

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

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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.

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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-looking 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:
 - o RiBalance, a complete rice bran nutritional package derived from further processing of SRB;
 - o RiSolubles, a highly nutritious, carbohydrate and lipid rich fraction of RiBalance;
 - o RiFiber, a protein and fiber rich insoluble derivative of RiBalance; and
 - o 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 broken. 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.

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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