RiceBran Technologies
Form 10-Q
November 06, 2018

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 September 30, 2018

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<br>(State or other jurisdiction of incorporation or organization) | 87-0673375<br>(I.R.S. Employer Identification No.) |
| 1330 Lake Robbins Drive, Suite 250<br>The Woodlands, TX<br>(Address of Principal Executive Offices) | 77380<br>(Zip Code) |

Issuer's telephone number, including area code: (281) 675-2421

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, or an emerging 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<br>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 whether the registrant is a shell company (as defined in Rule l2b-2 of the Exchange Act).  Yes No

As of October 31, 2018, shares of the registrant’s common stock outstanding totaled 27,093,093.

RiceBran Technologies
Index
Form 10-Q



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," "contin "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, 2017. We disclaim any obligation to update any forward looking statements as a result of developments occurring after the date of this quarterly report.

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

Index
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

RiceBran Technologies
Condensed Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2018 and 2017
(Unaudited) (in thousands, except share and per share amounts)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues, net | $3,463 | $3,445 | $10,213 | $10,206 |
| Cost of goods sold | 2,709 | 2,305 | 7,842 | 7,081 |
| Gross profit | 754 | 1,140 | 2,371 | 3,125 |
| Selling, general and administrative expenses | 2,419 | 2,495 | 8,102 | 7,428 |
| Loss from continuing operations before other income (expense) | (1,665) | (1,355) | (5,731) | (4,303) |
| Other income (expense): | | | | |
| Interest expense | (2) | (86) | (5) | (1,616) |
| Change in fair value of derivative warrant liabilities | - | (313) | - | 808 |
| Loss on extinguishment of debt | - | (6,610) | - | (8,290) |
| Other income | 52 | 157 | 61 | 194 |
| Other expense | (12) | (113) | (25) | (213) |
| Total other income (expense) | 38 | (6,965) | 31 | (9,117) |
| Loss from continuing operations before income taxes | (1,627) | (8,320) | (5,700) | (13,420) |
| Income tax benefit | - | 4,121 | - | 5,033 |
| Loss from continuing operations | (1,627) | (4,199) | (5,700) | (8,387) |
| Income from discontinued operations, net of tax | - | 6,706 | - | 6,823 |
| Net income (loss) | (1,627) | 2,507 | (5,700) | (1,564) |
| Less - Net loss attributable to noncontrolling interest in discontinued operations | - | (792) | - | (1,359) |
| Net income (loss) attributable to RiceBran Technologies shareholders | (1,627) | 3,299 | (5,700) | (205) |
| Less - Dividends on preferred stock, beneficial conversion feature | - | - | - | 778 |
| Net income (loss) attributable to RiceBran Technologies common shareholders | $(1,627) | $3,299 | $(5,700) | $(983) |
| | | | | |
| Basic earnings (loss) per common share: | | | | |
| Continuing operations | $(0.07) | $(0.38) | $(0.28) | $(0.86) |
| Discontinued operations | - | 0.68 | - | 0.77 |
| Basic loss per common share - RiceBran Technologies | $(0.07) | $0.30 | $(0.28) | $(0.09) |
| | | | | |
| Diluted earnings (loss) per common share: | | | | |
| Continuing operations | $(0.07) | $(0.38) | $(0.28) | $(0.86) |
| Discontinued operations | - | 0.68 | - | 0.77 |
| Diluted loss per common share - RiceBran Technologies | $(0.07) | $0.30 | $(0.28) | $(0.09) |
| | | | | |
| Weighted average number of shares outstanding: | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | 24,092,172 | 11,129,781 | 20,538,309 | 10,644,372 |
| Diluted | 24,092,172 | 11,129,781 | 20,538,309 | 10,644,372 |

See Notes to Unaudited Condensed Consolidated Financial Statements

Index

RiceBran Technologies
Condensed Consolidated Statements of Comprehensive Income (Loss)
Three and Nine Months Ended September 30, 2018 and 2017
(Unaudited) (in thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | $ (1,627 ) | $ 2,507 | $ (5,700 ) | $ (1,564 ) |
| Other comprehensive income (loss) - foreign currency translation, net of tax | - | (31 ) | - | 131 |
| Comprehensive loss, net of tax | (1,627 ) | 2,476 | (5,700 ) | (1,433 ) |
| Less - Comprehensive loss attributable to noncontrolling interest, net of tax | - | 803 | - | 1,321 |
| Total comprehensive income (loss) attributable to RiceBran Technologies shareholders | $ (1,627 ) | $ 3,279 | $ (5,700 ) | $ (112 ) |

See Notes to Unaudited Condensed Consolidated Financial Statements

Index
RiceBran Technologies
Condensed Consolidated Balance Sheets
September 30, 2018 and December 31, 2017
(Unaudited) (in thousands, except share amounts)

| | September 30 2018 | December 31 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,299 | $ 6,203 |
| Restricted cash | 225 | 775 |
| Accounts receivable, net of allowance for doubtful accounts of $14 and $0 | 1,509 | 1,273 |
| Notes receivable | 565 | - |
| Inventories - Finished goods | 524 | 564 |
| Inventories - Packaging | 113 | 114 |
| Deposits and other current assets | 475 | 519 |
| Total current assets | 13,710 | 9,448 |
| Property and equipment, net | 9,300 | 7,850 |
| Other long-term assets, net | 18 | 63 |
| Total assets | $ 23,028 | $ 17,361 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 276 | $ 765 |
| Accrued salary, wages and benefits | 698 | 773 |
| Accrued expenses | 1,044 | 741 |
| Unearned revenue | 25 | 75 |
| Escrow liability | 259 | 258 |
| Current maturities of long-term debt | 4 | 4 |
| Total current liabilities | 2,306 | 2,616 |
| Long-term debt, less current portion | 9 | 12 |
| Total liabilities | 2,315 | 2,628 |
| | | |
| Commitments and contingencies | | |
| | | |
| Shareholders' Equity: | | |
| Equity attributable to RiceBran Technologies shareholders: | | |
| Preferred stock, 20,000,000 shares authorized: Series G, convertible, 3,000 shares authorized; 630 shares issued and outstanding | 313 | 313 |
| Common stock, no par value, 50,000,000 shares authorized; 27,093,093 and 18,046,731 shares issued and outstanding | 291,228 | 279,548 |
| Accumulated deficit | (270,828) | (265,128) |
| Total shareholders' equity attributable to RiceBran Technologies shareholders | 20,713 | 14,733 |
| Total liabilities and shareholders' equity | $ 23,028 | $ 17,361 |

See Notes to Unaudited Condensed Consolidated Financial Statements

5

Index
RiceBran Technologies
Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2018 and 2017
(Unaudited) (in thousands)

| | Nine Months Ended | |
|---|---|---|
| | 2018 | 2017 |
| Cash flow from operating activities: | | |
| Net loss | $ (5,700 ) | $ (1,564 ) |
| Income from discontinued operations | - | 6,823 |
| Loss from continuing operations | (5,700 ) | (8,387 ) |
| Adjustments to reconcile net loss from continuing operation to net cash used in operating activities of continuing operations: | | |
| Depreciation and amortization | 544 | 571 |
| Stock and share-based compensation | 617 | 904 |
| Change in fair value of derivative warrant and conversion liabilities | - | (808 ) |
| Loss on extinguishment of debt | - | 8,290 |
| Interest accreted | - | 1,000 |
| Deferred taxes | - | (5,033 ) |
| Other | 135 | 55 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (236 ) | (290 ) |
| Inventories | 42 | 213 |
| Accounts payable and accrued expenses | (56 ) | (1,310 ) |
| Other | (17 ) | 465 |
| Net cash used in operating activities of continuing operations | (4,671 ) | (4,330 ) |
| Net cash provided by operating activities of discontinued operations | - | 1,513 |
| Net cash used in operating activities | (4,671 ) | (2,817 ) |
| Cash flows from investing activities: | | |
| Disbursements of notes receivable | (400 ) | - |
| Purchases of property and equipment | (2,384 ) | (596 ) |
| Net cash used in investing activities of continuing operations | (2,784 ) | (596 ) |
| Net cash used in investing activities of discontinued operations | - | 16,604 |
| Net cash used in investing activities | (2,784 ) | 16,008 |
| Cash flows from financing activities: | | |
| Proceeds from warrant exercises | 11,003 | - |
| Payments of debt | (3 ) | (19,728 ) |
| Proceeds from issuance of debt, net of issuance costs | - | 3,779 |
| Proceeds from issuance of debt and warrants, net of issuance costs | - | 5,518 |
| Proceeds from issuance of common stock, net of issuance costs | - | 2,778 |
| Proceeds from issuance of preferred stock and warrants, net of issuance costs | - | 1,747 |
| Other | 1 | (22 ) |
| Net cash used in financing activities of continuing operations | 11,001 | (5,928 ) |
| Net cash provided by financing activities of discontinued operations | - | 1,232 |
| Net cash used in financing activities | 11,001 | (4,696 ) |
| Effect of exchange rate changes on cash and cash equivalents of discontinued operations | - | 125 |
| Net change in cash and cash equivalents and restricted cash | $ 3,546 | $ 8,620 |
| | | |
| Cash and cash equivalents and restricted cash, beginning of period | | |
| Cash and cash equivalents | $ 6,203 | $ 342 |

| | | |
|---|---|---|
| Restricted cash | 775 | - |
| Cash and cash equivalents and restricted cash, beginning of period | 6,978 | 342 |
| Cash and cash equivalents and restricted cash, end of period | | |
| Cash and cash equivalents | 10,299 | 8,187 |
| Restricted cash | 225 | 775 |
| Cash and cash equivalents and restricted cash, end of period | 10,524 | 8,962 |
| Net change in cash and cash equivalents and restricted cash | $ 3,546 | $ 8,620 |
| | | |
| Supplemental disclosures, continuing operations: | | |
| Cash paid for interest, continuing operations | $ 3 | $ 729 |

See Notes to Unaudited Condensed Consolidated Financial Statements

6

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 (interim 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, they do not include all of the information and notes required by GAAP for complete financial statements. 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 audited financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2017, which included all disclosures required by generally accepted accounting principles.

The results reported in these interim 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 based on the realization of assets and the satisfaction of liabilities in the normal course of business.

NOTE 2. BUSINESS

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 ("SRB"), 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 fiber rich insoluble derivative of RiBalance, and ProRyza, rice bran protein-based products, and a variety of other valuable derivatives extracted from these core products. Our target markets are natural food, food and animal nutrition manufacturers, wholesalers and retailers, both domestically and internationally.

We manufacture and distribute SRB, for food and animal nutrition customers, in various granulations along with Stage II products and derivatives. Stage II refers to the proprietary, patented processes run at our Dillon, Montana facility and includes products produced at that facility. Over the past decade, we have developed and optimized our proprietary processes to support the production of healthy, natural, hypoallergenic, gluten free, and non-genetically modified ingredients and supplements for use in meats, baked goods, cereals, coatings, health foods and high-end animal nutrition.

We produce SRB inside three locations: two leased raw rice bran stabilization facilities located within supplier-owned rice mills in Arbuckle and West Sacramento, California; and one company-owned rice bran stabilization facility in Mermentau, Louisiana. In addition, we purchase SRB from a supplier rice mill. At our Dillon, Montana facility, we produce our process patented Stage II products. We operate proprietary processing equipment and process-patented technology for the stabilization and further processing of rice bran into finished products.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Guidance

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842).” This update requires a lessee to recognize on the balance sheet the right-of-use assets and lease liabilities for leases with a lease term of more than twelve months. This update also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. This ASU is effective for interim and annual periods beginning after December 15, 2018 and requires a modified retrospective approach to adoption for leases existing at, or entered into after the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Under prior GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease for us as a lessee depend primarily on the lease’s classification as a finance or operating lease. For both types of leases, we will recognize a right-of-use asset and a lease liability. For capital or finance leases, we will recognize amortization of the right-of-use asset separately from interest expense on the lease liability.

Index
RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - Targeted Improvements," which provides another transition method that allows entities to apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This transition method option is in addition to the existing transition method of using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating which transition method it will use.

We have not yet determined the impact that the new lease guidance will have on our results of operations, financial position and cash flows. While we are evaluating the impact that the adoption of this guidance will have on our consolidated financial statements, we have not yet determined if we will select the option to restate comparative periods upon adoption or if we will elect the optional practical expedients upon adoption.

Recently Adopted Accounting Standards

In May 2014, the FASB issued guidance on revenue from contracts with customers to clarify the principles for recognizing revenue, ASU 2014-09, Revenue: Revenue from Contracts with Customers (and subsequent guidance related to the topic in ASUs 2016-08, 2016-10, 2016-12. 2016-20, and 2017-14). On January 1, 2018, we adopted the guidance using the modified retrospective method. Upon completing our implementation assessment of the guidance, we concluded that no adjustment was required to the opening balance of retained earnings at the date of initial application. As of, and in the three and nine months ended September 30, 2018, there were no differences between amounts recorded under this current guidance and what would have been recorded under the accounting standards in effect prior to January 1, 2018. We applied the guidance to all contracts as of January 1, 2018. The comparative information has also not been restated and continues to be reported under the accounting standards in effect for those periods. Additional disclosures required by the guidance are presented within the revenue recognition policy disclosure below. See Note 5 for revenue disaggregated by product line and geography.

Revenue Recognition – The following summarizes our revenue recognition accounting policy effective January 1, 2018:

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 the nine months ended September 30, 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. We expect no costs from rebates, discounts, or other forms of variable consideration, related to revenues recognized in the three and nine months ended September 30, 2018. We have no contract liabilities recorded for those items as of January 1, 2018, or September 30, 2018.

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.

Index
RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

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.

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

## NOTE 4. DISCONTINUED OPERATIONS

In the second quarter of 2017, we determined that our plans to dispose of our wholly owned subsidiary Healthy Natural (“HN”) and to divest of our investment in Nutra SA, LLC (“Nutra SA”) met the criteria for presentation as discontinued operations. Accordingly, the HN and Nutra SA operating results are presented as discontinued operations and are excluded from continuing operations for all periods presented.

The following table summarizes the major line items included in the income from discontinued operations, cash flows from discontinued operations, and other data related to the discontinued operations (in thousands).

| | Three Months Ended September 30, 2017 | | | Nine Months Ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | HN | Nutra SA | Total | HN | Nutra SA | Total |
| Revenues | $ 421 | $ 3,226 | $ 3,647 | $ 9,902 | $ 9,589 | $ 19,491 |
| Cost of goods sold | (293) | (3,539) | (3,832) | (6,651) | (9,814) | (16,465) |
| Selling, general and administrative expenses | (19) | (1,541) | (1,560) | (462) | (2,572) | (3,034) |
| Other income (expense) | - | (358) | (358) | - | (1,066) | (1,066) |
| Income (loss) from operations, before income taxes | 109 | (2,212) | (2,103) | 2,789 | (3,863) | (1,074) |
| Income tax expense | (36) | - | (36) | (948) | - | (948) |
| Income (loss) from operations, net of tax | 73 | (2,212) | (2,139) | 1,841 | (3,863) | (2,022) |
| Gain on sale, net of $4.3 million income tax expense | 8,845 | - | 8,845 | 8,845 | - | 8,845 |
| Income (loss) from discontinued operations, net of tax | 8,918 | (2,212) | 6,706 | 10,686 | (3,863) | 6,823 |
| | | | | | | |
| Net cash provided by (used in) operating activities | $ 662 | $ (122) | $ 540 | $ 2,803 | $ (1,290) | $ 1,513 |
| Net cash used in investing activities | 16,734 | (22) | 16,712 | 16,719 | (115) | 16,604 |
| Net cash provided by (used in) financing activities | (41) | 161 | 120 | (48) | 1,280 | 1,232 |
| Effect of exchange rate changes on cash and cash equivalents | - | (17) | (17) | - | 125 | 125 |
| Net cash provided to continuing operations | $ 17,355 | $ - | $ 17,355 | $ 19,474 | $ - | $ 19,474 |
| | | | | | | |
| | $ 7 | $ 274 | $ 281 | $ 96 | $ 792 | $ 888 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Depreciation included in cost of goods sold | | | | | | |
| Depreciation included in selling, general and administrative expenses | 4 | 15 | 19 | 49 | 46 | 95 |
| Capital expenditures | 3 | 22 | 25 | 18 | 115 | 133 |

Healthy Natural (HN) Discontinued Operations

In July 2017, we completed the sale of the assets of HN for $18.3 million in cash. The selling price is subject to adjustment if the estimated closing working capital with respect to the assets sold and the liabilities assumed is different than the actual closing working capital for those assets and liabilities. The sale agreement contains customary indemnification provisions and provisions that restrict us from engaging in a business conducted by HN for five years from the date of closing. A $0.2 million working capital adjustment escrow and a $0.6 million indemnity claim escrow were funded from the proceeds and are classified as restricted cash. The indemnity claim escrow was released to us in the second quarter of 2018.

On a preliminary basis, we estimated a working capital adjustment of $0.3 million as of December 31, 2017 and September 30, 2018. The working capital adjustment will result in an adjustment to the initial net proceeds of $16.7 million and the gain on the sale of $8.2 million, net of a $4.7 million income tax provision which we recognized in 2017. The definition of working capital under the agreement is subject to interpretation and we have not yet finalized the adjustment with the purchaser of HN. The final adjustment may differ from the estimate.

Index
RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

Nutra SA Discontinued Operations

On November 28, 2017, Nutra SA redeemed our entire membership interest in Nutra SA. We no longer hold any interest in Nutra SA. We held a variable interest in our equity interest in Nutra SA. We were the primary beneficiary of Nutra SA, and as such, Nutra SA's assets, liabilities and results of operations were included in the consolidated financial statements through November 28, 2017, the date of disposal of Nutra SA. The minority investors in Nutra SA held an average interest in Nutra SA of 36% in 2017, through the date of disposal.

Cash provided by Nutra SA operations was generally unavailable for distribution to our continuing operations under the terms of the LLC Agreement. Nutra SA's only operating subsidiary was Industria Riograndens De Oleos Vegetais Ltda. (Irgovel), located in Pelotas, Brazil. Nutra SA's debt was secured by Irgovel's accounts receivable and property. The non-Brazilian entities within the consolidated ownership group did not guarantee any of Nutra SA's debt. No interest related to debt held by non-Brazilian entities was allocated to Nutra SA in any period presented.

In 2017, net cash provided by investing activities in the table above is presented in our consolidated statements of cash flows in net cash provided by (used in) investing activities of discontinued operations and includes the $16.7 million net proceeds from the sale of HN.

NOTE 5. CONCENTRATION OF RISK

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of trade accounts receivable. We perform ongoing credit evaluations on the financial condition of our customers and generally do not require collateral. Our allowance for doubtful accounts balance was zero at December 31, 2017, and $14 thousand as of September 30, 2018.

Revenues and accounts receivable from significant customers (customers with revenue or accounts receivable in excess of 10% of consolidated totals) are stated below as a percent of consolidated totals.

| | Customer | |
|---|---|---|
| | A | B |
| % of Revenue, Three Months Ended September 30, 2018 | 17% | 19% |
| % of Revenue, Three Months Ended September 30, 2017 | 14% | 19% |
| % of Revenue, Nine Months Ended September 30, 2018 | 22% | 27% |
| % of Revenue, Nine Months Ended September 30, 2017 | 23% | 26% |
| % of Accounts Receivable, as of September 30, 2018 | 4 % | 31% |
| % of Accounts Receivable, as of December 31, 2017 | 0 % | 25% |

The following table presents revenues by geographic area shipped to in the three and nine months ended September 30, 2018 and 2017 (in thousands).

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| United States | $ 3,132 | $ 3,165 | $ 9,244 | $ 9,353 |
| Other countries | 331 | 280 | 969 | 853 |
| Revenues | $ 3,463 | $ 3,445 | $ 10,213 | $ 10,206 |

The following table presents revenues by product line in the three and nine months ended September 30, 2018 and 2017 (in thousands).

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Food | $ 1,927 | $ 1,960 | $ 5,657 | $ 5,760 |
| Animal nutrition | 1,536 | 1,485 | 4,556 | 4,446 |
| Revenues | $ 3,463 | $ 3,445 | $ 10,213 | $ 10,206 |

Rice bran represents approximately 44% of our cost of goods sold in the nine months ended September 30, 2018. We purchase rice bran from five suppliers. Purchases from significant rice bran suppliers are stated below as a percent of total rice bran purchases.

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| Supplier | 2018 | | 2017 | | 2018 | | 2017 | |
| Supplier 1 | 42 | % | 30 | % | 43 | % | 47 | % |
| Supplier 2 | 42 | % | 41 | % | 32 | % | 13 | % |
| Supplier 3 | 15 | % | 12 | % | 15 | % | 10 | % |
| Others | 1 | % | 17 | % | 10 | % | 30 | % |
| Total | 100 | % | 100 | % | 100 | % | 100 | % |

In July 2018, we loaned $0.6 million to Golden Ridge Rice Mills, a bran supplier, as evidenced by notes in exchange for $0.4 million of cash and property with a net book value of $0.1 million. We recognized a $0.1 million gain on disposition of property upon issuance of the notes. In October 2018, we loaned another $0.1 million to the same supplier, as evidenced by an amended note. The notes carry interest at a rate of 6% per year and are being repaid as the supplier delivers bran to us and we pay a discounted price. The discount is applied to the notes. Any loan amounts remaining unpaid are payable in cash in December 2019. We have determined the bran supplier is a variable interest entity because we believe it may not have sufficient equity at risk to finance its activities without additional subordinated financial support. Our notes receivable from the supplier represent a variable interest in the supplier. Our maximum exposure to loss related to the supplier is the total remaining outstanding principal on the notes and related accrued interest, which total approximately $0.6 million as of September 30, 2018, and $0.7 million as of the date of this filing. We believe, however, that we will recover our investment in the notes through our contractual right to offset amounts receivable under the notes against accounts payable when we purchase SRB from the supplier.

## NOTE 6. INCOME (LOSS) PER SHARE (EPS)

Basic EPS is calculated under the two-class method under which all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities based on their respective rights to receive dividends. Our outstanding convertible preferred stocks are considered participating securities as the holders may participate in undistributed earnings with holders of common shares and are not obligated to share in our net losses.

Diluted EPS is computed by dividing the net income attributable to RiceBran Technologies common shareholders by the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if the impact of assumed exercises and conversions is dilutive. The dilutive effects of outstanding options, warrants, nonvested shares and restricted stock units that vest solely on the basis of a service condition are calculated using the treasury stock method. The dilutive effects of the outstanding preferred stock are calculated using the if-converted method.

Index
RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

Below are reconciliations of the numerators and denominators in the EPS computations.

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| NUMERATOR (in thousands): | | | | |
| Basic and diluted - loss from continuing operations | $ (1,627 ) | $ (4,199 ) | $ (5,700 ) | $ (8,387 ) |
| Dividend on preferred stock--beneficial conversion feature | - | - | - | (778 ) |
| Basic and diluted - adjusted loss from continuing operations | $ (1,627 ) | $ (4,199 ) | $ (5,700 ) | $ (9,165 ) |
| DENOMINATOR: | | | | |
| Basic EPS - weighted average number of common shares outstanding | 24,092,172 | 11,129,781 | 20,538,309 | 10,644,372 |
| Effect of dilutive securities outstanding | - | - | - | - |
| Diluted EPS - weighted average number of shares outstanding | 24,092,172 | 11,129,781 | 20,538,309 | 10,644,372 |
| 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 | 790,950 | 629,969 | 843,910 | 473,498 |
| Warrants | 14,421,219 | 22,824,888 | 17,840,322 | 21,306,727 |
| Convertible preferred stock | 597,865 | 2,128,180 | 597,865 | 3,020,739 |
| Restricted stock units | 178,478 | 1,175,000 | 428,132 | 406,066 |
| Weighted average number of nonvested shares of common stock not included in diluted EPS because effect would be antidilutive | 1,079,079 | 1,301,725 | 1,198,913 | 1,236,241 |

The impacts of potentially dilutive securities outstanding at September 30, 2018 and 2017, were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2018 and 2017 because to do so would be anti-dilutive. Those securities listed in the table above which were anti-dilutive for three and nine months ended September 30, 2018 and 2017, which remain outstanding, could potentially dilute EPS in the future.

NOTE 7. PROPERTY AND EQUIPMENT

| | September 30 2018 | December 31 2017 | Estimated Useful Lives |
|---|---|---|---|
| Land | $ 237 | $ 237 | |
| Furniture and fixtures | 282 | 311 | 5-7 years |
| Plant | 6,681 | 6,580 | 30 years, or life of lease |
| Computer and software | 1,270 | 1,207 | 3-5 years |
| Leasehold improvements | 662 | 274 | 4-7 years or life of lease |

| | | | |
|---|---|---|---|
| Machinery and equipment | 10,023 | 8,677 | 5-10 years |
| Property and equipment, cost | 19,155 | 17,286 | |
| Less accumulated depreciation | 9,855 | 9,436 | |
| Property and equipment, net | $ 9,300 | $ 7,850 | |

NOTE 8. EQUITY, SHARE-BASED COMPENSATION AND WARRANTS

A summary of equity activity for the nine months ended September 30, 2018, follows (in thousands, except share amounts).

| | Shares Preferred Series G | Common | Preferred Stock | Common Stock | Accumulated Deficit | Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | 630 | 18,046,731 | $ 313 | $ 279,548 | $ (265,128 ) | $ 14,733 |
| Common stock awards under equity incentive plans | - | 326,894 | - | 561 | - | 561 |
| Exercise of warrants | - | 8,719,468 | - | 11,003 | - | 11,003 |
| Other | - | - | - | 116 | - | 116 |
| Net loss | - | - | - | - | (5,700 ) | (5,700 ) |
| Balance, September 30, 2018 | 630 | 27,093,093 | $ 313 | $ 291,228 | $ (270,828 ) | $ 20,713 |

12

Transactions with Preferred Stock Holders.

In February 2017, we issued and sold 2,000 shares of Series G convertible preferred stock and sold warrants to purchase 1,423,488 shares of common stock (exercise price of $0.96 per share, exercisable beginning in February 2017 and expiring in February 2022). One of the investors was a subordinated note holder that exchanged subordinated notes with a principal and carrying value of $0.1 million and cash for 180 shares of the Series G preferred stock and related warrants, which was treated as an extinguishment of debt. The net cash proceeds from the sale was $1.7 million, after deducting allocated cash offering expenses of $0.1 million. On the date of issuance, we allocated $1.0 million of the proceeds to derivative warrant liability to record the warrants at fair value, recorded a $0.1 million loss on extinguishment and reduced debt $0.1 million related to the subordinated noteholders exchange, and recorded $1.2 million as preferred stock. We recorded a $0.8 million dividend on preferred stock for the preferred stock beneficial conversion feature equal to the proceeds allocated to the preferred stock issued to purchasers who did not exchange debt, as the fair value of the common stock underlying the convertible preferred stock at issuance exceeded the amount recorded in preferred stock.

Transactions with Senior Debenture Holders

In February 2017, we sold and issued in a private placement, for an aggregate subscription amount of $6.0 million: (i) senior debentures in the principal amount of $6.6 million and (ii) warrants to purchase an aggregate of 6,875,000 shares of common stock (exercise price of $0.96 per share, exercisable beginning February 2017 and expiration February 2022). We received aggregate net proceeds of $5.5 million, after deducting placement agent fees and allocated expenses of $0.5 million. Concurrently, we amended existing warrants, held by the debenture purchasers, for the purchase of up to 875,000 shares to (i) reduce the exercise prices from an average $5.49 per share to $0.96 per share, providing the warrants are not exercisable until August 2017, and (ii) change the expiration dates to August 2022, which increased the average remaining term of the warrants from 2.1 years to 5.5 years. We recorded $4.6 million as an increase to derivative warrant liabilities, to record the warrants at their fair value on the date of issuance, the $0.5 million as an increase in common stock to record the change in fair value of existing warrants and the remaining $0.4 million to debt, debt issuance costs and debt discount. We used the net proceeds from the offering to (i) pay off the senior revolving loan and term loan debt totaling $3.8 million and (ii) pay $0.2 million of principal and $0.3 million of interest due on subordinated notes and (iii) for working capital and general corporate purposes. We filed a registration statement on Form S-3, which became effective in May 2017, to register the resale of shares underlying the warrants issued to the senior debenture purchasers.

Transaction with Subordinated Note Holders

In connection with the February 2017 senior debenture private placement, we entered into agreements which resulted in (i) a reduction in the annual interest rate on the subordinated notes from 11.75% to 7% (ii) an extension of the maturity date of the subordinated notes to May 2019 from May 2018 (iii) the payment of an aggregate amount equal to $0.5 million on the subordinated notes, (iv) the issuance of warrants to purchase up to 3,484,675 shares of our common stock (exercise price of $0.96 per share, expiration February 2022), and (v) the amendment of existing warrants held by the subordinated note holders for the purchase 289,669 shares of common stock to reduce the exercise price from $5.25 per share to $0.96 per share. We accounted for the transaction as an extinguishment of debt and issuance of new debt. In February 2017, we (i) recorded a loss on extinguishment of debt of $1.5 million, (ii) adjusted subordinated notes payable debt down by $0.9 million, to its fair value as of the transaction date, (iii) increased derivative liability by $2.3 million, representing the fair value of the newly issued warrants, and (iv) increased common stock equity by $0.1 million for the change in the fair value of the existing warrants.

Transactions with Holders of Warrants with Full Ratchet Anti-Dilution Clauses

As a result of the February 2017 financing transactions described above, the exercise price of certain warrants that contained full ratchet anti-dilution provisions was reduced from $1.50 per share to $0.96 per share and the number of shares of common stock underlying these warrants increased from 1,489,868 shares to 2,327,919 shares. The warrants were subsequently exercised in the third and fourth quarters of 2017.

Other Equity Issuances

In the three months ended March 31, 2018, we issued 50,469 shares of common stock to employees with an average fair value at issuance of $1.38 per share and 27,882 shares of common stock to a consultant, with an average fair value at issuance of $1.42 per share.

In the three months ended June 30, 2018, we issued 208,855 shares of common stock to directors with an average fair value at issuance of $1.78. The shares vest the earlier of June 19, 2019 or one day prior to our next annual meeting of shareholders.

In September 2017, we issued and sold 2,654,732 shares of common stock for $1.08 per share. The net proceeds from the offering of $2.8 million, after deducting commissions and other cash offering expenses of $0.1 million, are included in common stock. We used the proceeds for general corporate purposes.

Equity Incentive Plan

In June 2018, shareholders approved a 3,000,000 increase in the number of shares authorized for issuance under the 2014 Equity Incentive Plan (2014 Plan). The total shares authorized under the 2014 Plan is now 6,300,000 shares.

Options

In January 2018, we issued options to employees for the purchase of up to 278,873 shares of common stock at an exercise price of $1.42 and a grant date fair value of $0.97 per share. The options vest and become exercisable in four equal annual installments beginning in January 2019.

In the third quarter of 2018, employees exercised for cash, options for the purchase of up to 32,500 shares of common stock at an exercise price of $0.85 per share. The options exercised had a remaining life of 9.3 years as of December 31, 2017.

Warrants

The following table summarizes information related to outstanding warrants:

| | September 30, 2018 | | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | Shares Under Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Shares Under Warrants, Exercisable Cashless (1) | Shares Under Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
| $0.96 | 7,052,756 | $ 0.96 | 3.3 | 3,774,344 | 12,972,832 | $ 0.96 | 4.1 |
| $1.60 | - | - | - | - | 300,000 | 1.60 | 2.4 |
| $2.00 | 50,000 | 2.00 | 4.4 | - | 2,660,000 | 2.00 | 3.6 |
| $3.30 | 600,000 | 3.30 | 0.5 | - | | | |
| $5.25 to $5.87 | 2,571,670 | 5.34 | 0.8 | 384,536 | 3,156,670 | 5.33 | 1.7 |
| $6.55 to $16.80 | 2,059,198 | 6.57 | 0.2 | 182,326 | 2,067,771 | 6.61 | 1.0 |
| | 12,333,624 | $ 2.93 | 2.2 | 4,341,206 | 21,157,273 | $ 2.30 | 3.4 |

(1) Under the terms of certain outstanding warrants, the holders may elect to exercise the warrants under a cashless exercise feature. The shares listed, represent the shares holders could exercise cashless as of September 30, 2018. If we register for resale the shares subject to warrants, the holders of some of the warrants may no longer have the right to elect a cashless exercise. Should we fail to maintain a registration statement for the resale of shares under certain other warrants, the shares under those warrants may be exercisable using a cashless exercise feature.

Index
RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

The following table summarizes warrant activity.

| | Shares Underlying | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
|---|---|---|---|
| Outstanding, December 31, 2017 | 21,157,273 | $ 2.30 | 3.38 |
| Issued | 315,000 | 4.73 | NA |
| Impact of warrant modification: | | | |
| Prior to modifcation | (850,000 ) | 5.27 | 1.6 |
| After modification | 600,000 | 3.30 | 0.6 |
| Exercised cashless | (300,000 ) | 1.60 | NA |
| Exercised for cash | (8,580,076 ) | 1.28 | NA |
| Forfeited, expired or cancelled | (8,573 ) | NA | NA |
| Outstanding, September 30, 2018 | 12,333,624 | $ 2.93 | 2.2 |
| Exercisable, September 30, 2018 | 12,333,624 | $ 2.93 | 2.2 |

In the three months ended March 31, 2018, we issued warrants for the purchase of up to 315,000 shares of common stock, at a weighted average exercise price of $4.73 per share and a weighted average term of 2.4 years. We recognized $0.1 million of expense for these issuances.

In the three months ended March 31, 2018, warrant holders exercised for $1.8 million cash, at $0.96 per share, warrants for the purchase of 1,827,999 shares of common stock (remaining term at December 31, 2017, of 4.3 years). In the three months ended June 30 2018, warrant holders exercised for $3.9 million, at $0.96 per share, warrants for the purchase of 4,092,077 shares of common stock (remaining term at December 31, 2017, of 4.1 years). In the three months ended September 30, 2018, warrant holders exercised for $5.3 million cash, at $2.00 per share, warrants for the purchase of 2,660,000 shares of common stock (remaining term at December 31, 2017, of 3.6 years). In addition, in the three months ended September 30 2018, a warrant holder cashless exercised a warrant for the purchase of 300,000 shares of common stock at an exercise price of $1.60 per share (remaining term at December 31, 2017, of 2.4 years) and we issued 139,163 shares of common stock based on the fair value at the date of exercise of $2.63 per share.

In September 2018, we modified certain warrants for the purchase of 850,000 shares, at an exercise price of $5.27 per share which were to expire in April 2020. As modified the warrants are now for the purchase of 600,000 shares, at an exercise price of $3.30 per share and expire in April 2019. The fair value of the warrants immediately before the modification equaled the fair value of the warrants immediately after the modification and therefore, no gain or loss was recorded.

Restricted Stock Units

In June 2017, we issued restricted stock units ("RSUs"), under the 2014 Plan, to our executive officers covering a total of 1,175,000 shares of our common stock. The shares subject to the RSUs vest based upon a vesting price equal to the volume weighted average trading price of our common stock over sixty-five consecutive trading days. At issuance, each RSU's shares vested (i) 10% if the vesting price equals or exceeds $5.00 per share, (ii) 30% if the vesting price equals or exceeds $10.00 per share and (iv) 60% if the vesting price equals or exceeds $15.00 per share. The shares had a grant date fair value of $0.2 million which was being expensed ratably over a 3.5-year period beginning in July

2017. In January 2018, 60% of the RSUs issued in June 2017 were cancelled. The portion cancelled related to the $15.00 per share target vesting price. In June 2018 and July 2018, RSUs covering 170,000 and 130,000 shares of common stock were cancelled upon forfeiture by a former executive officer. As of September 30, 2018, RSUs covering a total of 170,000 shares remain outstanding and have a remaining value of less than $0.1 million, which is being expensed ratably over a 3.0-year period. As of September 30, 2018, the RSU's shares vest as to (i) 42,500 shares if the vesting price equals or exceeds $5.00 per share and (ii) 127,500 shares if the vesting price equals or exceeds $10.00 per share.

Index
RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

Subsequent Issuances.

On October 1, 2018, we issued RSUs, under the 2014 Plan, to our executive officers covering a total of 580,000 shares of our common stock. The shares subject to the RSUs vest based upon a vesting price equal to the volume weighted average trading price of our common stock over sixty-five consecutive trading days. The RSUs' shares vest as to (i) 30,000 shares if the vesting price equals or exceeds $5.00 per share, (ii) 100,000 shares if the vesting price equals or exceeds $10.00 per share and (iv) 450,000 shares the later of October 1, 2019, and the date the vesting price equals or exceeds $15.00 per share.

On October 1, 2018, we issued options to employees for the purchase of up to 375,000 shares of common stock at an exercise price of $2.86 per share and a grant date fair value of $1.09 per share. The options vest and become exercisable in four equal annual installments beginning in October 2019.

On October 1, 2018, we issued 11,217 shares of common stock to a director with a fair value at issuance of $2.82 per share. The shares vest the earlier of June 19, 2019 or one day prior to our next annual meeting of shareholders.

NOTE 9. FAIR VALUE MEASUREMENTS

The fair value of cash and cash equivalents, accounts, notes and other receivables and accounts payable approximates their carrying value due to their shorter maturities.

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain assets and liabilities are presented in the financial statements at fair value. Assets and liabilities measured at fair value on a recurring basis include derivative warrant and conversion liabilities. Assets and liabilities measured at fair value on a non-recurring basis may include property.

We assess the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market:

Level 1 – inputs include quoted prices for identical instruments and are the most observable.
Level 2 – inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates and yield curves.
Level 3 – inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

For instruments measured using Level 3 inputs, a reconciliation of the beginning and ending balances is disclosed.

The following tables summarize the changes in Level 3 items measured at fair value on a recurring basis (in thousands).

| Total Level 3 Fair Value | Fair Value as of Beginning of Period | Total Realized and Unrealized Gains | Issuance of New Instruments | Reclassify to (Deficit) Equity | Conversion to Common Stock | Fair Value, at End of Period |
|---|---|---|---|---|---|---|
| | | (1 ) | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Nine Months Ended September 30, 2017, derivative warrant liabilities | $ (1,527 ) | $ 808 | $ (7,917 ) | $ 7,851 | $ 16 | $ (769 ) |

(1) Included in change in fair value of derivative warrant liabilities in our consolidated statements of operations.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Employment Contracts and Severance Payments

In the normal course of business, we periodically enter into employment agreements which incorporate indemnification provisions. While the maximum amount to which we may be exposed under such agreements cannot be reasonably estimated, we maintain insurance coverage, which we believe will effectively mitigate our obligations under these indemnification provisions. No amounts have been recorded in our financial statements with respect to any obligations under such agreements.

16

We have employment contracts with certain officers and key management that include provisions for potential severance payments in the event of without-cause terminations or terminations under certain circumstances after a change in control. In addition, vesting of outstanding nonvested equity grants would accelerate following a change in control.

Leases

We lease certain properties under various operating lease arrangements that expire over the next 16 years. These leases generally provide us with the option to renew the lease at the end of the lease term.

In March 2018, we entered into a triple net lease for approximately 5,380 square feet of office space in The Woodlands, Texas. We took possession of the space on May 31, 2018. The initial term of the lease is 65 months and rent is abated for the first five months. Minimum monthly base rents total $0.1 million per year during the initial term of the lease. We recognize rent expense of $0.1 million per year for base rent, plus additional amounts for operating expenses, real estate taxes and other items. We may extend the term of the lease for an additional five-year period at a fair market base rent, as defined in the agreement.

Litigation Costs

From time to time we are involved in litigation incidental to the conduct of our business. These matters may relate to employment and labor claims, patent and intellectual property claims, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations. When applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position or results of operations. Defense costs are expensed as incurred and are included in selling, general, and administrative expense..

## NOTE 11. RELATED PARTY TRANSACTIONS

Entities beneficially owned by Baruch Halpern, a director, invested in our subordinated notes and related warrants prior to 2016. Throughout the first six months of 2017, Mr. Halpern beneficially held approximately 43% of our outstanding subordinated debt which was repaid in full in July 2017 from the proceeds of the sale of HN. The warrants remain outstanding. See Note 8 for information related to the modification of the subordinated notes, repricing of related warrants and the issuance of warrants to subordinated note holders in February 2017. In three and nine months ended September 30, 2017, we expensed $0.1 million and $0.2 million of interest respectively, on the subordinated notes.

## NOTE 12. INCOME TAXES

Our tax expense for the three months and nine months ended September 30, 2018, differs from the tax expense computed by applying the U.S. statutory tax rate to net loss from continuing operations before income taxes as no tax benefits were recorded for tax losses generated in the U.S. As of September 30, 2018, we had deferred tax assets primarily related to U.S. federal and state tax loss carryforwards. We provided a full valuation allowance against our deferred tax assets as future realization of such assets is not more likely than not to occur.

Based on our analysis of tax positions taken on income tax returns filed, we have determined no material liabilities related to uncertain income tax positions were required.  Although we believe the amounts reflected in our tax returns substantially comply with applicable U.S. federal, state and foreign tax regulations, the respective taxing authorities may take contrary positions based on their interpretation of the law.  A tax position successfully challenged by a taxing authority could result in an adjustment to our provision or benefit for income taxes in the period in which a final determination is made.

Under Section 382 of the Internal Revenue Code (“IRC”), and based on our analysis, we believe that we experienced ownership changes (generally defined as a greater than 50 percent change (by value) in our equity ownership over a three-year period) on various dates and that our ability to use our pre-ownership change net operating losses (“NOLs”) and other pre-change tax attributes against our post-change income is limited.  The Section 382 limitation is applied annually so as to limit the use of our pre-change NOLs to an amount that generally equals the value of our stock immediately before the ownership change multiplied by a designated federal long-term tax-exempt rate.  Due to applicable limitations under IRC Section 382, a portion of these NOLs are limited and will expire unused. We believe that the total available and utilizable NOL carry forward at December 31, 2017, is approximately $25.3 million.  We project these NOLs will become available for use prior to expiration assuming sufficient taxable income and no subsequent ownership changes.  These NOLs will begin to expire in 2018.  Our ability to utilize the NOLs or realize any benefits related to the NOLs is subject to a number of risks.

Tax Cuts and Jobs Act of 2017

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 Act or “TCJA”).

On December 22, 2017, the SEC issued guidance to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA. We have substantially completed our accounting for the tax effects of the enactment of the Tax Act. Our deferred tax assets and liabilities were remeasured for a change in the federal tax rate from 34 percent to 21 percent, immediate expensing of qualifying property, and effects of TCJA on state taxes. We will obtain, prepare and continue to analyze our tax information during the measurement period, up to and including the period in which we file our 2017 consolidated federal income tax return. We may further adjust recorded amounts during the measurement period should future guidance, additional information and interpretations with the respect to the TCJA come to our attention. We made no such adjustments during the nine months ended September 30, 2018.

The Tax Act also contains several base broadening provisions that became effective on January 1, 2018, that we do not expect to have a material impact on our consolidated financial statements.

NOTE 13. SUBSEQUENT EVENTS

On November 5, 2018, we exercised our purchase option with Golden Ridge Rice Mills and entered into a definitive agreement for an estimated purchase price of $3.5 million, consisting of cash, RBT stock, and payment of certain liabilities to purchase substantially all assets, certain liabilities and operations of its milling facility in Wynne, AR. We expect to complete the closing of this transaction in the next 30 days. Total consideration for the Golden Ridge transaction is expected to be approximately between $7.0 million to $8.0 million. We expect this mill to be an important component of our SRB supply in the Arkansas region while providing us with a platform to develop new products derived from SRB to expand our growth opportunities.

Index
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

| | Three Months Ended September 30 | | Change | Nine Months Ended September 30 | | Change |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % | 2018 | 2017 | % |
| | (in thousands) | | | (in thousands) | | |
| Revenues | $ 3,463 | $ 3,445 | 0.5 | $ 10,213 | $ 10,206 | 0.1 |
| Cost of goods sold | 2,709 | 2,305 | (17.5 ) | 7,842 | 7,081 | (10.7 ) |
| Gross profit | 754 | 1,140 | (33.9 ) | 2,371 | 3,125 | (24.1 ) |
| Gross profit % | 21.8 % | 33.1 % | | 23.2 % | 30.6 % | |
| Selling, general and administrative expenses | 2,419 | 2,495 | 3.0 | 8,102 | 7,428 | (9.1 ) |
| Loss from operations | (1,665 ) | (1,355 ) | (22.9 ) | (5,731 ) | (4,303 ) | (33.2 ) |
| Other income (expense): | | | | | | |
| Interest expense | (2 ) | (86 ) | | (5 ) | (1,616 ) | |
| Change in fair value of derivative warrant liabilities | - | (313 ) | | - | 808 | |
| Loss on extinguishment of debt | - | (6,610 ) | | - | (8,290 ) | |
| Other, net | 40 | 44 | | 36 | (19 ) | |
| Other income (expense), net | 38 | (6,965 ) | | 31 | (9,117 ) | |
| Loss before income taxes | $ (1,627 ) | $ (8,320 ) | | $ (5,700 ) | $ (13,420 ) | |

Results of Operations – Three Months Ended September 30, 2018

Revenues were relatively flat in the three months ended September 30, 2018, compared to the same period in the prior year. Animal feed product revenues increased 3.0% year over year, while food product revenues decreased 2.0% year over year. Animal feed product revenues increased primarily due to increased buying from our existing customer base.

Gross profit percentage was 21.8% in the three months ended September 30, 2018, compared to 33.1% in the same period in the prior year. The decline in gross profit was primarily attributable to approximately an 18% increase in raw bran prices and reduced plant utilization. The decrease in plant utilization was primarily due to the supply shortage our Mermentau plant experienced, which ultimately caused production to idle in the beginning of the third quarter of 2018. Consequently, during the idling of the Mermentau plant, we shipped our animal feed orders from California, which resulted in higher shipping costs and higher costs for the purchase of raw rice bran and production in California, when compared to Louisiana. We expect the supply agreement we entered into with a rice miller in July 2018 to reduce our future risk of supply shortages.

Selling, general and administrative ("SG&A") expenses decreased by $0.1 million, or 3.0%, to $2.4 million in the three months ended September 30, 2018, compared to $2.5 million in the same period in the prior year. Our payroll and employee benefits related to building our sales team and an increase in operations and quality assurance staff to meet SQF certification, resulted in an increase of $0.1 million in payroll related expenses in the three months ended September 30, 2018, compared to the same period in the prior year. We also had an increase in warehouse expenses related to the SQF certification project along with an increase in rent for our distribution center of $0.2 million. The increase in expenses were offset by a decrease in the corporate portion of SG&A. Corporate related professional service expenses decreased $0.2 million and share-based compensation expense decreased $0.1 million in the three months ended September 30, 3018, compared to the same period in the prior year.

Other income increased to $0.1 million in the three months ended September 30, 2018, compared to $7.0 million of other expense in the same period in the prior year. Interest expense decreased $0.1 million, as virtually all debt was paid in full in July 2017. As of December 31, 2017, there were no derivative liabilities remaining compared to the $0.3 million expense in the three months ended September 30, 2017. There was no loss on extinguishment of debt in the three months ended September 30, 2018, compared to the $6.6 million loss in the same period in the prior year.

Results of Operations – Nine Months Ended September 30, 2018

Revenues were relatively flat in the nine months ended September 30, 2018, compared to the same period in the prior year. Animal feed product revenues increased 2%. Animal nutrition revenue growth continues to be driven by the supply and cooperation agreement entered into with Kentucky Equine Research ("KER") at the end of December 2015. Food product revenues decreased 2% year over year, primarily due to reduced buying from our existing customer base.

Index

Gross profit percentage was 23.2% for the nine months ended September 30, 2018, compared to 30.6% in the same period in the prior year. The decline in gross profit was primarily attributable to approximately a 25% increase in raw bran prices and processing fees, along with a reduction in plant utilization in the nine months ended September 30, 2018, compared to the same period in the prior year. 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 and the beginning of the third quarter of 2018. Due to the supply shortage, we shipped our animal feed orders from California which resulted in higher shipping costs. Consequently, during the idling of the Mermentau plant, we shipped our animal feed orders from California, which resulted in higher shipping costs and higher costs for the purchase of raw rice bran and production in California, when compared to Louisiana. We expect the supply agreement we entered into with a rice miller in July 2018 to reduce our future risk of supply shortages.

SG&A expenses increased by $0.7 million, or 10.1%, to $8.1 million in the nine months ended September 30, 2018, compared to $7.4 million in the same period in the prior year. An increase of $0.4 million is primarily related to building our sales team, and an increase in operations and quality assurance staff to meet SQF certification. Additionally, bonus related accruals increased $0.1 million, outside services increased $0.1 million, warehouse expenses increased $0.1 million, and warehouse rent increased $0.1 million in the nine months ended September 30, 2018, compared to the same period in the prior year. The corporate portion of SG&A related to travel related expenses increased $0.1 million, relocation expenses increased $0.1 million, and franchise taxes increased $0.2 million; while investor relations expenses decreased $0.2 million, and share-based compensation decreased $0.3 million in the nine months ended September 30, 2018, compared to the same period in the prior year.

Other income increased to $0.1 million in the nine months ended September 30, 2018, compared to $9.1 million of other expense in the same period in the prior year. Interest expense decreased $1.6 million, as virtually all debt was paid in full in July 2017. There was no loss on extinguishment of debt in the nine months ended September 30, 2018, compared to the $8.3 million loss in the same period in the prior year.

Liquidity and Capital Resources

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

| | Nine Months Ended September 30 | |
|---|---|---|
| | 2018 | 2017 |
| Cash flow from operating activities of continuing operations: | | |
| Loss from continuing operations | $ (5,700) | $ (8,387) |
| Adjustments to reconcile loss from continuing operations to net cash used in operating activities of continuing operations: | | |
| Depreciation and amortization | 544 | 571 |
| Stock and share-based compensation | 617 | 904 |
| Change in fair value of derivative warrant and conversion liabilities | - | (808) |
| Loss on extinguishment of debt | - | 8,290 |
| Interest accreted | - | 1,000 |
| Deferred taxes | - | (5,033) |
| Other | 135 | 55 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (236) | (290) |
| Inventories | 42 | 213 |
| Accounts payable and accrued expenses | (56) | (1,310) |

| | | |
|---|---|---|
| Other | (17) | 465 |
| Net cash used in operating activities of continuing operations | $ (4,671) | $ (4,330) |

As of September 30, 2018, our cash and cash equivalents balance was $10.3 million and our restricted cash balance was $0.2 million, compared to a cash equivalents balance of $6.2 million and a restricted cash balance of $0.8 million as of December 31, 2017. We used $4.7 million in operating cash in the nine months ended September 30, 2018, compared to $4.3 million of operating cash in the same period in the prior year. We also funded $2.4 million of capital expenditures in the nine months ended September 30, 2018, compared to $0.6 million in the same period 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 $11.0 million of proceeds from warrant exercises in the nine months ended September 30, 2018.

Index

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under the applicable regulations of the Securities and Exchange Commission.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures on the date of the financial statements. On an ongoing basis, we evaluate the estimates, including, but not limited to, those related to revenue recognition. We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates.

For further information about other critical accounting policies, see the discussion of critical accounting policies in Note 3 of our Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

See Note 3 in the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosures.

We evaluated, with the participation of our Chief Executive Officer and President, and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and President, and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

During the most recently completed fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 10 in the Notes to Unaudited Condensed Consolidated Financial Statements for information regarding certain legal proceedings to which we are a party.

We are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position, results of operations or cash flows. We record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated.

Index

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition, liquidity or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, liquidity or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In the three months ended September 30 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.

In the three months ended September 30 2018, warrant holders exercised for cash, at $2.00 per share, warrants for the purchase of 2,660,000 shares of common stock (remaining term at December 31, 2017, of 3.6 years).

In the three months ended September 30 2018, warrant holders cashless exercised warrants for the purchase of 300,000 shares of common stock, at an exercise price of $1.60 per share (remaining term at December 31, 2017, of 2.4 years) and were issued 139,163 shares of common stock.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are attached hereto and filed herewith:

Index

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | File No. | Exhibit Number | Filing/Effective Date | Filed Here-with |
|---|---|---|---|---|---|---|
| 10.1 | 2Warrant amendment agreement | 8-K | 001-36245 | 10.01 | September 6, 2018 | |
| 31.1 | Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 31.2 | Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 32.1 | Certification by CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 101.INS (1) | XBRL Instance Document | | | | | X |
| 101.SCH (1) | XBRL Taxonomy Extension Schema Document | | | | | X |
| 101.CAL (1) | XBRL Taxonomy Extension Calculation Linkbase Document | | | | | X |
| 101.DEF (1) | XBRL Taxonomy Extension Calculation Definition Linkbase Document | | | | | X |
| 101.LAB (1) | XBRL Taxonomy Extension Calculation Label Linkbase Document | | | | | X |
| 101.PRE (1) | XBRL Taxonomy Extension Calculation Presentation Linkbase Document | | | | | X |

(1) XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Index

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 6, 2018

/s/ Brent Rystrom
Brent Rystrom
Chief Executive
Officer and
President

/s/ Dennis Dykes
Dennis Dykes
Chief Financial
Officer