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RiceBran Technologies  
Form 10-Q  
May 15, 2014

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2014

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

(State or other jurisdiction of incorporation or organization)

6720 North Scottsdale Road, Suite 390

Scottsdale, AZ

(Address of Principal Executive Offices)

87-0673375

(I.R.S. Employer Identification No.)

85253

(Zip Code)

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

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

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

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

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

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

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

As of April 30, 2014, shares of the registrant's common stock outstanding totaled 3,031,860.

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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 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,” “continue,” “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, 2013. We disclaim any obligation to update any forward looking statements as a result of developments occurring after the date of this quarterly report.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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RiceBran Technologies  
 Condensed Consolidated Statements of Operations  
 Three Months Ended March 31, 2014 and 2013  
 (Unaudited) (in thousands, except per share amounts)

	2014	2013
Revenues	\$7,684	\$8,709
Cost of goods sold	6,270	7,743
Gross profit	1,414	966
Operating expenses:		
Selling, general and administrative	3,315	3,082
Depreciation and amortization	818	331
Impairment of property	-	300
Total operating expenses	4,133	3,713
Loss from operations	(2,719 )	(2,747 )
Other income (expense):		
Interest income	15	10
Interest expense	(1,188 )	(629 )
Yield payable to holders of noncontrolling interest in Nutra SA	(141 )	-
Change in fair value of derivative warrant and conversion liabilities	2,058	(3,538 )
Foreign currency exchange, net	75	250
Loss on extinguishment	-	(32 )
Financing expense	(1,122 )	-
Other income	46	3
Other expense	(57 )	(125 )
Total other income (expense)	(314 )	(4,061 )
Loss before income taxes	(3,033 )	(6,808 )
Income tax benefit	248	510
Net loss	(2,785 )	(6,298 )
Net loss attributable to noncontrolling interest in Nutra SA	920	485
Net loss attributable to RiceBran Technologies shareholders	\$(1,865 )	\$(5,813 )
Loss per share attributable to RiceBran Technologies shareholders		
Basic	\$(0.62 )	\$(5.57 )
Diluted	\$(0.62 )	\$(5.57 )
Weighted average number of shares outstanding		
Basic	3,017,408	1,043,459
Diluted	3,017,408	1,043,459

See Notes to Unaudited Condensed Consolidated Financial Statements

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RiceBran Technologies  
 Condensed Consolidated Statements of Comprehensive Loss  
 Three Months Ended March 31, 2014 and 2013  
 (Unaudited) (in thousands)

	2014	2013
Net loss	\$(2,785)	\$(6,298)
Other comprehensive income - foreign currency translation, net of tax	372	148
Comprehensive loss, net of tax	(2,413)	(6,150)
Comprehensive loss attributable to noncontrolling interest, net of tax	752	413
Total comprehensive loss attributable to RiceBran Technologies shareholders	\$(1,661)	\$(5,737)

See Notes to Unaudited Condensed Consolidated Financial Statements

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RiceBran Technologies  
Condensed Consolidated Balance Sheets  
March 31, 2014 and December 31, 2013  
(Unaudited) (in thousands, except share amounts)

	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$4,798	\$5,091
Restricted cash	1,920	1,920
Accounts receivable, net of allowance for doubtful accounts of \$534 and \$501 (variable interest entity restricted \$1,116 and \$1,967)	2,163	2,673
Inventories	4,239	2,430
Income and operating taxes recoverable	579	585
Deposits and other current assets	1,235	833
Total current assets	14,934	13,532
Property, net (variable interest entity restricted \$4,947 and \$4,969)	27,804	24,958
Goodwill	4,993	4,139
Intangible assets, net	4,533	1,417
Other long-term assets	397	532
Total assets	\$52,661	\$44,578
<b>LIABILITIES, TEMPORARY EQUITY AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$4,774	\$4,489
Accrued salary, wages and benefits	2,671	2,610
Accrued income taxes	676	-
Accrued expenses	4,413	3,089
Mandatorily redeemable common stock (37,260 shares outstanding)	72	523
Current maturities of debt (variable interest entity nonrecourse \$6,828 and \$6,262)	8,421	8,250
Total current liabilities	21,027	18,961
Long-term debt, less current portion (variable interest entity nonrecourse \$6,791 and \$6,658)	13,441	10,919
Deferred tax liabilities	1,200	-
Derivative warrant liabilities	5,121	1,685
Total liabilities	40,789	31,565
Commitments and contingencies		
Temporary Equity - Redeemable noncontrolling interest in Nutra SA	6,425	7,177
Equity:		
Equity attributable to RiceBran Technologies shareholders:		
Preferred stock, 20,000,000 shares authorized and none issued	-	-
Common stock, no par value, 6,000,000 shares authorized, 2,994,600 and 2,832,014 shares issued and outstanding	228,785	227,513
Accumulated deficit	(221,306)	(219,441)
Accumulated other comprehensive loss	(2,032 )	(2,236 )

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Total equity attributable to RiceBran Technologies shareholders	5,447	5,836
Total liabilities, temporary equity and equity	\$52,661	\$44,578

See Notes to Unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Cash Flows  
Three Months Ended March 31, 2014 and 2013  
(Unaudited) (in thousands)

	2014		2013
Cash flow from operating activities:			
Net loss	\$ (2,785	)	\$ (6,298 )
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,495		968
Stock and share-based compensation	78		117
Change in fair value of derivative warrant and conversion liabilities	(2,058	)	3,538
Financing expense	1,122		-
Impairment of property	-		300
Deferred tax benefit	(248	)	(510 )
Other	325		9
Changes in operating assets and liabilities:			
Accounts receivable	678		(232 )
Inventories	(551	)	(189 )
Accounts payable and accrued expenses	533		1,250
Other	(138	)	143
Net cash used in operating activities	(1,549	)	(904 )
Cash flows from investing activities:			
Acquisition of H&N, net of cash acquired	(725	)	-
Purchases of property	(2,203	)	(716 )
Proceeds from sale of property	20		327
Restricted cash	-		(500 )
Net cash used in investing activities	(2,908	)	(889 )
Cash flows from financing activities:			



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Payments of debt	(4,782 )	(2,974 )
Proceeds from issuance of debt	4,258	3,929
Redemption of stock	(450 )	-
Proceeds from issuance of common stock and warrants, net of costs	764	-
Proceeds from issuance of convertible debt and related warrants, net of costs	4,303	-
Net cash provided by financing activities	4,093	955
Effect of exchange rate changes on cash and cash equivalents	71	12
Net change in cash and cash equivalents	(293 )	(826 )
Cash and cash equivalents, beginning of period	5,091	1,040
Cash and cash equivalents, end of period	\$ 4,798	\$ 214
Supplemental disclosures:		
Cash paid for interest	\$ 580	\$ 275
Cash paid for income taxes	-	-

See Notes to Unaudited Condensed Consolidated Financial Statements

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Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION

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

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2013. The report of our independent registered public accounting firm that accompanies the audited consolidated financial statements for the years ended December 31, 2013 and 2012, included in that Annual Report on Form 10-K, contains a going concern explanatory paragraph in which our independent registered public accounting firm expressed substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

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

Recent Accounting Pronouncements

There are no recent accounting pronouncements that are applicable to us and adoption of which could potentially have a material impact on our consolidated financial statements.

NOTE 2. BUSINESS

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

We have two reportable operating segments: (i) USA segment, which manufactures and distributes SRB in various granulations along with Stage II products (described below) and derivatives and formulates and co-packages products, and (ii) Brazil segment, which extracts crude RBO and DRB from rice bran, which are then further processed into fully refined rice bran oil for sale internationally and in Brazil, compounded animal nutrition products for horses, cows, swine, sheep and poultry and a number of valuable human food and animal nutrition products derivatives and co-products. In addition we incur corporate and other expenses not directly attributable to operating segments, which

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include costs related to our corporate staff, general and administrative expenses including public company expenses, intellectual property, professional fees, and other expenses. No corporate allocations, including interest, are made to the operating segments.

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

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Notes to Unaudited Condensed Consolidated Financial Statements

The USA segment produces SRB inside two supplier rice mills in California and one owned facility in Louisiana. A facility located in Lake Charles, Louisiana has been idle since May 2009. The USA segment also includes our Dillon, Montana Stage II facility which produces our Stage II products RiSolubles (a highly nutritious, carbohydrate and lipid rich fraction of SRB), RiFiber (a fiber rich derivative of SRB), RiBalance (a complete rice bran nutritional package derived from further processing SRB), and ProRyza, a family of protein products. Stage II refers to the proprietary processes run at our Dillon, Montana facility and includes products produced at that facility using our patented processes. In January 2014, we completed the acquisition of H&N Distribution, Inc. now operating as Healthy Natural, Inc. (H&N), which has been integrated into our USA segment. H&N is a formulator and co-packer of products targeted at customers in the direct marketing, internet sales and retail distribution markets, which operates a facility in Irving, Texas. H&N serves the natural products, nutritional supplement and nutraceutical and functional food (NFF) sectors. We acquired H&N as part of our strategy to vertically integrate our business in order to leverage our proprietary and patented technologies. Certain manufacturing facilities included in our USA segment have proprietary processing equipment and patented technology for the stabilization and further processing of rice bran into finished products. In 2013, approximately 55% of USA segment revenue was from sales of human food products and approximately 45% was from sales of animal nutrition products.

The Brazil segment consists of the consolidated operations of Nutra SA, whose only operating subsidiary is Irgovel, located in Pelotas, Brazil. Irgovel manufactures RBO and DRB products for both the human ingredient and animal nutrition markets in Brazil and internationally. In refining RBO to an edible grade, several co-products are obtained. One such product is distilled fatty acids, a valuable raw material for the detergent industry. Irgovel recently started production of rice lecithin, which has application in human nutrition, animal nutrition and industrial applications. DRB is compounded with a number of other ingredients to produce complex animal nutrition products which are packaged and sold under Irgovel brands in the Brazilian market, sold as a raw material for further processing into human food ingredients or sold in bulk into the animal nutrition markets in Brazil and neighboring countries. In 2013, approximately 45% of Brazil segment product revenue was from sales of RBO products and 55% was from sales of DRB products.

NOTE 3. LIQUIDITY AND MANAGEMENT'S PLAN

In 2013 and the first quarter of 2014, we continued to experience losses and negative cash flows from operations which raises substantial doubt about our ability to continue as a going concern. We believe that we now have adequate financial resources to operate our business for the next year and we will be able to obtain additional funds to operate our business, should it be necessary, however, there can be no assurances that our efforts will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We closed an underwritten public offering in December 2013 and completed a private placement offering in March 2014, which together provided us with net proceeds in excess of \$12.0 million, allowing us to acquire H&N, make additional investment in our Brazilian operations and provide cash for corporate purposes. In January 2014, we completed the acquisition of H&N, the operations of which are expected to be accretive to cash flows. Our Brazilian subsidiary, Irgovel, shut down operations in the first quarter of 2014 to complete the final stages of a major capital expansion. The shutdown and capital expenditures have depleted cash. Operations at Irgovel are expected to normalize during the second quarter of 2014, such that Irgovel will then be operating at its newly increased capacity and begin generating cash from operations.

NOTE 4. LOSS PER SHARE (EPS)

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Basic EPS is computed by dividing net income (loss) attributable to RiceBran Technologies shareholders by the weighted average number of common shares outstanding during all periods presented. Shares underlying options, warrants and convertible debt are excluded from the basic EPS calculation but are considered in calculating diluted EPS.

Diluted EPS is computed by dividing the net income (loss) attributable to RiceBran Technologies shareholders by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been outstanding if the impact of assumed exercises and conversions is dilutive. The dilutive effect of outstanding options and warrants is calculated using the treasury stock method. The dilutive effect of outstanding convertible debt is calculated using the if-converted method.

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Notes to Unaudited Condensed Consolidated Financial Statements

Below are reconciliations of the numerators and denominators in the EPS computations for the three months ended March 31, 2014 and 2013.

	Three Months Ended March 31,	
	2014	2013
NUMERATOR (in thousands):		
Basic and diluted - net loss attributable to RiceBran Technologies shareholders	\$(1,865 )	\$(5,813 )
DENOMINATOR:		
Basic EPS - weighted average number of shares outstanding	3,017,408	1,043,459
Effect of dilutive securities outstanding	-	-
Diluted EPS - weighted average number of shares outstanding	3,017,408	1,043,459
Number of shares of common stock which could be purchased with weighted average outstanding securities not included in diluted EPS because effect would be antidilutive-		
Stock options (average exercise price of \$24.52 and \$30.40)	174,141	173,260
Warrants (average exercise price of \$6.27 and \$24.97)	2,750,335	806,769
Convertible debt (average conversion price of \$14.00 in 2013)	-	467,588

The impact of potentially dilutive securities outstanding at March 31, 2014 and 2013, was not included in the calculation of diluted EPS for the three months ended March 31, 2014 and 2013 because to do so would be antidilutive. Those securities listed in the table above which were antidilutive for the three months ended March 31, 2014 and 2013, which remain outstanding, could potentially dilute EPS in the future.

NOTE 5. H&N ACQUISITION

In January 2014, we purchased all of the outstanding shares of H&N for \$2.0 million in cash (\$1.8 million paid in January 2014 and \$0.2 million payable upon the resolution of certain contingencies) and promissory notes in the face amount of \$3.3 million, subject to working capital adjustments. H&N is an Irving, Texas-based formulator and co-packer of products targeted at customers in the direct marketing, internet sales and retail distribution markets. H&N serves the natural products, nutritional supplement and nutraceutical and functional food (NFF) sectors. We acquired H&N as part of our strategy to vertically integrate our business in order to leverage our proprietary and patented technologies. The acquisition has been accounted for as a business combination. The results of H&N's operations are included in our consolidated financial statements beginning January 2, 2014, and are included in our USA segment.

In the first quarter of 2014, we incurred \$0.3 million of acquisition-related costs which are included in selling, general and administrative expenses in the consolidated statements of operations. The following table summarizes the preliminary aggregate purchase price allocation, the consideration transferred to acquire H&N, as well as the amounts of identified assets acquired and liabilities assumed based on the estimated fair value as of the January 2, 2014, acquisition date (in thousands).

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## RiceBran Technologies

## Notes to Unaudited Condensed Consolidated Financial Statements

Cash	\$1,800
Cash holdback for contingencies	200
Convertible notes payable	2,785
Total fair value of consideration transferred	4,785
Financial assets, including acquired cash of \$1,075	1,311
Inventories	1,191
Property	963
Identified intangible asset estimate	3,848
Deferred income taxes, net	(1,448)
Financial liabilities	(1,755)
Net recognized amounts of identifiable assets acquired	4,110
Goodwill - USA segment	\$675

The terms of the convertible notes payable are further discussed in Note 10. The fair value of trade receivables at January 2, 2014 was \$0.1 million which equaled the gross amount receivable. The initial accounting for the acquisition is not complete, and is subject to change primarily for certain working capital adjustments provided for in the agreement and conclusions with regard to identified intangibles. Preliminarily, we have assigned a \$3.8 million value to a customer relationships intangible and we are amortizing that intangible over a three year period as follows: \$1.7 million in 2014, \$1.3 million in 2015 and \$0.8 million in 2016. In the first quarter of 2014, we recognized \$0.5 million of amortization expense in the USA segment related to this intangible.

Our consolidated revenues include \$2.5 million of H&N revenues for the first quarter of 2014. After making a reasonable effort, we have been unable to determine the underlying information required to prepare pro forma information for the first quarter of 2013, as if the H&N acquisition had occurred January 1, 2013.

NOTE 6. REDEEMABLE NONCONTROLLING INTEREST IN NUTRA SA

We hold a variable interest which relates to our equity interest in Nutra SA, LLC (Nutra SA). We are the primary beneficiary of Nutra SA, and as such, Nutra SA's assets, liabilities and results of operations are included in our consolidated financial statements. The other equity holders' interests are reflected in net loss attributable to noncontrolling interest in Nutra SA, in the consolidated statements of operations, and redeemable noncontrolling interest in Nutra SA, in the consolidated balance sheets. Our variable interest in Nutra SA is our Brazil segment. A summary of the carrying amounts of Nutra SA balances included in our consolidated balance sheets follows (in thousands).

	March 31, 2014	December 31, 2013
Cash and cash equivalents	\$1,132	\$ 1,686
Other current assets (restricted \$1,116 and \$1,967)	4,521	4,546
Property, net (restricted \$4,947 and \$4,969)	19,690	17,672
Goodwill and intangibles, net	4,865	4,812
Other noncurrent assets	38	27
Total assets	\$30,246	\$ 28,743
Current liabilities	\$6,982	\$ 6,514

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Current portion of long-term debt (nonrecourse)	6,828	6,262
Long-term debt, less current portion (nonrecourse)	6,791	6,658
Total liabilities	\$20,601	\$ 19,434

Nutra SA's debt is secured by its accounts receivable and property. Our parent company and our non-Brazilian subsidiaries do not guarantee any of Nutra SA's debt.

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Notes to Unaudited Condensed Consolidated Financial Statements

A summary of changes in redeemable noncontrolling interest in Nutra SA follows (in thousands):

	Three Months Ended March 31,	
	2014	2013
Redeemable noncontrolling interest in Nutra SA, beginning of period	\$7,177	\$9,262
Investors' interest in net loss of Nutra SA	(920 )	(485 )
Investors' interest in accumulated other comprehensive income of Nutra SA	168	72
Redeemable noncontrolling interest in Nutra SA, end of period	\$6,425	\$8,849

In December 2010, we entered into a membership interest purchase agreement (MIPA) with AF Bran Holdings-NL LLC and AF Bran Holdings LLC (Investors). The Investors' interest averaged 45.2% and 49.1% in the first three months of 2014 and 2013. As of March 31, 2014 and December 31, 2013, the Investors interest was 43.3% and 45.9%. In the first quarter of 2014, we invested an additional \$1.9 million in Nutra SA. We invested \$1.1 million between April 1, 2014, and May 15, 2014. As of May 15, 2014, we own 58.1% of Nutra SA, with the remaining 41.9% held by the Investors. The Investors' share of Nutra SA's net income (loss) increases (decreases) redeemable noncontrolling interest. We are restricted from competing with Nutra SA and Irgovel in Brazil as further described in the MIPA.

Redeemable noncontrolling interest in Nutra SA is recorded in temporary equity, above the equity section and after liabilities on our consolidated balance sheets, because the Investors have drag along rights which provide the Investors the ability to force a sale of Nutra SA assets in the future. We have assessed the likelihood of the Investors exercising these rights as less than probable at March 31, 2014. We will continue to evaluate the probability of the Investors exercising their drag along rights each reporting period. We will begin to accrete the redeemable noncontrolling interest up to fair value if and when it is probable the Investors will exercise these rights.

Under the limited liability company agreement for Nutra SA (LLC agreement), as amended, any units held by the Investors beginning January 1, 2014, accrue a yield at 4% (the Yield). Commencing with the first quarter of 2014, Nutra SA must make distributions to the Investors quarterly in the amount equal to the previously accrued and unpaid Yield plus any additional distributions owed to the Investors, to the extent there is distributable cash, as defined in the LLC agreement. As of March 31, 2014, we have accrued \$0.1 million for the Yield in other expense, and made no Yield payments.

Following the payment of the Yield, Nutra SA must distribute all distributable cash (as defined in the LLC Agreement) to the members on March 31 of each year as follows: (i) first, to the Investors in an amount equal to 2.3 times the Investors' capital contributions, less the aggregate amount of distributions paid to the Investors, (ii) second, to us in an amount equal to twice the capital contributions made by us, less the aggregate amount of distributions paid to us; and (iii) third, to us and the Investors in proportion to our respective membership interests.

Under the LLC agreement, the business of Nutra SA is to be conducted by the manager, currently our CEO, subject to the oversight of the management committee. The management committee is comprised of three of our representatives and two Investor representatives. Upon an event of default or a qualifying event, we will no longer control the management committee and the management committee will include three Investor representatives and two of our representatives. In addition, following an event of default or a qualifying event, a majority of the members of the management committee may replace the manager of Nutra SA.

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As of March 31, 2014, there have been no events of default. Events of default, as defined in the MIPA and the October 2013 amendment of investment agreements, are:

A Nutra SA business plan deviation, defined as the occurrence in 2014 of a 20% unfavorable variation in two out of three of the following: (i) revenue, (ii) earnings before interest, taxes, depreciation and amortization (EBITDA) or (iii) debt,

A Nutra SA EBITDA default, which is defined as the failure to achieve 85% of planned EBITDA for three consecutive quarters,

A material problem, which is defined as a material problem in a facility (unrelated to changes in law, weather, etc.) likely to cause a Nutra SA business plan deviation or Nutra SA EBITDA default, which results in damages not at least 80% covered by insurance proceeds,

Failure of Irgovel to meet minimum quarterly processing targets beginning in the second quarter of 2014, or

Failure of Irgovel to achieve EBITDA of at least \$4.0 million in any year after 2014.

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Notes to Unaudited Condensed Consolidated Financial Statements

As of March 31, 2014, there have been no qualifying events. The LLC agreement defines a qualifying event as any event prior to September 16, 2014, which results, or will result, in (i) a person or group of persons exercising the right to appoint members to our board of directors holding one third or more of the votes of all board members, (ii) the sale, exchange, pledge or use as guarantee of one half or more of our ownership interest in Nutra SA to a third party or (iii) the bankruptcy of RiceBran Technologies or Nutra SA.

The Investors have the right to force the sale of all Nutra SA assets after the earlier of January 1, 2015, or upon the failure to process a certain level of rice bran in the second and third quarters of 2014 (Drag Along Rights). The right terminates upon the occurrence of certain events (a \$50 million Nutra SA initial public offering or a change of control, as defined). We may elect to exercise a right of first refusal to purchase the Investors' interest instead of proceeding to a sale.

In evaluating whether we are the primary beneficiary of Nutra SA, we considered the matters which could be put to a vote of the members. Until there is an event of default or a qualifying event, the Investors' rights and abilities, individually or in the aggregate, do not allow them to substantively participate in the operations of Nutra SA. The Investors do not currently have the ability to dissolve Nutra SA or otherwise force the sale of all its assets. They do have such rights in the future (Drag Along Rights as described above). We will continue to evaluate our ability to control Nutra SA each reporting period.

Cash provided by operations in our Brazil segment is generally unavailable for distribution to our Corporate and USA segments pursuant to the terms of the LLC agreement.

NOTE 7. INVENTORIES

Inventories are composed of the following (in thousands):

	March 31, 2014	December 31, 2013
Finished goods	\$1,264	\$ 1,194
Work in process	194	546
Raw materials	2,225	441
Packaging supplies	556	249
Total inventories	\$4,239	\$ 2,430

NOTE 8. PROPERTY

Property, plant and equipment consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Land	\$388	\$ 382
Furniture and fixtures	562	553
Plant	15,012	14,582
Computer and software	1,502	1,437
Leasehold improvements	394	200

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Machinery and equipment	15,740	14,557
Construction in progress	9,587	7,517
Property	43,185	39,228
Less accumulated depreciation	15,381	14,270
Property, net	\$27,804	\$ 24,958

Included in accounts payable at March 31, 2014, is \$0.2 million related to amounts payable for capital expansion project additions.

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NOTE 9. GOODWILL

A summary of goodwill activity follows:

	Three Months Ended March 31, 2014		2013
Brazil Segment			
Beginning of period	\$4,139	\$4,773	
Effect of foreign currency translation	179	57	
End of period	\$4,318	\$4,830	
USA Segment			
Beginning of period	\$-	\$-	
Acquisition of H&N	675	-	
End of period	\$675	\$-	

NOTE 10. EQUITY, SHARE-BASED COMPENSATION AND LIABILITY WARRANTS

A summary of equity activity for the three months ended March 31, 2014, (in thousands, except share data) follows.

	Common Stock		Accumulated	Accumulated	Total
	Shares	Amount	Deficit	Comprehensive Other Loss	Equity
Balance, December 31, 2013	2,832,014	\$227,513	\$ (219,441 )	\$ (2,236 )	\$5,836
Share-based compensation, options	-	78	-	-	78
Stock and warrant offering proceeds, net	162,586	764	-	-	764
Warrant issued in private placement offering	-	430	-	-	430
Foreign currency translation	-	-	-	204	204
Net loss	-	-	(1,865 )	-	(1,865)
Balance, March 31, 2014	2,994,600	\$228,785	\$ (221,306 )	\$ (2,032 )	\$5,447

In the fourth quarter of 2013, the holders of our subordinated convertible notes agreed to amend their notes to reduce the interest rate to 5% from 10%, change the maturity of the notes to July 2016 (if there was a different maturity date) and to remove the conversion feature and antidilution protections upon the closing of an equity raise in excess of \$7.0 million (Modification). Concurrently, certain warrant holders agreed to exchange warrants to purchase 496,060 shares of common stock for the future issuance of 1,554,734 shares of our common stock (Exchange). Most of the warrants impacted (warrants to purchase 441,395 shares) were warrants issued to the note holders when their notes were originally issued and had contained antidilution protections which caused them to be carried at fair value on our balances sheets. The former warrant holders committed to exchange their warrants, which were cancelled upon our closing an equity raise in the fourth quarter of 2013; however, the shares will not be issued until after shareholders vote to approve an increase in our authorized shares of common stock and to approve the transaction, if necessary under Nasdaq rules. If we do not issue shares of common stock to the former warrant holders by July 1, 2014, the interest rate on the notes will increase to 10%.



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In connection with the January 2014 acquisition of H&N, we issued convertible promissory notes in the face amount of \$3.3 million. We have the option to pay principal and accrued interest under the notes in either cash or in our common stock, however, if we issue shares to our former warrants holders under the terms of the Exchange, then we must settle any outstanding balance on the notes at that time through the issuance of shares of our common stock. The number of shares issued to the former H&N shareholders under the notes will be based on the volume weighted average price of our common stock for the thirty trading days ending on the second business day immediately before our election to pay the note in shares of our common stock, but in no event shall such price be lower than \$6.00 or higher than \$12.00. If we elect to pay the note in cash, we agree to make equal quarterly payments commencing on March 31, 2015, and ending on December 31, 2018. Interest accumulates at the annual rates of 1% until January 2015, 5% from February 2015 until January 2016 and 10% after January 2016. We recorded the notes at their \$2.2 million fair value and the conversion features at their \$0.5 million fair value on the date of issuance. We are accreting the notes to their face amounts at an effective interest rate of 18.9%. If and when the notes convert, we expect to recognize other income (expense) for the difference between the fair value of the shares issued and the carrying amount of the notes and related conversion feature at the time of conversion.

In January 2014, the underwriters exercised their overallotment rights related to our fourth quarter 2013 secondary public offering. We issued and sold 162,586 shares of common stock for \$5.24 per share and publicly traded warrants to purchase 162,586 shares of common stock for \$0.01 per underlying share. In connection with the overallotment exercise, the underwriters on the offering also received a warrant for the purchase of 8,130 shares, at an exercise price of \$6.55 per share, which expires in December 2018. The net proceeds from the offering were \$0.8 million, after deducting underwriting discounts and commissions and other offering expenses of \$0.1 million, and are included in equity.

In March 2014, we completed a private placement offering. We issued convertible notes in the principal amount of \$4.9 million and warrants for the purchase of up to 1,399,614 shares of common stock. The notes are due in July 2016, bear interest at 5% interest and automatically convert at a conversion price of \$5.25, upon shareholders voting to approve an increase in our authorized shares of common stock. The warrants have an exercise price of \$5.25 per share and expire in March 2019. We contributed \$1.0 million of the \$4.3 million proceeds, net of \$0.6 million of costs, to Nutra SA, and intend to use the remainder of the proceeds for capital projects in the United States and for general corporate purposes. On a fully diluted basis, at issuance we had available shares of common stock only for 15.8% of the shares underlying the Warrants. To the extent there were available shares, we allocated proceeds to equity for the Warrants (\$0.4 million). We recorded a derivative liability for the warrants to the extent there were not available shares (\$4.0 million). We recorded \$1.1 million in financing expense on the transaction, representing the excess of the amounts recorded for the warrants over the net proceeds from the offering. The convertible notes issued in the offering were initially recorded with a discount equal to the face amount of the notes. If and when the notes convert, we expect to recognize interest expense of \$3.3 million and to increase common stock \$3.3 million.

We have certain warrant agreements in effect for outstanding liability warrants that contain antidilution clauses. Under the antidilution clauses, in the event of equity issuances, we may be required to lower the exercise price on liability warrants and increase the number of shares underlying liability warrants. Equity issuances may include issuances of our common stock, certain awards of options to employees, and issuances of warrants and/or other convertible instruments below a certain exercise price.

NOTE 11. DEBT

The following table summarizes current and long-term portions of debt (in thousands).





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	March 31, 2014	December 31, 2013
Corporate segment:		
Senior revolving note, net	\$ 1,324	\$ 1,988
Subordinated notes, net	4,425	4,262
Convertible notes payable to former H&N shareholders, net	2,384	-
Convertible notes payable to private placement investors, net	-	-
Other	110	-
	8,243	6,250
Brazil segment:		
Capital expansion loans	4,786	4,795
Working capital lines of credit	3,691	3,213
Advances on export letters of credit	2,412	2,386
Special tax programs	2,569	2,351
Other	161	174
	13,619	12,919
Total debt	21,862	19,169
Current portion	8,421	8,250
Long-term portion	\$ 13,441	\$ 10,919

USA Segment

See Note 10 for a description of the convertible note payable issued in the first quarter of 2014 to the former shareholders of H&N and the private placement investors.

In the first quarter of 2013, the holder of the senior convertible debentures converted \$0.1 million of the outstanding principal into 1,400,000 shares of our common stock, at a conversion price of \$0.07. We recognized a loss of less than \$0.1 million on the transaction, representing the difference between the \$0.1 million market value of the shares of common stock issued and the \$0.1 million carrying amount of the debt (including the related derivative conversion liability).

Brazil Segment

All Brazil segment debt is denominated in the Brazilian Real (R\$), except advances on export letters of credit which are denominated in U.S. Dollars.

NOTE 12. COMMITMENTS AND CONTINGENCIES

In addition to the matters discussed below, from time to time we are involved in litigation incidental to the conduct of our business. 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 professional fees.

Irgovel Purchase

On August 28, 2008, former Irgovel stockholder David Resyng filed an indemnification suit against Irgovel, Osmar Brito and the remaining former Irgovel stockholders (Sellers), requesting: (i) the freezing of the escrow account maintained in connection with the transfer of Irgovel's corporate control to us and the presentation of all documentation related to the transaction, and (ii) damages in the amount of the difference between (a) the sum received by David Resyng in connection with the judicial settlement agreement executed in the action for the partial dissolution of the limited liability company filed by David Resyng against Irgovel and the Sellers and (b) the amount received by the Sellers in connection with the sale of Irgovel's corporate control to us, in addition to moral damages as determined in the court's discretion. The amount of damage claimed by Mr. Resyng is approximately \$3 million.

We believe that the filing of the above lawsuit is a fundamental default of the obligations undertaken by the Sellers under the Quotas Purchase Agreement for the transfer of Irgovel's corporate control, executed by and among the Sellers and us on January 31, 2008 (Purchase Agreement). Consequently, we believe that the responsibility for any indemnity, costs and expenses incurred or that may come to be incurred by Irgovel and/or us in connection with the above lawsuit is the sole responsibility of the Sellers.

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On February 6, 2009, the Sellers filed a collection lawsuit against us seeking payment of the second installment of the purchase price under the Purchase Agreement, which the Sellers allege is approximately \$1.0 million. We have withheld payment of the second installment pending resolution of the Resyng lawsuit noted above. Our parent company has not been served with any formal notices in regard to this matter. To date, only Irgovel has received formal legal notice. In addition, the Purchase Agreement requires that all disputes between us and the Sellers be adjudicated through arbitration. As part of the Purchase Agreement, \$2.0 million was deposited into an escrow account to cover contingencies with the net remaining funds payable to the Sellers upon resolution of all contingencies. We believe any payout due to the lawsuit will be made out of the escrow account. As of March 31, 2014 and December 31 2013, the balance in the escrow account was \$1.9 million and is included in restricted cash in our balance sheets. There is an escrow liability related to the lawsuit in accrued expenses on our balance sheets. When the escrow account was funded, we established an accrued liability equal to the amount of the escrow for contingencies and the net balance due to the Sellers under the terms of the Purchase Agreement. As of March 31, 2014, after paying or accruing specific pre-acquisition liabilities, a balance of \$1.6 million remains accrued to settle as yet unidentified contingencies. We believe that there is no additional material exposure as any amounts determined to be owed as a result of the above noted litigation and contingencies will be covered by the escrow account.

Diabco Life Sciences, LLC

In January 2012, we filed a complaint in the Superior Court of California, Sacramento County, seeking damages arising out of Diabco Life Sciences, LLC's (Diabco) breach of a 2008 promissory note in the principal amount of \$0.5 million. At trial August 2013, Diabco stipulated that total damages through July 2013, including interest and late fees, amounted to \$0.9 million. In September 2013, the court issued its tentative statement of decision indicating that judgment will be entered in our favor in the amount of \$0.9 million as of July 2013, plus interest. In January 2014, the court issued its final judgment in the amount of \$1.0 million. Diabco has filed a notice of appeal with the court challenging the final judgment. We have no receivable from Diabco recorded in the accompanying financial statements, as recovery of the judgment is not reasonably assured.

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NOTE 13. SEGMENT INFORMATION

The tables below present segment information for the periods identified and provide reconciliations of segment information to total consolidated information (in thousands).

<u>Three Months Ended March 31, 2014</u>	Corporate	USA	Brazil	Consolidated
Revenues	\$ -	\$4,993	\$2,691	\$ 7,684
Cost of goods sold	-	3,377	2,893	6,270
Gross profit	-	1,616	(202 )	1,414
Depreciation and amortization (in selling, general and administrative)	(10 )	(638 )	(170 )	(818 )
Other operating expense	(1,632 )	(742 )	(941 )	(3,315 )
Income (loss) from operations	\$ (1,642 )	\$236	\$(1,313)	\$ (2,719 )
Net income (loss) attributable to RiceBran Technologies	\$ (988 )	\$236	\$(1,113)	\$ (1,865 )
Interest expense	530	-	658	1,188
Depreciation (in cost of goods sold)	-	253	424	677
Purchases of property	84	143	1,976	2,203
<u>Three Months Ended March 31, 2013</u>	Corporate	USA	Brazil	Consolidated
Revenues	\$ -	\$2,909	\$5,800	\$ 8,709
Cost of goods sold	-	2,205	5,538	7,743
Gross profit	-	704	262	966
Depreciation and amortization (in selling, general and administrative)	(6 )	(121 )	(204 )	(331 )
Intersegment fees	56	-	(56 )	-
Other operating expense	(1,416 )	(677 )	(1,289)	(3,382 )
Loss from operations	\$ (1,366 )	\$(94 )	\$(1,287)	\$ (2,747 )
Net loss attributable to RiceBran Technologies	\$ (5,213 )	\$(94 )	\$(506 )	\$ (5,813 )
Interest expense	276	-	353	629
Depreciation (in cost of goods sold)	-	225	412	637
Purchases of property	4	12	700	716

The tables below present segment information for selected balance sheet accounts (in thousands).

	Corporate	USA	Brazil	Consolidated
<u>As of March 31, 2014</u>				
Inventories	\$ -	\$2,094	\$2,145	\$ 4,239
Property, net	129	7,985	19,690	27,804
Goodwill	-	677	4,316	4,993
Intangible assets, net	-	3,984	549	4,533
Total assets	5,628	16,787	30,246	52,661
<u>As of December 31, 2013</u>				
Inventories	-	870	1,560	2,430
Property, net	55	7,231	17,672	24,958
Goodwill	-	-	4,139	4,139
Intangible assets, net	-	745	672	1,417

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Total assets	6,039	9,796	28,743	44,578
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Corporate segment total assets include cash, restricted cash, property and other assets.

The following table presents revenue by geographic area for the three months ended March 31, 2014 and 2013 (in thousands).

	Three Months Ended March 31,	
	2014	2013
United States	\$4,500	\$3,595
Brazil	2,648	4,271
Other international	536	843
Total revenues	\$7,684	\$8,709

NOTE 14. FAIR VALUE MEASUREMENT

The fair value of cash and cash equivalents, accounts and other receivables and accounts payable approximates their carrying value due to their shorter maturities. As of March 31 2014, the fair value of our USA segment debt (Level 3 measurement) is approximately \$5.0 million higher than the \$8.2 million carrying value of that debt, based on current market rates for similar debt with similar maturities. The fair value of our Brazil segment debt (Level 3 measurement) approximates the carrying value of that debt based on the current market rates for similar debt with similar 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 fair values by input hierarchy of items measured at fair value on a recurring basis on our consolidated balance sheets (in thousands):

	Level 1	Level 2	Level 3	Total
<u>March 31, 2014</u>				
Derivative warrant liabilities	(1)	\$ -	\$ -	\$(5,121)
				\$(5,121)

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Derivative conversion liability (2)			(86 )	(86 )
Total liabilities at fair value	\$ -	\$ -	\$(5,207)	\$(5,207)

December 31, 2013

Derivative warrant liabilities (1)	\$ -	\$ -	\$(1,685)	\$(1,685)
Total liabilities at fair value	\$ -	\$ -	\$(1,685)	\$(1,685)

These warrants are valued using the lattice model each reporting period and the resultant change in fair value is recorded in the statements of operations. The lattice model requires us to assess the probability of future issuance (1) of equity instruments at a price lower than the current exercise price of the warrants. The risk-free interest rate is determined by reference to the treasury yield curve rate of instruments with the same term as the warrant.

Additional assumptions that were used to calculate fair value follow.

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## Notes to Unaudited Condensed Consolidated Financial Statements

	March 31, 2014	December 31, 2013
Risk-free interest rate	0.1% - 0.7% (0.7% weighted average)	0.1% - 0.6% (0.5% weighted average)
Expected volatility	92%-123% (118% weighted average)	105% - 108% (107% weighted average)

These conversion liabilities were valued using a lattice model each reporting period and the resultant change in fair value is recorded in the statements of operations. The lattice model requires us to assess the probability of future (2)issuance of equity instruments at a price lower than the current conversion price of the debt. The risk-free interest rate is determined by reference to the treasury yield curve rate of instruments with the same term as the underlying debt. Additional assumptions that were used to calculate fair value follow.

	March 31, 2014
Risk-free interest rate	0.1%
Expected volatility	92%

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

	Fair Value as of Beginning of Period	Total Realized and Unrealized Gains (Losses)	Issuance of New Instruments	Net Transfers (Into) Out of Level 3	Fair Value, at End of Period	Change in Unrealized Gains (Losses) on Instruments Still Held
<u>Three Months Ended March 31, 2014</u>						
Derivative warrant liability	\$ (1,685 )	\$ 1,555	\$ (4,991 )	\$ -	\$ (5,121 )	\$ 1,555
Derivative conversion liability	-	503	(589 )	-	(86 )	503
Total Level 3 fair value	\$ (1,685 )	\$ 2,058	\$ (5,580 )	\$ -	\$ (5,207 )	\$ 2,058
<u>Three Months Ended March 31, 2013</u>						
Derivative warrant liability	\$ (4,520 )	\$ (2,238 )	\$ -	\$ -	\$ (6,758 )	\$ (2,238 )
Derivative conversion liability	(2,199 )	(1,300 )	-	24	(3,475 )	(1,317 )
Total Level 3 fair value	\$ (6,719 )	\$ (3,538 )	\$ -	\$ 24	\$ (10,233 )	\$ (3,555 )

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

The following tables summarize the fair values by input hierarchy of items measured at fair value in our balance sheets on a nonrecurring basis (in thousands):

As of March 31, 2014				2014	
Level 1	Level 2	Level 3	Total	Level 1	Level 2
				Impairment	Losses
				(1	)



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Property, net (1)	\$-	\$ -	\$ 394	\$ 394	\$ -
Property, net	\$-	\$ -	\$ 394	\$ 394	\$ -

2013					
As of December 31,					
2013					
					Impairment
Level					Losses
Level	Level	Level	Total	(1 )	
1	2	3			
Property, net (1)	\$-	\$ -	\$ 394	\$ 394	\$ 300
Property, net	\$-	\$ -	\$ 394	\$ 394	\$ 300

Machinery and equipment not currently in use was evaluated for impairment and as a result was written down to estimated fair value in the first quarter of 2013 and the second quarter of 2012. Fair value is an estimate of net realizable value comprised of an estimate of proceeds from sale, based on an internal evaluation of market conditions, less estimated costs to sell. The estimate of net realizable value is subject to change.

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NOTE 15. RELATED PARTY TRANSACTIONS

Transactions with Baruch Halpern

Entities beneficially owned by Baruch Halpern, a director, invested \$2.6 million in our subordinated convertible notes and related warrants prior to 2013. In the three months ended March 31, 2014 and 2013 we paid \$57 thousand and \$24 thousand of interest on subordinated notes beneficially owned by Mr. Halpern. The terms of the notes beneficially owned by Mr. Halpern were changed in the Modification.

As a result of the Exchange, warrants beneficially owned by Mr. Halpern for the purchase of up to 185,714 shares of common stock (\$14.00 per share exercise price with a July 31, 2017 expiration), related to the subordinated convertible notes were cancelled in exchange for 634,679 shares of our common stock (with a fair value of \$2.9 million at time of the Exchange), however the shares will not be issued until after shareholders vote to approve an increase in our authorized shares of common stock.

In connection with the Exchange, other warrants beneficially owned by Mr. Halpern for the purchase of up to 45,683 shares of common stock (\$14.00 per share exercise prices and expirations between January 2017 and August 2017) were cancelled in exchange for 75,377 shares of our common stock (with a fair value of \$0.3 million at time of the Exchange), however the shares will not be issued until after shareholders vote to approve an increase in our authorized shares of common stock.

Transactions with W. John Short

W. John Short, our chief executive officer and director, invested in our subordinated convertible notes and related warrants \$50 thousand in January 2012 and \$25 thousand in April 2013. In the three months ended March 31, 2014 and 2013 we paid approximately \$1 thousand of interest on subordinated notes beneficially owned by Mr. Short. In June 2013, Mr. Short made an election to be paid in stock, rather than cash, for interest accruing under the notes from February 2013 through June 2014. In connection with the election, in 2013 we issued a PIK warrant with 234 underlying shares of common stock, and increased the shares underlying Mr. Short's convertible notes by 234 shares as payment for interest accruing under the convertible notes from February 2013 through October 2013. The terms of the notes beneficially owned by Mr. Short were impacted by the Modification.

As a result of the Exchange, warrants beneficially owned by Mr. Short for the purchase of up to 2,020 shares of common stock (\$14.00 per share exercise prices and expirations of July 2017 and May 2018), including the PIK warrant, were cancelled in exchange for 6,674 shares of our common stock, however the shares will not be issued until after shareholders vote to approve an increase in our authorized shares of common stock.

Transactions with Mark McKnight

In January 2014, we purchased all of the outstanding shares of H&N Distribution, Inc. (H&N) for \$2.0 million in cash, plus convertible promissory notes for \$3.3 million. Mark McKnight, our current senior vice president of contract manufacturing, and his wife collectively owned a majority interest in H&N prior to the acquisition. In connection with our acquisition of H&N, Mark McKnight received \$0.7 million in cash and a convertible promissory note for \$1.4 million and Nicole McKnight, his wife, received \$0.7 million in cash and a convertible promissory note for \$1.4 million. The terms of the notes are further described in Note 10.

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In January 2014, we entered into a 5% unsecured promissory note with Nicole McKnight for \$0.1 million, due in principal installments plus accrued interest on December 31, 2014 and due December 31, 2015.

During the first quarter of 2013, prior to the acquisition, we had product sales totaling \$0.1 million to H&N.

NOTE 16. INCOME TAXES

In connection with our accounting for the acquisition of H&N in January 2014, we established deferred tax liabilities of \$1.4 million. These deferred tax liabilities primarily relate to intangibles recorded for financial reporting purposes, which are not deductible for tax purposes. We expect to utilize the benefit of our net operating loss carryforwards against a portion of the future taxable income from these deferred tax liabilities. As a result, we reduced the valuation allowance on \$0.2 million of our United States net operating loss carryforwards and recognized a deferred income tax benefit of \$0.2 million in the first quarter 2014.

Utilization of net operating loss carryforwards may be subject to substantial annual limitations due to the “change in ownership” provisions of the Internal Revenue Code of 1986, as amended and similar state regulations. The annual limitations may result in the expiration of substantial net operating loss carryforwards before utilization. We have not completed the necessary analyses to determine the amount of such limitation, however, we expect any limitations will not impair our ability to offset \$0.2 million of the future taxable income related to the deferred tax liabilities described above.

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

The following discussion and analysis addresses material changes in the results of operations and financial condition of RiceBran Technologies and subsidiaries for the periods presented. This discussion and analysis should be read in conjunction with the consolidated financial statements, the related notes thereto, and management's discussion and analysis of results of operations and financial condition included in our Annual Report on Form 10-K, for the year ended December 31, 2013.

In 2013 and the first quarter of 2014, we experienced losses and negative cash flows from operations on a consolidated basis which raises substantial doubt about our ability to continue as a going concern. We believe that we now have adequate financial resources to operate our business for the next year and we will be able to obtain additional funds to operate our business, should it be necessary. However, there can be no assurances that our efforts will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We closed an underwritten public offering in December 2013 and completed a private placement offering in March 2014 which together provided us with net proceeds in excess of \$12.0 million, allowing us to make additional investment in our Brazilian operations and provide cash for corporate purposes. In January 2014, we completed the acquisition of H&N Distribution Inc., now operating as Healthy Natural, Inc. (H&N), the operations of which we expect to be accretive to cash flows. Our Brazilian subsidiary, Irgovel, shut down operations in the first quarter of 2014 to complete the final stages of a major capital expansion. The shutdown has been a drain on cash. Operations at Irgovel are expected to normalize during the second quarter of 2014, such that Irgovel will then begin trending upward towards its newly increased capacity and begin generating cash from operations.

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

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

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

The USA segment produces SRB inside two supplier rice mills in California and one owned facility in Louisiana. A facility located in Lake Charles, Louisiana has been idle since May 2009. The USA segment also includes our Dillon, Montana Stage II facility which produces our Stage II products RiSolubles (a highly nutritious, carbohydrate and lipid rich fraction of SRB), RiFiber (a fiber rich derivative of SRB), RiBalance (a complete rice bran nutritional package derived from further processing SRB), and ProRyza, a family of protein products. Stage II refers to the proprietary processes run at our Dillon, Montana facility and includes products produced at that facility using our patented processes. In January 2014, we completed the acquisition of H&N which has been integrated into our USA segment. H&N is a formulator and co-packer of products targeted at customers in the direct marketing, internet sales and retail distribution markets, which operates a facility in Irving, Texas. H&N serves the natural products, nutritional supplement and nutraceutical and functional food (NFF) sectors. We acquired H&N as part of our strategy to vertically integrate our business in order to leverage our proprietary and patented technologies. Certain manufacturing facilities included in our USA segment have proprietary processing equipment and patented technology for the stabilization and further processing of rice bran into finished products. In 2013, approximately 55% of USA segment revenue was from sales of human food products and approximately 45% was from sales of animal nutrition products.

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The Brazil segment consists of the consolidated operations of Nutra SA, whose only operating subsidiary is Irgovel, located in Pelotas, Brazil. Irgovel manufactures RBO and DRB products for both the human ingredient and animal nutrition markets in Brazil and internationally. In refining RBO to an edible grade, several co-products are obtained. One such product is distilled fatty acids, a valuable raw material for the detergent industry. Irgovel recently started production of rice lecithin, which has application in human nutrition, animal nutrition and industrial applications. DRB is compounded with a number of other ingredients to produce complex animal nutrition products which are packaged and sold under Irgovel brands in the Brazilian market, sold as a raw material for further processing into human food ingredients or sold in bulk into the animal nutrition markets in Brazil and neighboring countries. In 2013, approximately 45% of Brazil segment product revenue was from sales of RBO products and 55% was from sales of DRB products.

Results of OperationsTHREE MONTHS ENDED MARCH 31, 2014 and 2013

Consolidated net loss attributable to RiceBran Technologies shareholders for the three months ended March 31, 2014, was \$1.9 million, or \$0.62 per share, compared to a loss of \$5.8 million, or \$5.57 per share, for the three months ended March 31, 2013. Loss from operations was \$2.7 million in both periods as the favorable impacts on the USA segment from the acquisition of H&N in January 2014 was offset by the unfavorable impacts of the Brazil segment plant shut-down at Irgovel during most of the three months ended March 31, 2014.

Revenue and Gross Profit

Revenues (in thousands):

	Three Months Ended March 31,					
	2014	% of Total Revenues	2013	% of Total Revenues	Change	% Change
USA segment	\$4,993	65.0	\$2,909	33.4	\$2,084	71.6
Brazil segment	2,691	35.0	5,800	66.6	(3,109)	(53.6 )
Total revenues	\$7,684	100.0	\$8,709	100.0	\$(1,025)	(11.8 )

Consolidated revenues for the three months ended March 31, 2014, were \$7.7 million compared to \$8.7 million in the prior year period, a decrease of \$1.0 million, or 11.8%.

USA segment revenues increased \$2.1 million, or 71.6% in 2014 compared to 2013. Animal feed product revenues decreased \$0.5 million on lower volume while human nutrition product revenues increased \$2.5 million, in large part due to increased sales in the human functional food market as a result of the acquisition of H&N. The decline in animal feed revenue was primarily attributable to reduced sales to two large, but low margin customers. We continue to focus on increasing the higher margin human nutrition product revenue in our mix of revenue.

Brazil segment revenues decreased \$3.1 million, or 53.6% in 2014 compared to 2013. Revenues decreased \$0.5 million as a result of the 15.5% decline in the average exchange rate between these periods. On a local currency basis, prior to translation into US dollars, Brazil segment revenues decreased 45.1% year over year. Revenues were negatively affected by the Irgovel plant shut down that began in January 2014. The plant was shut down in mid-January 2014 until April 2014 for expansion of the rice bran oil extractor, the key functional part of the plant, as well as installation of a new desolventizing/toasting system. Production began again in April 2014 on a limited basis. During the first half of the shutdown period, inventory available for sale was limited to certain animal feed products that utilized DRB that had been stockpiled prior to the shutdown.



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Gross profit (in thousands):

	Three Months Ended March 31,					
	2014	Gross Profit %	2013	Gross Profit %	Change	Change in Gross Profit %
USA segment	\$1,616	32.4	\$704	24.2	\$ 912	8.2
Brazil segment	(202 )	(7.5 )	262	4.5	(464 )	(12.0 )
Total gross profit	\$1,414	18.4	\$966	9.9	\$ 448	8.5

Consolidated gross profit in the first quarter of 2014 increased \$0.4 million, or 8.5 percentage points, to \$1.4 million for the three months ended March 31, 2014, compared to \$1.0 million in the prior year period.

The USA segment gross profit increased \$0.9 million, to \$1.6 million in 2014, from \$0.7 million in 2013, \$0.8 million of the increase was attributable to gross profit resulting from increased revenues resulting from the acquisition of H&N. Raw bran prices were relatively flat quarter over quarter.

Brazil segment gross profit declined \$0.5 million, or 12.0 percentage points. As noted above, the Irgovel plant was shut down in January 2014. Production began again at the beginning of the second quarter on a limited basis and we expect production capacity to build through the second quarter of 2014 and reach or exceed 150% of pre-expansion raw bran processing levels in the third quarter of 2014. The amount of raw bran processed in the first quarter of 2014 was significantly lower than in the first quarter of 2013, as the plant operated normally for only approximately two weeks in January 2014.

Operating Expenses (in thousands):

	Three Months Ended March 31, 2014			
	Corporate	USA	Brazil	Consolidated
Selling, general and administrative	\$1,632	\$742	\$941	\$ 3,315
Depreciation and amortization	10	638	170	818
Total operating expenses	\$1,642	\$1,380	\$1,111	\$ 4,133

  

	Three Months Ended March 31, 2013			
	Corporate	USA	Brazil	Consolidated
Selling, general and administrative	\$1,116	\$677	\$1,289	\$ 3,082
Depreciation and amortization	6	121	204	331
Intersegment fees	(56 )	-	56	-
Impairment of property	-	300	-	300
Total operating expenses	\$1,066	\$1,098	\$1,549	\$ 3,713

  

	Favorable (Unfavorable) Change			
	Corporate	USA	Brazil	Consolidated
Selling, general and administrative	\$(516)	\$(65 )	\$ 348	\$ (233 )
Depreciation and amortization	(4 )	(517)	34	(487 )
Intersegment fees	(56 )	-	56	-
Impairment of property	-	300	-	300
Total operating expenses	\$(576)	\$(282)	\$ 438	\$ (420 )



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Consolidated operating expenses were \$4.1 million for the first quarter of 2014, compared to \$3.7 million for the first quarter of 2013, an increase of \$0.4 million.

Corporate segment selling, general and administrative expenses (SG&A) increased \$0.5 million. The first quarter of 2014 included \$0.3 of acquisition costs related to the closing of the H&N acquisition in January 2014.

USA segment SG&A expenses increased \$0.1 million due to the additional expenses now included from the operations of H&N, acquired in January 2014.

Brazil segment SG&A decreased \$0.3 million. The favorable result was primarily related to a \$0.2 million decline associated with the drop in the average foreign exchange rate between periods. The remaining difference relates to the timing of certain professional fees.

USA segment depreciation and amortization expense increased \$0.5 million due to amortization of a customer relationship intangible asset of \$3.3 million established in January 2014 upon the acquisition of H&N. Amortization of the intangible is being taken over a three year period.

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IndexOther Income (Expense) (in thousands):

	Three Months Ended March 31, 2014			
	Corporate	USA	Brazil	Consolidated
Interest income	\$-	\$ -	\$15	\$ 15
Interest expense	(529 )	-	(659)	(1,188 )
Foreign currency exchange, net	-	-	75	75
Change in fair value of derivative warrant and conversion liabilities	2,058	-	-	2,058
Financing expense	(1,122)	-	-	(1,122 )
Other	-	-	(152)	(152 )
Other income (expense)	\$407	\$ -	\$(721)	\$ (314 )

	Three Months Ended March 31, 2013			
	Corporate	USA	Brazil	Consolidated
Interest income	\$-	\$ -	\$10	\$ 10
Interest expense	(276 )	-	(353)	(629 )
Foreign currency exchange, net	-	-	250	250
Change in fair value of derivative warrant and conversion liabilities	(3,538)	-	-	(3,538 )
Loss on extinguishment	(32 )	-	-	(32 )
Other	-	-	(122)	(122 )
Other income (expense)	\$(3,846)	\$ -	\$(215)	\$ (4,061 )

	Favorable (Unfavorable) Change			
	Corporate	USA	Brazil	Consolidated
Interest income	\$-	\$ -	\$5	\$ 5
Interest expense	(253 )	-	(306)	(559 )
Foreign currency exchange, net	-	-	(175)	(175 )
Change in fair value of derivative warrant and conversion liabilities	5,596	-	-	5,596
Loss on extinguishment	32	-	-	32
Financing expense	(1,122)	-	-	(1,122 )
Other	-	-	(30 )	(30 )
Other income (expense)	\$4,253	\$ -	\$(506)	\$ 3,747

Consolidated other income was \$0.3 million for the first quarter of 2014, compared to other expense of \$4.1 million for the first quarter of 2013.

The Corporate segment experienced a \$5.6 million decrease in expense from the change in the fair value of derivative warrant and conversion liabilities. Our liability warrants and conversion liabilities are valued using the lattice model each reporting period and the resulting change in fair value is recorded in the statements of operations. The lattice model requires us to assess the probability of future issuance of equity instruments at a price lower than the current exercise price of the warrants and make certain other assumptions. The favorable impacts as a result of the changes in our stock price between periods and the favorable impacts of the decrease in average outstanding derivative contracts contributed to the increase in expense.

This reduction in expense was offset by:

- a \$0.7 million increase in interest expense, as a result of an increase in average debt and interest bearing payables outstanding in both the Corporate and Brazil segments;
- a \$0.2 million decrease in foreign exchange gains, related to the Brazil segment's US Dollar denominated debt; and
- the \$1.1 million increase in Corporate segment financing expense. In 2014, the expense was associated with the March 2014 private placement issuance of convertible notes and related warrants and represented the excess of the

values assigned to the equity warrants and derivative liability warrants, at issuance, over the net proceeds from issuance, as described further in Note 10 to the consolidated financial statements.

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IndexLiquidity and Capital Resources

With respect to liquidity and capital resources, we manage the Brazil segment, consisting currently of our plant in Brazil, separately from our U.S. based Corporate and USA segments. Cash on hand at our Brazil segment is generally unavailable for distribution to our Corporate and USA segments pursuant to the terms of the limited liability company agreement for Nutra SA. Cash used in operating activities for the three months ended March 31, 2014 and 2013, is presented below by segment (in thousands).

	Three Months Ended March 31, 2014		
	Corporate and		
	USA	Brazil	Consolidated
Net loss	\$(752 )	\$(2,033)	\$ (2,785 )
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation and amortization	901	594	1,495
Change in fair value of derivative warrant and conversion liabilities	(2,058)	-	(2,058 )
Financing expense	1,122	-	1,122
Deferred tax benefit	(248 )	-	(248 )
Other adjustments, net	382	21	403
Changes in operating assets and liabilities	(250 )	772	522
Net cash used in operating activities	\$(903 )	\$(646 )	\$ (1,549 )

	Three Months Ended March 31, 2013		
	Corporate and		
	USA	Brazil	Consolidated
Net loss	\$(5,306)	\$(992 )	\$ (6,298 )
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation and amortization	351	617	968
Change in fair value of derivative warrant and conversion liabilities	3,538	-	3,538
Impairment of property	300		300
Loss on extinguishment	32	-	32
Other adjustments, net	327	(743 )	(416 )
Changes in operating assets and liabilities	(18 )	990	972
Net cash used in operating activities	\$(776 )	\$(128 )	\$ (904 )

Corporate and USA

On a combined basis, the Corporate and USA segments used \$0.9 million of cash in operating activities in the first quarter of 2014 compared to \$0.8 in the first quarter of 2013. We expect H&N, acquired in January 2014, will generate operating cash flows in 2014, and the combined Corporate and USA cash flows will improve over the course of 2014. We funded a portion of the losses from operations with the proceeds of a private placement and a public offering discussed further below.

We have outstanding certain obligations to issue stock, upon an increase in our authorized shares, as described further below. If we are unable to obtain shareholder approval for an increase in authorized shares we will be required to increase interest payments. A shareholders meeting is scheduled for May 30, 2014, to vote on an increase in authorized shares from 6,000,000 shares to 25,000,000 shares.

In the fourth quarter of 2013, the holders of our subordinated convertible notes agreed to amend their notes to reduce the interest rate to 5% from 10%, change the maturity of the notes to July 2016 (if there was a different maturity date) and to remove the conversion feature and antidilution protections upon the closing of an equity raise in excess of \$7.0 million (Modification). Concurrently, certain warrant holders agreed to exchange warrants to purchase 496,060 shares of common stock for the future issuance of 1,554,734 shares of our common stock (Exchange). The former warrant holders committed to exchange their warrants, which were cancelled upon our closing an equity raise in the fourth quarter of 2013; however, the shares will not be issued until after shareholders vote to approve an increase in our authorized shares of common stock and to approve the transaction, if necessary under Nasdaq rules. If we do not issue the shares of common stock by July 1, 2014, the interest rate on the notes will increase to 10%.

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In connection with the January 2014 acquisition of H&N, we issued convertible promissory notes in the face amount of \$3.3 million. We have the option to pay principal and accrued interest under the notes in either cash or in our common stock, however, if we issue shares to our former warrants holders under the terms of the Exchange, then we must settle any outstanding balance on the notes at that time through the issuance of shares of our common stock. If we elect to pay the note in cash, we agreed to make equal quarterly payments commencing on March 31, 2015, and ending on December 31, 2018. Interest accumulates at the annual rates of 1% until January 2015, 5% from February 2015 until January 2016 and 10% after January 2016.

In January 2014, the underwriters exercised their overallotment rights related to our fourth quarter 2013 secondary public offering. We issued and sold 162,586 shares of common stock for \$5.24 per share and publicly traded warrants to purchase 162,586 shares of common stock for \$0.01 per underlying share. The net proceeds from the offering were \$0.8 million, after deducting underwriting discounts and commissions and other offering expenses of \$0.1 million.

Borrowings under a revolving credit facility with TCA Global Credit Master Fund, LP (TCA), effective May 2013, as amended July 2013 and October 2013, are evidenced by a revolving note which accrues interest at the rate of 12% per year. In addition, we owe TCA various other fees under the agreement that are expected to average approximately 7% of average borrowings per year.

USA segment accounts receivable collections, exclusive of our newly acquired subsidiary H&N in January 2014, are required to be directed to a TCA owned account. Collections TCA receives, in excess of amounts due for interest and fees and mandatory minimum cumulative repayments are treated as additional repayments and reduce amounts outstanding. There are minimum repayments beginning in January 2014 and the note must be repaid in full by October 2014. We made the minimum cumulative repayments of \$1.1 million in the first quarter of 2014, and we must make additional payments of \$0.7 million as of June 2014 and \$1.6 million as of September 2014. Until cumulative repayments equal the required minimums, TCA may withhold 20% of collections. We may request, on a weekly basis, that TCA advance us any amounts collected in excess of amounts (i) due for interest and fees and (ii) required to meet the minimum cumulative repayments.

During the first quarter of 2014, we paid \$0.5 million to redeem stock which had been issued to TCA in payment of fees.

### Brazil

The Brazil segment used \$0.6 million in operating cash in the first quarter of 2014, compared to using \$0.1 million of operating cash in the first quarter of 2013. The increased use of cash was the result of the planned facility shut down. Irgovel is currently in the process of debugging equipment as part of the final stages of a capital expansion project involving installation of new equipment and improvements to existing infrastructure noted above. As a result of the project, the Irgovel facility was shut down approximately ten weeks in the first quarter of 2014, while certain new equipment was brought on line. Where possible, we stockpiled certain inventory for sale during the period the plant was shut down. However, this inventory was not adequate to timely fulfill all outstanding orders during this period. Facility shut down and subsequent restart expenses are expected to adversely affect our operating results through June 30, 2014.

The minority investors in Nutra SA invested \$1.2 million in Nutra SA in 2013. In the first quarter of 2014, we transferred \$1.9 million in cash to Nutra SA and in the period from April 1, 2014 to May 15, 2014, we transferred an additional \$1.1 million. With this additional capital, we believe Irgovel has the majority of the funds necessary for the restart and debugging process and to meet its working capital requirements as production ramps up and Irgovel purchases bran.

Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risk, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides us financing and liquidity support or market risk or credit risk support.

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.

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For further information about other critical accounting policies, see the discussion of critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Recent Accounting Pronouncements

There are no recent accounting pronouncements that are applicable to us and adoption of which could potentially have a material impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

In addition to the matters described below, we evaluated, with the participation of our Chief Executive Officer 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 Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q 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

In addition to the matters described below, 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 or results of operations. 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.

Diabco Life Sciences, LLC

In January 2012, we filed a complaint in the Superior Court of California, Sacramento County, seeking damages arising out of Diabco Life Sciences, LLC's (Diabco) breach of a 2008 promissory note in the principal amount of \$0.5 million. At trial August 2013, Diabco stipulated that total damages through July 2013, including interest and late fees, amounted to \$0.9 million. In September 2013, the court issued its tentative statement of decision indicating that judgment will be entered in our favor in the amount of \$0.9 million as of July 2013, plus interest. In January 2014, the court issued its final judgment in the amount of \$1.0 million. Diabco has filed a notice of appeal with the court challenging the final judgment. We have no receivable from Diabco recorded in the accompanying financial statements, as recovery of the judgment is not reasonably assured.

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, 2013,



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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

None.

Item 3. Defaults upon Senior Securities

None

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Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are attached hereto and filed herewith:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
4.01	Form of Convertible Promissory Note dated March 20, 2014 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on March 21, 2014)
4.02	Form of Warrant dated March 20, 2014 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on March 21, 2014)
10.01	Note and Warrant Purchase Agreement dated March 20, 2014 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on March 21, 2014)
10.02	Registration Rights Agreement dated March 20, 2014 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on March 21, 2014)
<u>31.1</u>	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>31.2</u>	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>32.1</u>	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS (1)	XBRL Instance Document
101.SCH (1)	XBRL Taxonomy Extension Schema Document
101.CAL (1)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (1)	XBRL Taxonomy Extension Calculation Definition Document
101.LAB (1)	XBRL Taxonomy Extension Calculation Label Document
101.PRE (1)	XBRL Taxonomy Extension Calculation Presentation Document

(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.

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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: May 15, 2014

/s/ W. John Short  
W. John Short  
Chief Executive  
Officer

/s/ J. Dale Belt  
Jerry Dale Belt  
Chief Financial  
Officer