRB into numerous high value products including stabilized rice bran (SRB), rice bran oil (RBO), defatted rice bran (DRB), RiBalance (a complete rice bran nutritional package derived from further processing of SRB), RiSolubles (a highly nutritious, carbohydrate and lipid rich fraction of SRB), RiFiber (a fiber rich derivative of SRB), ProRyza rice bran protein-based products and a variety of other valuable derivatives extracted from these core products. Our target markets are natural food, functional food, nutraceutical supplement and animal nutrition manufacturers, wholesalers and retailers, both domestically and internationally.

Index

RiceBran Technologies

Notes to Unaudited Condensed Consolidated Financial Statements

We have two reportable operating segments: (i) USA segment, which manufactures and distributes SRB in various granulations along with Stage II products (described below) and derivatives and formulates and co-packages products and (ii) Brazil segment, which extracts crude RBO and DRB from rice bran, which are then further processed into fully refined rice bran oil for sale internationally and in Brazil, compounded animal nutrition products and a number of valuable human food and animal nutrition products derivatives and co-products. In addition we incur corporate and other expenses not directly attributable to operating segments, which include costs related to our corporate staff, general and administrative expenses including public company expenses, intellectual property, professional fees, and other expenses. No corporate allocations, including interest, are made to the operating segments.

The combined operations of our USA and Brazil segments encompass our bio-refining approach to processing RRB into various high quality, value-added constituents and finished products. Over the past decade, we have developed and optimized our proprietary bio-refining processes to support the production of healthy, natural, hypoallergenic, gluten free, and non-genetically modified ingredients and supplements for use in human meats, baked goods, cereals, coatings, health foods, nutritional supplements, nutraceuticals and high-end animal nutrition and health products.

The USA segment produces SRB inside two supplier rice mills in California and one owned facility in Louisiana. A facility located in Lake Charles, Louisiana has been idle since May 2009. The USA segment also includes our Dillon, Montana Stage II facility which produces our Stage II products 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 processing SRB), and ProRyza, a family of protein products. Stage II refers to the proprietary processes run at our Dillon, Montana facility and includes products produced at that facility using our patented processes. In January 2014, we completed the acquisition of H&N Distribution Inc., now operating as Healthy Natural, Inc. (HN), which has been integrated into our USA segment. HN is a formulator and co-packer of products targeted at customers in the direct marketing, internet sales and retail distribution markets, and operates a facility in Irving, Texas. HN serves the natural products, nutritional supplement and nutraceutical and functional food sectors. We acquired HN as part of our strategy to vertically integrate our business in order to leverage our proprietary and patented technologies. Certain manufacturing facilities included in our USA segment have proprietary processing equipment and patented technology for the stabilization and further processing of rice bran into finished products. In the three months ended March 31, 2015, approximately 81% of USA segment revenue was from sales of human food products and the remainder was from sales of animal nutrition products.

The Brazil segment consists of the consolidated operations of Nutra SA, whose only operating subsidiary is Irgovel, located in Pelotas, Brazil. Irgovel manufactures RBO and DRB products for both the human ingredient and animal nutrition markets in Brazil and internationally. In refining RBO to an edible grade, several co-products are obtained. One such product is distilled fatty acids, a valuable raw material for the detergent industry. Irgovel recently started production of rice lecithin, which has application in human nutrition, animal nutrition and industrial applications. DRB is compounded with a number of other ingredients to produce complex animal nutrition products which are packaged and sold under Irgovel brands in the Brazilian market, sold as a raw material for further processing into human food ingredients or sold in bulk into the animal nutrition markets in Brazil and neighboring countries. In 2014, approximately 39% of Brazil segment product revenue was from sales of RBO products and the remainder was from sales of DRB products. In the three months ended March 31, 2015, approximately 47% of Brazil segment product revenue was from sales of RBO products and the remainder was from sales of DRB products.

NOTE 3. LIQUIDITY AND MANAGEMENT'S PLAN

In 2014 and the first three months of 2015, we continued to experience losses and negative cash flows from operations which raises substantial doubt about our ability to continue as a going concern. We believe that we will be able to

obtain additional funds to operate our business, should it be necessary, however, there can be no assurances that our efforts will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

As described further in Note 5, in January 2014, we completed the acquisition of HN, the operations of which are accretive to cash flows. Our Brazilian subsidiary, Industria Riograndens De Oleos Vegetais Ltda. (Irgovel), recently completed the final stages of a major capital expansion. Significant cash was used during the shutdown period. Operations at Irgovel are expected to improve during the second quarter of 2015, such that Irgovel should be operating at its targeted capacity. However, there are no assurances that this will occur.

On May 12, 2015, we entered into an \$8 million senior secured credit facility agreement consisting of a \$3.5 million maximum working capital revolver and two term loan tranches.

Index

RiceBran Technologies

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 4. LOSS PER SHARE (EPS)

Basic EPS is computed by dividing net income (loss) attributable to RiceBran Technologies shareholders by the weighted average number of common shares outstanding during all periods presented. Shares underlying options, warrants and convertible debt are excluded from the basic EPS calculation but are considered in calculating diluted EPS. Nonvested shares that vest solely on the basis of a service condition are not included in the denominator of the computation of basic EPS.

Diluted EPS is computed by dividing the net income (loss) attributable to RiceBran Technologies shareholders by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been outstanding if the impact of assumed exercises and conversions is dilutive. The dilutive effect of outstanding options and warrants is calculated using the treasury stock method. The dilutive effect of outstanding convertible debt is calculated using the if-converted method. Nonvested shares that vest solely on the basis of a service condition are included in the denominator of the computation of diluted EPS during their requisite service period under the treasury stock method.

Below are reconciliations of the numerators and denominators in the EPS computations for the three months ended March 31, 2015 and 2014.

	2015	2014
NUMERATOR (in thousands):		
Basic and diluted - net loss attributable to RiceBran Technologies shareholders	\$(3,002)	\$(1,865)
DENOMINATOR:		
Basic EPS - weighted average number of shares outstanding	9,154,134	3,017,408
Effect of dilutive securities outstanding	-	-
Diluted EPS - weighted average number of shares outstanding	9,154,134	3,017,408
Number of shares of common stock which could be purchased with weighted average outstanding securities not included in diluted EPS because effect would be antidilutive-		
Stock options (average exercise price of \$11.48 and \$24.52)	264,305	174,141
Warrants (average exercise price of \$5.77 and \$6.27)	6,503,959	2,750,335
Nonvested stock	224,967	-

The impact of potentially dilutive securities outstanding at March 31, 2015 and 2014, was not included in the calculation of diluted EPS for the three months ended March 31, 2015 and 2014 because to do so would be antidilutive. Those securities listed in the table above which were antidilutive for the periods presented, which remain outstanding, could potentially dilute EPS in the future.

NOTE 5. HN ACQUISITION

In January 2014, we purchased all of the outstanding shares of HN for \$2.0 million in cash (\$1.8 million paid in January 2014 and \$0.2 million payable upon the resolution of certain contingencies) and promissory notes in the face amount of \$3.3 million, subject to working capital adjustments. HN is an Irving, Texas-based formulator and co-packer of products targeted at customers in the direct marketing, internet sales and retail distribution markets. HN serves the natural products, nutritional supplement and nutraceutical and functional food sectors. We acquired HN as part of our strategy to vertically integrate our business in order to leverage our proprietary and patented technologies.

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The acquisition has been accounted for as a business combination. The results of HN's operations are included in our consolidated financial statements beginning January 2, 2014, and are included in our USA segment.

In the first quarter of 2014, we incurred \$0.3 million of acquisition-related costs which are included in selling, general and administrative expenses in the consolidated statements of operations. The following table summarizes the aggregate purchase price allocation, the consideration transferred to acquire HN, as well as the amounts of identified assets acquired and liabilities assumed based on the esti