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RiceBran Technologies
Form 10-Q
May 14, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2013

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)

87-0673375

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

6720 North Scottsdale Road, Suite 390
Scottsdale, AZ

(Address of Principal Executive Offices)

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

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

As of April 30, 2013, shares of the registrant's common stock outstanding totaled 209,725,756.

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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,” “contingent,” “believe,” “expect” or “anticipate” or other similar words. The forward-looking statements contained herein reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Actual results may differ materially from those projected in such forward-looking statements due to a number of factors, risks and uncertainties, including the factors that may affect future results set forth in this Current Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2012. 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, 2013 and 2012
(Unaudited) (in thousands, except per share amounts)

| | 2013 | 2012 |
|---|------------|------------|
| Revenues | \$8,709 | \$9,746 |
| Cost of goods sold | 7,743 | 8,005 |
| Gross profit | 966 | 1,741 |
| Operating expenses: | | |
| Selling, general and administrative | 2,906 | 3,645 |
| Professional fees | 507 | 471 |
| Impairment of property | 300 | - |
| Total operating expenses | 3,713 | 4,116 |
| Loss from operations | (2,747) | (2,375) |
| Other income (expense): | | |
| Interest income | 10 | 47 |
| Interest expense | (629) | (418) |
| Foreign currency exchange, net | 250 | (206) |
| Change in fair value of derivative warrant and conversion liabilities | (3,538) | (2,362) |
| Loss on extinguishment | (32) | (2,986) |
| Financing expense | - | (1,524) |
| Other income | 3 | 4 |
| Other expense | (125) | (94) |
| Total other income (expense) | (4,061) | (7,539) |
| Loss before income taxes | (6,808) | (9,914) |
| Income tax benefit | 510 | 542 |
| Net loss | (6,298) | (9,372) |
| Net loss attributable to noncontrolling interest in Nutra SA | 485 | 543 |
| Net loss attributable to RiceBran Technologies shareholders | \$(5,813) | \$(8,829) |
| Loss per share attributable to RiceBran Technologies shareholders | | |
| Basic | \$(0.03) | \$(0.04) |
| Diluted | \$(0.03) | \$(0.04) |
| Weighted average number of shares outstanding | | |
| Basic | 208,692 | 202,686 |
| Diluted | 208,692 | 202,686 |

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, 2013 and 2012
 (Unaudited) (in thousands)

| | 2013 | 2012 |
|---|------------|------------|
| Net loss | \$(6,298) | \$(9,372) |
| Other comprehensive income - foreign currency translation, net of tax | 148 | 347 |
| Comprehensive loss, net of tax | (6,150) | (9,025) |
| Comprehensive loss attributable to noncontrolling interest, net of tax | 413 | 373 |
| Total comprehensive loss attributable to RiceBran Technologies shareholders | \$(5,737) | \$(8,652) |

See Notes to Unaudited Condensed Consolidated Financial Statements

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RiceBran Technologies
Condensed Consolidated Balance Sheets
March 31, 2013 and December 31, 2012
(Unaudited) (in thousands, except share amounts)

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$214 | \$1,040 |
| Restricted cash | 2,413 | 1,919 |
| Accounts receivable, net of allowance for doubtful accounts of \$516 and \$518 (variable interest entity restricted \$2,609 and \$2,505) | 3,980 | 3,487 |
| Inventories | 2,237 | 1,994 |
| Deferred tax asset | 305 | 234 |
| Income and operating taxes recoverable | 1,031 | 1,167 |
| Deposits and other current assets | 1,033 | 975 |
| Total current assets | 11,213 | 10,816 |
| Property, net (variable interest entity restricted \$5,827 and \$5,757) | 28,190 | 28,457 |
| Goodwill | 4,830 | 4,773 |
| Intangible assets, net | 3,524 | 2,575 |
| Other long-term assets | 387 | 385 |
| Total assets | \$48,144 | \$47,006 |
| LIABILITIES, TEMPORARY EQUITY AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$4,238 | \$3,021 |
| Payable for technology license | 1,200 | - |
| Accrued expenses | 4,909 | 4,509 |
| Current maturities of long-term debt (variable interest entity nonrecourse \$7,679 and \$7,013) | 8,589 | 8,003 |
| Total current liabilities | 18,936 | 15,533 |
| Long-term liabilities: | | |
| Long-term debt, less current portion (variable interest entity nonrecourse \$7,988 and \$7,454) | 13,387 | 11,581 |
| Deferred tax liability | 1,258 | 1,674 |
| Derivative warrant liabilities | 6,758 | 4,520 |
| Total liabilities | 40,339 | 33,308 |
| Commitments and contingencies | | |
| Temporary Equity: Redeemable noncontrolling interest in Nutra SA | 8,849 | 9,262 |
| Equity: | | |
| Equity attributable to RiceBran Technologies shareholders: | | |
| Preferred stock, 20,000,000 shares authorized and none issued | - | - |
| Common stock, no par value, 500,000,000 shares authorized, 209,434,847 and 207,616,097 shares issued and outstanding | 210,653 | 210,396 |

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| | | |
|---|------------|------------|
| Accumulated deficit | (210,233) | (204,420) |
| Accumulated other comprehensive loss | (1,464) | (1,540) |
| Total equity attributable to RiceBran Technologies shareholders | (1,044) | 4,436 |
| Total liabilities, temporary equity and equity | \$48,144 | \$47,006 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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RiceBran Technologies
Condensed Consolidated Statements of Cash Flows
Three Months Ended March 31, 2013 and 2012
(Unaudited) (in thousands)

| | 2013 | 2012 |
|---|------------|------------|
| Cash flow from operating activities: | | |
| Net loss | \$(6,298) | \$(9,372) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 968 | 1,439 |
| Provision for doubtful accounts receivable | 17 | 305 |
| Stock and share-based compensation | 117 | 346 |
| Change in fair value of derivative warrant and conversion liabilities | 3,538 | 2,362 |
| Financing expense | - | 1,524 |
| Impairment of property | 300 | - |
| Loss on extinguishment | 32 | 2,986 |
| Deferred tax benefit | (510) | (541) |
| Other | (40) | 38 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (232) | (439) |
| Inventories | (189) | 431 |
| Accounts payable and accrued expenses | 1,250 | (349) |
| Pre-petition liabilities | - | (1,615) |
| Other | 143 | (60) |
| Net cash used in operating activities | (904) | (2,945) |
| Cash flows from investing activities: | | |
| Purchases of property | (716) | (1,543) |
| Proceeds from sale of property | 327 | 213 |
| Receipts on notes receivable | - | 300 |
| Restricted cash | (500) | 200 |
| Other | - | (9) |
| Net cash used in investing activities | (889) | (839) |
| Cash flows from financing activities: | | |
| Payments of debt | (2,974) | (2,995) |
| Proceeds from issuance of debt | 3,929 | 1,385 |
| Proceeds from issuance of convertible debt and related warrants | - | 2,362 |
| Net cash provided by financing activities | 955 | 752 |
| Effect of exchange rate changes on cash and cash equivalents | 12 | 171 |
| Net change in cash and cash equivalents | (826) | (2,861) |
| Cash and cash equivalents, beginning of period | 1,040 | 3,329 |
| Cash and cash equivalents, end of period | \$214 | \$468 |
| Supplemental disclosures: | | |
| Cash paid for interest | \$275 | \$373 |
| Cash paid for income taxes | - | - |

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See Notes to Unaudited Condensed Consolidated Financial Statements

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RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION

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

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2012. The report of our independent registered public accounting firm that accompanies the audited consolidated financial statements for the years ended December 31, 2012 and 2011, 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. We have experienced significant losses and negative cash flows and have an accumulated deficit of \$210.3 million as of March 31, 2013. Further, although we are focusing on raising additional funds to operate our business, there can be no assurances that these efforts will prove successful.

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

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

Recent Accounting Pronouncements

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 and animal nutrition company focused on the procurement, bio-refining and marketing of numerous products derived from rice bran. We have proprietary and patented intellectual property that allows us to convert rice bran, one of the world's most underutilized food sources, into a number of highly nutritious human food and animal nutrition products. Our target markets are human food and animal nutrition manufacturers and retailers, as well as natural food, functional food and nutraceutical supplement manufacturers and retailers, both domestically and internationally. We have developed a bio-refining approach to processing raw rice bran into various value added constituents such as stabilized rice bran (SRB), rice bran oil (RBO), defatted rice bran (DRB) and a variety of other valuable derivative products from each of these core products.

We have three reportable business segments: (i) Corporate; (ii) USA, which manufactures and distributes SRB in various granulations along with other products derived from rice bran via proprietary and patented enzyme treatment

processes; and (iii) Brazil, which extracts crude RBO and DRB from rice bran, which are then further processed into a number of valuable human food and animal nutrition products. The Corporate segment includes selling, general and administrative expenses including public company expenses, litigation, and other expenses not directly attributable to other segments. No Corporate allocations are made to the other segments. General corporate interest is not allocated.

The USA segment consists of two locations in California and two locations in Louisiana all of which can produce SRB. One of the two Louisiana SRB facilities, located in Lake Charles, has been idle since May 2009. The USA segment also includes our Dillon, Montana Stage II facility which produces RiSolubles (a highly nutritious, carbohydrate and lipid rich fraction of SRB), RiFiber (a fiber rich derivative of SRB) and RiBalance (a complete rice bran nutritional package derived from further processing SRB). The manufacturing facilities included in our USA segment have proprietary and patented processing equipment and technology for the stabilization and further processing of rice bran into finished products. Approximately 50% of USA segment revenue is from sales of human food products and 50% is from sales of animal nutrition products.

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Notes to Unaudited Condensed Consolidated Financial Statements

The Brazil segment consists of the operation of our subsidiary Industria Riograndens De Oleos Vegetais Ltda. (Irgovel), located in Pelotas, Brazil. Irgovel manufactures RBO and DRB products for both the human and animal food 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. DRB is sold in bulk as animal feed and 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. Approximately 46% of Brazil segment product revenue was from sales of RBO products and 54% was from sales of DRB products.

NOTE 3. LIQUIDITY AND MANAGEMENT'S PLAN

We continue to experience losses and negative cash flows from operations which raises substantial doubt about our ability to continue as a going concern. We currently have insufficient funds to support our operations and service our debt in the near term and have inadequate financing arrangements in place at this time. Although we believe that we will be able to obtain the funds necessary to operate our business, 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.

In the ongoing effort to improve profitability, significant emphasis will be placed on growing revenues. The growth of revenues is expected to include the following:

- growth in existing markets for stabilized rice bran (SRB), rice bran oil (RBO) and defatted rice bran (DRB);
- expanding our product offerings and improving existing products;
- aligning with strategic partners who can provide channels for additional sales of our products; and
- implementing price increases.

We may also monetize certain assets which could result in additional impairment of asset values. Asset monetization may include some or all of the following:

- sale of certain facilities;
- sale of a noncontrolling interest in one or more subsidiaries; or
- sale of surplus equipment.

NOTE 4. LOSS PER SHARE (EPS)

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

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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Below are reconciliations of the numerators and denominators in the EPS computations for the three months ended March 31, 2013 and 2012.

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RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

| | 2013 | 2012 |
|--|-------------|-------------|
| NUMERATOR (in thousands): | | |
| Basic and diluted - net loss attributable to RiceBran Technologies shareholders | \$(5,813) | \$(8,829) |
| DENOMINATOR: | | |
| Basic EPS - weighted average number of shares outstanding | 208,691,791 | 202,686,445 |
| Effect of dilutive securities outstanding | - | - |
| Diluted EPS - weighted average number of shares outstanding | 208,691,791 | 202,686,445 |
| 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 \$0.15 and \$0.26) | 34,651,990 | 38,849,299 |
| Warrants (average exercise price of \$0.12 and \$0.50) | 161,353,772 | 106,712,071 |
| Convertible debt (average conversion price of \$0.07 and \$0.11) | 93,517,536 | 39,759,633 |

The impact of potentially dilutive securities outstanding at March 31, 2013 and 2012, was not included in the calculation of diluted EPS in 2013 and 2012 because to do so would be antidilutive. Those securities listed in the table above which were antidilutive in 2013 and 2012, which remain outstanding, could potentially dilute EPS in the future.

NOTE 5. 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, 2013 | December 31, 2012 |
|--|-------------------|-------------------------|
| Cash and cash equivalents | \$ 175 | \$ 562 |
| Restricted cash | 494 | - |
| Other current assets (restricted \$2,609 and \$2,505) | 5,822 | 5,675 |
| Property, net (restricted \$5,827 and \$5,757) | 20,413 | 19,690 |
| Goodwill and intangibles, net | 6,120 | 6,215 |
| Other noncurrent assets | 66 | 54 |
| Total assets | \$ 33,090 | \$ 32,196 |
| Current liabilities | \$ 6,142 | \$ 5,141 |
| Current portion of long-term debt (nonrecourse \$7,679 and \$7,013) | 7,679 | 7,013 |
| Long-term debt, less current portion (nonrecourse \$7,988 and \$7,454) | 7,988 | 7,454 |
| Other noncurrent liabilities | 1,257 | 1,871 |

| | | |
|-------------------|----------|----------|
| Total liabilities | \$23,066 | \$21,479 |
|-------------------|----------|----------|

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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RiceBran Technologies
Notes to Unaudited Condensed Consolidated Financial Statements

A summary of changes in redeemable noncontrolling interest for the three months ended March 31, 2013 and 2012 follows (in thousands).

| | 2013 | 2012 |
|--|----------|----------|
| Redeemable noncontrolling interest in Nutra SA, January 1 | \$ 9,262 | \$ 9,918 |
| Investors' interest in net loss of Nutra SA | (485) | (543) |
| Investors' interest in other comprehensive income of Nutra SA | 72 | 170 |
| Redeemable noncontrolling interest in Nutra SA, March 31 | \$ 8,849 | \$ 9,545 |

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 was 49.0% in the three months ended March 31, 2013 and 2012. The Investors' share of Nutra SA's net income (loss) increases (decreases) redeemable noncontrolling interest.

The Investors have the right to purchase from Nutra SA up to an additional 750,000 units for another \$1.5 million. If immediately prior to such purchase Nutra SA and Irgovel have sufficient cash to complete certain projects, then the units will have no voting rights. In April 2013, we invested \$0.1 million in Nutra SA.

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 the right to force a sale of Nutra SA assets in the future (see Drag Along Rights described below). We have assessed the likelihood of the Investors exercising these rights as less than probable at March 31, 2013, in part because it is more likely the Investors will exercise other rights prior to January 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.

We are restricted from competing with Nutra SA and Irgovel in Brazil as further described in the MIPA.

In connection with the December 2012 capital contributions, we amended the limited liability company agreement for Nutra SA (LLC agreement). Pursuant to this amendment, among other things, any units held by the Investors after January 1, 2014, accrue a yield at 4% if a certain milestone condition is satisfied, and at 8% if the milestone condition is not satisfied (the Yield). The milestone condition relates to Nutra SA having performed all of the following: obtaining additional bank financing, completion of the capital expansion project within certain spending limitations, and operation of the plant post expansion at targeted processing levels. 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. Until March 31, 2014, or if at any time Nutra SA is past due on its obligations to pay the Investors the Yield, all amounts due to us for management fees or for shared employees as provided under the LLC Agreement shall be tolled and remain unpaid until all past due amounts, if any, owed to the Investors have been paid in full.

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 contribution, less the aggregate amount of distributions paid to the Investors, (ii) second, to

us in an amount equal to (i) two times 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.

As of March 31, 2013, there have been no events of default. Events of default, as defined in the MIPA, are:

- A Nutra SA business plan deviation, defined as the occurrence, in either 2013 or 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, or
- 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.

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Notes to Unaudited Condensed Consolidated Financial Statements

As of March 31, 2013, 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 certain rights, summarized below, under an investor rights agreement and the LLC agreement, as further defined in the agreements.

- **Conversion Rights** – The Investors may exchange units in Nutra SA for equity interests in Irgovel. After any exchange, the Investors would possess the same rights and obligations with respect to the securities of Irgovel, as they have in Nutra SA.
- **Global Holding Company (GHC) Roll-Up** – If we form an entity, GHC, to hold our Brazil segment assets, the Investors may exchange units in Nutra SA for equity interests in GHC. The investors may exercise this right after the second anniversary of the formation of GHC or, if an event of default has occurred, after the GHC formation date. The appraised fair value of the Investors’ interest in Nutra SA would be used to determine the amount of ownership interest the Investors would receive in GHC.
- **RiceBran Technologies Roll-Up** – The Investors may exchange units in Nutra SA for our common stock.. This right is available upon the earlier of January 2014 or upon an event of default. We may elect to postpone our obligation to complete the roll-up to January 2015 if the roll-up would result in over 25% of our common stock being owned by the Investors. The appraised fair value of the Investors’ interest in Nutra SA and the market price of our stock would be used to determine the amount of ownership interest the Investors would receive.
- **Drag Along Rights** – The Investors have the right to force the sale of all Nutra SA assets after the earlier of January 2014 or the date of an event of default or qualifying event. 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 6. INVENTORIES

Inventories are composed of the following (in thousands):

| | March 31, 2013 | December 31, 2012 |
|-----------------|-------------------|-------------------------|
| Finished goods | \$ 1,402 | \$ 1,146 |
| Work in process | 417 | 330 |
| Raw materials | 168 | 255 |

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| | | |
|--------------------|----------|----------|
| Packaging supplies | 250 | 263 |
| Total inventories | \$ 2,237 | \$ 1,994 |

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NOTE 7. PROPERTY

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

| | March 31, 2013 | December 31, 2012 |
|-------------------------------|-------------------|-------------------------|
| Land | \$ 406 | \$ 403 |
| Furniture and fixtures | 358 | 358 |
| Plant | 14,516 | 14,362 |
| Computer and software | 1,433 | 1,407 |
| Leasehold improvements | 195 | 189 |
| Machinery and equipment | 14,436 | 15,053 |
| Construction in progress | 10,090 | 9,118 |
| Property | 41,434 | 40,890 |
| Less accumulated depreciation | 13,244 | 12,433 |
| Property, net | \$ 28,190 | \$ 28,457 |

Included in accounts payable at March 31, 2013, is \$1.0 million related to amounts payable for capital expansion project additions.

In April 2013, we sold two proprietary rice bran stabilization extruders for use in China for \$0.5 million. We expect the related gain on sale to total approximately \$0.3 million.

NOTE 8. INTANGIBLE ASSETS

In 2011, we entered into an agreement with a partner with the goal of developing technology to extract and concentrate protein from rice bran. In March 2013, the agreement was mutually terminated under terms whereby we each received (i) the right to separately develop, modify and improve the jointly developed technology owned by the partner and (ii) we received a nonexclusive, royalty free, perpetual license to that technology (License). We paid the partner \$1.2 million as a lump sum in April 2013. Our obligation to pay the \$1.2 million is reflected as payable for technology license as of March 31, 2013. Our \$1.2 million investment in the license is reflected as intangible assets in the USA segment at March 31, 2013. As discussed in the following footnote, in April 2013 we sold a 50% interest in our subsidiary holding the License.

NOTE 9. EQUITY METHOD INVESTMENT

As of March 31, 2013, RBT PRO, LLC (RBT PRO) was a wholly owned subsidiary whose only asset was the License acquired in March 2013, discussed in the preceding footnote. In April 2013, we entered into a series of agreements with various affiliates of Wilmar International Limited (collectively Wilmar). In connection therewith, we sold a 50% membership interest in RBT PRO to Wilmar for \$1.2 million. RBT PRO granted an exclusive, royalty free, perpetual sublicenses of the License to Wilmar for use throughout China and to the Parent Company for use worldwide, excluding China.

We also entered into a cross license agreement with Wilmar. We agreed to license to Wilmar all of our intellectual property with respect to processing of rice bran and its derivatives for use in China. Wilmar agreed to license to us (i)

its intellectual property with respect to processing of rice bran, and its derivatives, based on the intellectual property licensed to Wilmar under the License for use worldwide, excluding China and (iii) its other intellectual property with respect to processing of rice bran, and its derivatives, for use worldwide, excluding certain countries in Asia.

Under the agreements, we obtained the right to purchase 45% of the capital stock of any entity Wilmar establishes to develop new products relating to rice bran or its derivative, as defined in the agreement, using the intellectual property licensed to Wilmar. If we decline the right to purchase 45% of the capital stock of any such new entity, we have the option to purchase 25% of the entity within two years of the entity's formation. The exercise price for the option will equal 25% of the capital investment made in the entity, plus interest, as defined in the agreement.

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NOTE 10. DEBT

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

| | March 31, 2013 | December 31, 2012 |
|--------------------------------------|-------------------|-------------------------|
| USA segment: | | |
| Subordinated convertible notes, net | \$ 5,297 | \$ 4,041 |
| Senior convertible debentures, net | 911 | 1,048 |
| Factoring agreement | 101 | 28 |
| | 6,309 | 5,117 |
| Brazil segment: | | |
| Capital expansion loans | 5,601 | 5,555 |
| Equipment financing | 227 | 201 |
| Working capital lines of credit | 3,912 | 2,227 |
| Advances on export letters of credit | 3,486 | 3,953 |
| Special tax programs | 2,441 | 2,531 |
| | 15,667 | 14,467 |
| Total debt | 21,976 | 19,584 |
| Current portion | 8,589 | 8,003 |
| Long-term portion | \$ 13,387 | \$ 11,581 |

USA Segment

As of March 31, 2013, our convertible debt consists of the following components (in thousands):

| | Subordinated Convertible Notes | | | |
|-----------------------------------|-------------------------------------|---------------------|--------------------|-------------|
| | Senior Convertible Debentures | Halpern Entities | Other Investors | Total |
| Principal outstanding | \$ (994) | \$ (2,600) | \$ (2,775) | \$ (6,369) |
| Discount | 313 | 548 | 2,775 | 3,636 |
| Derivative conversion liabilities | (230) | (1,570) | (1,675) | (3,475) |
| Debt | \$ (911) | \$ (3,622) | \$ (1,675) | (6,208) |
| Debt - current portion | \$ (808) | \$ - | \$ - | \$ (808) |
| Debt - long-term portion | (103) | (3,622) | (1,675) | (5,400) |

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 share 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).

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In April and May 2013, we issued subordinated convertible notes and related warrants, which are described in the chart below.

| Issuance | Date of Debt and/or Warrant | Principal Amount of Notes and Debenture (in thousands) | Creditor's Debt Conversion Right | Stated Annual Interest Rate on Debt | Maturity Date of Debt | Number of Shares Under Warrant | Exercise Price of Warrant | Expiration Date of Warrant |
|---|-----------------------------|--|---|-------------------------------------|-----------------------|--------------------------------|---|----------------------------|
| Subordinated Convertible Notes and Warrants | April and May 2013 | \$ 238 | Convertible immediately at \$0.07 per share | 10 % | July 2015 | 3,394,324 | Exercisable immediately at \$0.08 per share | July 2017 |

The convertible debt and warrants listed in the table above contain full ratchet antidilution provisions and require the holders to provide us with 61 day notice prior to conversion or exercise if the holder would have a beneficial ownership interest in excess of 4.99% immediately after conversion or exercise. The \$0.1 million of proceeds from issuance of the convertible notes and related warrants was used for general corporate purposes.

In April 2013, we also issued a promissory note in the principal amount of \$0.1 million to Mr. Halpern. The note bears interest at 10% and is due December 31, 2013, or earlier in the event we close a financing of \$2.5 million or more.

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.

In the first quarter of 2013, Irgovel received R\$2.0 million (\$1.0 million) under a working capital line of credit agreement. The lending bank is holding R\$1.0 million (\$0.5 million as of March 31, 2013) of the amount borrowed in a bank account, which is classified as restricted cash on our balance sheet, until such time as Irgovel has sufficient accounts receivable.

NOTE 11. PRE-PETITION LIABILITIES

On November 10, 2009, our parent company (formerly known as NutraCea) filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Arizona in the proceeding entitled In re: NutraCea, Case No. 2:09-bk-28817-CGC. None of our subsidiaries, including our Brazilian rice bran oil operation, were included in the bankruptcy filing. Creditors voted overwhelmingly in favor of an amended plan of reorganization which called for the payment in full of all allowed claims, and the plan became effective on November 30, 2010. In January 2012, we made our final \$1.6 million distribution to the general unsecured creditors.

NOTE 12. EMPLOYEE BONUS PLAN

In 2010, our board of directors approved a cash incentive bonus plan. As of May 14, 2013, the plan provides for payment of \$0.5 million to employees, employed at the time of payment, if all of the following conditions are met: (i) court approval of our plan of reorganization and successfully exiting the Chapter 11 bankruptcy process, (ii) being cash flow positive, defined by our board as earnings before interest, taxes, depreciation, amortization and certain non-cash charges, and (iii) cash availability as determined by our board at its sole discretion. Because the consolidated operating cash flow condition and cash availability condition were not met as of March 31, 2013, and December 31, 2012, our board of directors has not approved payments and no accruals have been recorded.

NOTE 13. 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.

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Litigation

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.

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. The Parent Company has not been served with any formal notices in regard to this matter so far. 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, 2013 and December 31, 2012, 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 as of March 31, 2013 and December 31, 2012, totaling \$1.3 million and \$1.4 million. 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, 2013, \$0.7 million of pre-acquisition contingencies have either been paid or specifically identified and accrued, leaving a balance of \$1.4 million to settle any remaining 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.

NOTE 14. EQUITY, SHARE-BASED COMPENSATION AND LIABILITY WARRANTS

A summary of equity activity for the three months ended March 31, 2013 (in thousands, except share data) follows.

| | Common Stock | | Accumulated | Accumulated | Total |
|---|--------------|-----------|---------------|--------------------------|---------|
| | Shares | Amount | Deficit | Other Comprehensive Loss | Equity |
| Balance, December 31, 2012 | 207,616,097 | \$210,396 | \$ (204,420) | \$ (1,540) | \$4,436 |
| Share-based compensation, options | - | 76 | - | - | 76 |
| Conversion of senior subordinated debenture | 1,400,000 | 140 | - | - | 140 |

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| | | | | | |
|----------------------------------|-------------|-----------|---------------|-------------|------------|
| Common stock issued for services | 418,750 | 41 | - | - | 41 |
| Foreign currency translation | - | - | - | 76 | 76 |
| Net loss | - | - | (5,813) | - | (5,813) |
| Balance, March 31, 2013 | 209,434,847 | \$210,653 | \$ (210,233) | \$ (1,464) | \$(1,044) |

A summary of stock option and warrant activity for the three months ended March 31, 2013, follows.

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| | Options | | | Equity and Liability Warrants | | |
|---------------------------------|----------------------|---------------------------------|---|-------------------------------|---------------------------------|---|
| | Shares Under Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Shares Under Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
| Outstanding, December 31, 2012 | 33,850,895 | \$0.16 | 6.3 | 161,353,777 | \$0.12 | 3.5 |
| Granted | 1,250,000 | 0.08 | - | - | - | - |
| Impact of anti-dilution clauses | - | - | - | - | - | - |
| Exercised | - | - | - | - | - | - |
| Forfeited, expired or cancelled | (1,369,206) | 0.18 | - | - | - | - |
| Outstanding, March 31, 2013 | 33,731,689 | \$0.15 | 6.1 | 161,353,777 | \$0.12 | 3.3 |
| Exercisable, March 31, 2013 | 28,210,407 | \$0.16 | 5.7 | 161,353,777 | \$0.12 | 3.3 |

Options

In April 2013, our board increased the number of shares of common stock that each non-employee director automatically receives annually each January 1 under our 2010 Equity Incentive Plan from 250,000 to 1,000,000 shares. In connection with the increase in the automatic director grant, in April 2013, our board granted each of our five non-employee directors a stock option to purchase up to 750,000 shares of common stock. Each option has an exercise price of \$0.08 per share, vests in nine equal monthly installments ending December 31, 2013, and expires on April 18, 2023. In January 2013, we had issued each of those five non-employee directors an option for the purchase of up to 250,000 shares of common stock, under the non-employee director automatic grant provision. Each option has an exercise price of \$0.08 per share, vests in twelve equal monthly installments ending December 31, 2013, and expires on January 2, 2023.

In April 2013, the Board granted each of the directors serving on the Strategic Committee (Messrs. Goldman, Koppes and Schweitzer) a stock option to purchase up to 250,000 shares of common stock. Each option has an exercise price of \$0.08 per share, vests in twelve equal monthly installments ending March 31, 2014 and expires on April 18, 2018.

Warrants

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.

The April 2013 issuances of the convertible debt and related warrants triggered the antidilution clauses in certain warrants and, as a result, we lowered the exercise price and increased the number of underlying shares on those liability warrants in April 2013. The affected warrants subsequently expired in April 2013. Included in the table above are the 28,804,693 shares underlying these expired warrants as of March 31, 2013.

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NOTE 15. SEGMENT INFORMATION

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

| Three Months Ended March 31, 2013 | 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 |
| Three Months Ended March 31, 2012 | Corporate | USA | Brazil | Consolidated |
| Revenues | \$- | \$3,411 | \$6,335 | \$ 9,746 |
| Cost of goods sold | - | 2,399 | 5,606 | 8,005 |
| Gross profit | - | 1,012 | 729 | 1,741 |
| Depreciation and amortization (in selling, general and administrative) | (28) | (331) | (425) | (784) |
| Intersegment fees | 56 | - | (56) | - |
| Other operating expense | (1,276) | (669) | (1,387) | (3,332) |
| Loss from operations | \$(1,248) | \$12 | \$(1,139) | \$ (2,375) |
| Net loss attributable to RiceBran Technologies | \$(8,268) | \$4 | \$(565) | \$ (8,829) |
| Interest expense | 155 | 8 | 255 | 418 |
| Depreciation (in cost of goods sold) | - | 257 | 398 | 655 |
| Purchases of property | - | 2 | 1,541 | 1,543 |

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

| | Corporate | USA | Brazil | Consolidated |
|------------------------|-----------|--------|----------|--------------|
| As of March 31, 2013 | | | | |
| Inventories | \$ - | \$ 968 | \$ 1,269 | \$ 2,237 |
| Property, net | 61 | 7,716 | 20,413 | 28,190 |
| Goodwill | - | - | 4,830 | 4,830 |
| Intangible assets, net | - | 2,234 | 1,290 | 3,524 |
| Total assets | 2,763 | 12,291 | 33,090 | 48,144 |

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| As of December 31, 2012 | | | | |
|-------------------------|-------|--------|--------|--------|
| Inventories | - | 764 | 1,230 | 1,994 |
| Property, net | 36 | 8,731 | 19,690 | 28,457 |
| Goodwill | - | - | 4,773 | 4,773 |
| Intangible assets, net | - | 1,133 | 1,442 | 2,575 |
| Total assets | 3,201 | 11,609 | 32,196 | 47,006 |

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All changes in goodwill between December 31, 2012 and March 31, 2013, relate to foreign currency translation. 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, 2013 and 2012 (in thousands).

| | 2013 | 2012 |
|---------------------|----------|----------|
| United States | \$ 3,595 | \$ 3,029 |
| Brazil | 4,271 | 4,941 |
| Other international | 843 | 1,776 |
| Total revenues | \$ 8,709 | \$ 9,746 |

NOTE 16. 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, 2013, the fair value of our USA segment debt is approximately \$2.6 million higher than the carrying value of that debt, based on current market rates for similar debt with similar maturities. The fair value of our Brazil segment debt 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 |
|-----------------------------------|----------|---------|--------------|--------------|
| March 31, 2013 | | | | |
| Derivative warrant liabilities | (1) \$ - | \$ - | \$ (6,758) | \$ (6,758) |
| Derivative conversion liabilities | (2) - | - | (3,475) | (3,475) |
| Total liabilities at fair value | \$ - | \$ - | \$ (10,233) | \$ (10,233) |

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| December 31, 2012 | | | | | |
|-----------------------------------|-----|------|------|-------------|-------------|
| Derivative warrant liabilities | (1) | \$ - | \$ - | \$ (4,520) | \$ (4,520) |
| Derivative conversion liabilities | (2) | - | - | (2,199) | (2,199) |
| Total liabilities at fair value | | \$ - | \$ - | \$ (6,719) | \$ (6,719) |

(1) 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 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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| | March 31, 2013 | December 31, 2012 |
|-------------------------|---|---|
| Risk-free interest rate | 0.0% - .07% (0.6% weighted average) | 0.1% - 0.7% (0.6% weighted average) |
| Expected volatility | 91% | 93% |

(2) These conversion liabilities are 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 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, 2013 | December 31, 2012 |
|-------------------------|---|---|
| Risk-free interest rate | 0.1-0.3% (0.3% weighted average) | 0.2-0.3% (0.3% weighted average) |
| Expected volatility | 91% | 93% |

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) (1) | Issuance of New Instruments | Net Transfers (Into) Out of Level 3 (2) | Fair Value, at End of Period | Change in Unrealized Gains (Losses) on Instruments Still Held |
|--------------------------------------|--|--|-----------------------------------|--|------------------------------------|--|
| Three Months Ended March 31, 2013 | | | | | | |
| 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) |
| Three Months Ended March 31, 2012 | | | | | | |
| Derivative warrant liability | \$(1,296) | \$(1,962) | \$(4,929) | \$711 | \$(7,476) | \$(1,567) |
| Derivative conversion liability | - | (400) | (3,655) | - | (4,055) | (400) |
| Total Level 3 fair value | \$(1,296) | \$(2,362) | \$(8,584) | \$711 | \$(11,531) | \$(1,967) |

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- (1) Included in change in fair value of derivative warrant and conversion liabilities in our consolidated statements of operations.
- (2) Represents transfers to equity as a result of the exercise of a warrant in 2012 and conversion of debt in 2013.

As of December 31, 2012, there were no items measured at fair value in our consolidated balance sheets on a non-recurring basis. 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, 2013:

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

- (1) During the first quarter of 2012, machinery and equipment not currently in use was evaluated for impairment and as a result was written down to estimated fair value. 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 17. RELATED PARTY TRANSACTIONS

Transactions with Director Baruch Halpern

In January 2012, Baruch Halpern became a member of our board of directors. Mr. Halpern is the principal in Halpern Capital, Inc. (HC). Under a February 2011 financial advisor agreement we were obligated to pay HC success fees ranging from 2.5% to 5.0% of the consideration received from certain equity, convertible securities or debt transactions. We were also required to issue warrants to purchase shares of common stock that equaled from 2.5% to 5.0% of the consideration received in those transactions, divided by either the market price of the common stock or the conversion price of the securities issued in the transaction. This agreement terminated April 1, 2012, however we remained obligated to pay HC success fees and issue HC warrants on any transaction with an investor introduced by HC through March 31, 2013.

During the three months ended March 31, 2012, in connection with the January 2012 issuances of the subordinated convertible notes and senior convertible note, and related warrants, HC received \$0.1 million in cash fees under the financial advisor agreement. Mr. Halpern also received warrants exercisable for 712,500 shares of our common stock at \$0.10 per share and warrants exercisable for 150,000 shares of our common stock at \$0.15 per share, which were owed to HC under the financial advisor agreement. During the three months ended March 31, 2013, HC received no success fees or transaction warrants.

In January 2012, we agreed to extend the expiration dates on certain liability warrants, held by Mr. Halpern and his family, for the purchase of 5,166,520 shares of common stock at an exercise price of \$0.10 per share from July 2014 to January 2017. The resulting \$0.1 million change in the fair value of the warrants increased other income (expense).

Mr. Halpern held as of March 31, 2013 and December 31, 2012, \$2.6 million of subordinated convertible notes. During the three months ended March 31, 2013, we accrued \$0.1 million of interest on the convertible notes beneficially owned by Mr. Halpern and made no principal payments. During the three months ended March 31, 2012, we received \$0.1 million of cash in connection with issuances of convertible debt and related warrants to entities beneficially owned by Mr. Halpern.

In April 2013, we issued a promissory note in the principal amount of \$0.1 million to Mr. Halpern. The note bears interest at 10% and is due December 31, 2013, or earlier in the event we close a transaction of \$2.5 million or more.

During the three months ended March 31, 2012, we paid HC \$0.4 million relevant to HC's class 6 general unsecured creditor claim as part of our payment obligations under the Amended Plan of Reorganization. The claim represented payment for services rendered prior to the November 2009 bankruptcy petition filing.

Other Transactions with Directors and Officer

In April 2012, Henk Hoogenkamp became a member of our board of directors. In 2011, Mr. Hoogenkamp performed consulting services for us under an independent contractor agreement which terminated in April 2012. During the three months ended March 31, 2012, we paid and expensed less than \$0.1 million for fees owed under the independent contractor agreements.

W. John Short (CEO and director), Zanesville Partners Fund, LLC, which is beneficially owned by James C. Lintzenich (former director), and the Edward L. McMillan Revocable Trust, which is beneficially owned by Edward

L. McMillan (former director), collectively invested \$0.1 million in the January 2012 subordinated convertible notes and related warrants. Mr. Short also invested \$25 thousand in the April 2013 subordinated convertible notes and related warrants. During the three months ended March 31, 2013 and 2012, we paid less than \$0.1 million of interest on the convertible notes beneficially owned by these current and former directors and made no principal payments.

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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, 2012.

We continue to experience 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 currently have insufficient funds to support our operations and service our debt in the near term and have inadequate financing arrangements in place at this time. Although we believe that we will be able to obtain the funds necessary to continue as a going concern 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 are a human food ingredient and animal nutrition company focused on the procurement, bio-refining and marketing of numerous products derived from rice bran. We have proprietary and patented intellectual property that allows us to convert rice bran, one of the world's most underutilized food sources, into a number of highly nutritious human food and animal nutrition products. Our target markets are human food and animal nutrition manufacturers and retailers, as well as natural food, functional food and nutraceutical supplement manufacturers and retailers, both domestically and internationally. We have developed a bio-refining approach to processing raw rice bran into various value added constituents such as stabilized rice bran (SRB), rice bran oil (RBO), defatted rice bran (DRB) and a variety of other valuable derivative products from each of these core products.

We have three reportable business segments: (i) Corporate; (ii) USA, which manufactures and distributes SRB in various granulations along with other products derived from rice bran via proprietary and patented enzyme treatment processes; and (iii) Brazil, which extracts crude RBO and DRB from rice bran, which are then further processed into a number of valuable human food and animal nutrition products. The Corporate segment includes selling, general and administrative expenses including public company expenses, litigation, and other expenses not directly attributable to other segments. No Corporate allocations are made to the other segments. General corporate interest is not allocated. For further information on segment results see the Segment Information note to the consolidated financial statements included herein.

The USA segment consists of two locations in California and two locations in Louisiana all of which can produce SRB. One of the two Louisiana SRB facilities, located in Lake Charles, has been idle since May 2009. The USA segment also includes our Dillon, Montana Stage II facility which produces RiSolubles (a highly nutritious, carbohydrate and lipid rich fraction of SRB), RiFiber (a fiber rich derivative of SRB) and RiBalance (a complete rice bran nutritional package derived from further processing SRB). The manufacturing facilities included in our USA segment have proprietary and patented processing equipment and technology for the stabilization and further processing of rice bran into finished products. Approximately 50% of USA segment revenue is from sales of human food products and 50% is from sales of animal nutrition products.

The Brazil segment consists of the operation of our subsidiary Industria Riograndens De Oleos Vegetais Ltda. (Irgovel), located in Pelotas, Brazil. Irgovel manufactures RBO and DRB products for both the human and animal food 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. DRB is sold in bulk as animal feed and 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. Approximately 46% of Brazil segment product revenue was from sales of RBO products and 54% was from sales of DRB products.

Results of Operations

THREE MONTHS ENDED MARCH 31, 2013 AND 2012

Consolidated net loss attributable to RiceBran Technologies shareholders for the three months ended March 31, 2013, was \$5.8 million, or \$0.03 per share, compared to \$8.8 million, or \$0.04 per share, for the three months ended March 31, 2012. A \$0.4 million deterioration between periods in loss from operations was more than offset by a \$3.5 million improvement in other income (expense). The improvement between periods in other income (expense) was primarily the result of the \$1.2 million increase in expense from the change in the fair value of derivative warrant and conversion liabilities offset by (i) a \$0.5 million improvement in foreign currency exchange and (ii) the impact of the \$4.5 million financing expense and loss on extinguishment recognized in 2012 in connection with the January 2012 issuance of the subordinated convertible notes, senior convertible debenture and related warrants.

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Revenue and Gross Profit

Revenues (in thousands):

| | Three Months Ended March 31, | | | | | |
|-------------------|------------------------------|---------------------------|----------|---------------------------|-------------|----------|
| | 2013 | % of Total Revenues | 2012 | % of Total Revenues | Change | % Change |
| USA segment | \$ 2,909 | 33.4 | \$ 3,411 | 35.0 | \$ (502) | (14.7) |
| Brazil segment | 5,800 | 66.6 | 6,335 | 65.0 | (535) | (8.4) |
| Total revenues | \$ 8,709 | 100.0 | \$ 9,746 | 100.0 | \$ (1,037) | (10.6) |

Consolidated revenues for the three months ended March 31, 2013, were \$8.7 million compared to \$9.7 million in the prior year period, a decrease of \$1.0 million, or 10.6%.

USA segment revenues decreased \$0.5 million, or 14.7%, in the first quarter of 2013 compared to the first quarter of 2012. Animal feed product revenues decreased \$0.7 million on lower volume and human nutrition product revenues increased \$0.2 million on higher volume. The decline in animal feed revenue was attributable to the loss of one customer and the impact of another customer accelerating orders into the first quarter of 2012 prior to a price increase.

Brazil segment revenues decreased \$0.5 million, or 8.4%, in the first quarter of 2013 over the first quarter of 2012. Revenues decreased \$0.8 million as a result of the 11.5% decline in the average exchange rate between these periods. Offsetting this \$0.8 million decline was a \$0.2 million net increase in animal feed revenue. As part of a capital expansion project, we improved our animal feed production capabilities and launched new products which were unavailable for sale in 2012.

Gross profit (in thousands):

| | Three Months Ended March 31, | | | | | |
|-----------------------|------------------------------|-------------------|----------|-------------------|-----------|--------------------------------|
| | 2013 | Gross Profit % | 2012 | Gross Profit % | Change | Change in Gross Profit % |
| USA segment | \$ 704 | 24.2 | \$ 1,012 | 29.7 | \$ (308) | (5.5) |
| Brazil segment | 262 | 4.5 | 729 | 11.5 | (467) | (7.0) |
| Total gross profit | \$ 966 | 11.1 | \$ 1,741 | 17.9 | \$ (775) | (6.8) |

Consolidated gross profit in 2013 decreased \$0.8 million, or 6.8 percentage points, to \$1.0 million for the three months ended March 31, 2013, compared to \$1.7 million in the prior year period.

The USA segment gross profit declined \$0.3 million, to \$0.7 million in the first quarter of 2013, from \$1.0 million in the first quarter of 2012. The USA segment gross profit was negatively impacted \$0.3 million by higher raw bran prices in 2013 compared to 2012, resulting in a 5.5 percentage point decline in gross profit.

The Brazil segment gross profit declined \$0.5 million, or 5.5 percentage points, from 11.5% to 4.5%. Raw bran costs were approximately 29% higher as of March 31, 2013, compared to March 31, 2012. Only a portion of these higher costs could be offset with higher selling prices. The plant inefficiencies associated with the on-going capital

expansion project also resulted in higher production costs in the 2013 period. There were not similar disruptions in the 2012 period.

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Operating Expenses (in thousands):

| | Three Months Ended March 31, 2013 | | | |
|-------------------------------------|-----------------------------------|--------|----------|--------------|
| | Corporate | USA | Brazil | Consolidated |
| Selling, general and administrative | \$ 1,173 | \$ 498 | \$ 1,235 | \$ 2,906 |
| Professional fees | 249 | - | 258 | 507 |
| Intersegment fees | (56) | - | 56 | - |
| Impairment of property | - | 300 | - | 300 |
| Total operating expenses | \$ 1,366 | \$ 798 | \$ 1,549 | \$ 3,713 |

| | Three Months Ended March 31, 2012 | | | |
|-------------------------------------|-----------------------------------|----------|----------|--------------|
| | Corporate | USA | Brazil | Consolidated |
| Selling, general and administrative | \$ 1,133 | \$ 1,000 | \$ 1,512 | \$ 3,645 |
| Professional fees | 171 | - | 300 | 471 |
| Intersegment fees | (56) | - | 56 | - |
| Total operating expenses | \$ 1,248 | \$ 1,000 | \$ 1,868 | \$ 4,116 |

| | Favorable (Unfavorable) Change | | | |
|-------------------------------------|--------------------------------|--------|--------|--------------|
| | Corporate | USA | Brazil | Consolidated |
| Selling, general and administrative | \$ (40) | \$ 502 | \$ 277 | \$ 739 |
| Professional fees | (78) | - | 42 | (36) |
| Intersegment fees | - | - | - | - |
| Impairment of property | - | (300) | - | (300) |
| Total operating expenses | \$ (118) | \$ 202 | \$ 319 | \$ 403 |

Consolidated operating expenses were \$3.7 million for the first quarter of 2013, compared to \$4.1 million for the first quarter of 2012, an improvement of \$0.4 million.

Corporate segment selling, general and administrative expenses (SG&A) were relatively unchanged from the prior year.

USA segment SG&A expenses decreased \$0.5 million due to \$0.1 million lower payroll and related costs and \$0.2 million lower depreciation expense. Payroll and related costs declined as a result of reductions in workforce. Depreciation expense was lower as a result of impairment charges taken in 2012 after the first quarter of 2012 ended.

Brazil segment SG&A decreased \$0.3 million. Brazil segment SG&A improved \$0.2 million due to the decline in the average foreign exchange rate between periods, \$0.3 million due to a reduction in provision for doubtful accounts between periods and \$0.2 million as a result a reduction in depreciation expense. Offsetting these improvements was an increase of \$0.4 million in payroll and related expenses as a result of government mandated annual cost of living adjustments that were effective beginning June 2012, and severance costs incurred in the 2013 period.

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Other Income (Expense) (in thousands):

| | 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) |
| Financing expense | - | - | - | - |
| Other | - | - | (122) | (122) |
| Other income (expense) | \$(3,846) | \$- | \$(215) | \$(4,061) |

| | Three Months Ended March 31, 2012 | | | |
|---|-----------------------------------|--------|----------|--------------|
| | Corporate | USA | Brazil | Consolidated |
| Interest income | \$6 | \$- | \$41 | \$ 47 |
| Interest expense | (155) | (8) | (255) | (418) |
| Foreign currency exchange, net | - | - | (206) | (206) |
| Change in fair value of derivative warrant and conversion liabilities | (2,362) | - | - | (2,362) |
| Loss on extinguishment | (2,986) | - | - | (2,986) |
| Financing expense | (1,524) | - | - | (1,524) |
| Other | - | - | (90) | (90) |
| Other income (expense) | \$(7,021) | \$(8) | \$(510) | \$(7,539) |

| | Favorable (Unfavorable) Change | | | |
|---|--------------------------------|-----|---------|--------------|
| | Corporate | USA | Brazil | Consolidated |
| Interest income | \$(6) | \$- | \$(31) | \$(37) |
| Interest expense | (121) | 8 | (98) | (211) |
| Foreign currency exchange, net | - | - | 456 | 456 |
| Change in fair value of derivative warrant and conversion liabilities | (1,176) | - | - | (1,176) |
| Loss on extinguishment | 2,954 | - | - | 2,954 |
| Financing expense | 1,524 | - | - | 1,524 |
| Other | - | - | (32) | (32) |
| Other income (expense) | \$3,175 | \$8 | \$295 | \$ 3,478 |

Consolidated other expense was \$4.1 million for the first quarter of 2013, compared to other expense of \$7.5 million for the first quarter of 2012. The decrease in other expense of \$3.5 million was primarily the result of the \$1.2 million increase in expense from the change in the fair value of derivative warrant and conversion liabilities offset by (i) a \$0.5 million improvement in foreign currency exchange and (ii) the impact of the \$4.5 million financing expense and loss on extinguishment recognized in 2012 in connection with the January 2012 issuance of the subordinated convertible notes, senior convertible debenture and related warrants.

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 increase in the price of our common stock from December 31, 2012 to March

31, 2013, was the primary reason the derivative warrant and conversion liabilities fair value increased the first quarter of 2013, resulting in the recognition of other expense. Additionally, we have more liability warrants and conversion liabilities which are being recorded at fair value as of March 31, 2013, because additional subordinated convertibles notes and related warrants were issued subsequent to March 31, 2012.

Liquidity and Capital Resources

We continue to experience 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 currently have insufficient funds to support our operations and service our debt in the near term and have inadequate financing arrangements in place at this time. Although we believe that we will be able to obtain the funds necessary to continue as a going concern 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.

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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, LLC. Cash used in operating activities for the three months ended March 31, 2013 and 2012, is presented below by segment (in thousands).

| | 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) |

| | Three Months Ended March 31, 2012 | | |
|---|-----------------------------------|------------|--------------|
| | Corporate and USA | Brazil | Consolidated |
| Net loss | \$(8,264) | \$(1,108) | \$(9,372) |
| Adjustments to reconcile net loss to net cash used in operations: | | | |
| Depreciation and amortization | 616 | 823 | 1,439 |
| Change in fair value of derivative warrant and conversion liabilities | 2,362 | - | 2,362 |
| Financing expense | 1,524 | - | 1,524 |
| Loss on extinguishment | 2,986 | - | 2,986 |
| Other adjustments, net | 384 | (236) | 148 |
| Changes in operating asset and liabilities: | | | |
| Pre-petition liabilities | (1,615) | - | (1,615) |
| Other changes, net | (437) | 20 | (417) |
| Net cash used in operating activities | \$(2,444) | \$(501) | \$(2,945) |

Corporate and USA

On a combined basis, the Corporate and USA segments used \$0.8 million of cash in operating activities in the first three months of 2013 compared to \$2.4 million in the first three months of 2012.

In the ongoing effort to improve profitability, significant emphasis will be placed on growing revenues. The growth of revenues is expected to include the following:

- growth in existing markets for stabilized rice bran (SRB), rice bran oil (RBO) and defatted rice bran (DRB);
- expanding our product offerings and improving existing products;
- aligning with strategic partners who can provide channels for additional sales of our products; and
- implementing price increases.

We may also monetize certain assets which could result in additional impairment of asset values. Asset monetization may include some or all of the following:

- sale of certain facilities;
- sale of a noncontrolling interest in one or more subsidiaries; or
- sale of surplus equipment.

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Corporate and SRB segment cash flows from operations continue to improve. We made final distributions to unsecured creditors which reduced pre-petition liabilities by \$1.6 million in the first three months of 2012. Payments of pre-petition liabilities reduced cash flows from operations in the periods paid, but were in payment of obligations incurred prior to our November 2009 filing of the voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The funds for the 2012 distributions, included in cash used in operations, were derived from receipts on notes receivable, and proceeds from issuances of the subordinated convertible notes, senior convertible debentures and related warrants in January 2012.

Cash used in investing activities in the first three months of 2013 and 2012 included \$0.3 and \$0.2 million of proceeds from the sale of USA segment equipment. The first quarter of 2012, also included \$0.3 million from collections of USA segment notes receivable and \$0.2 million of restricted cash released for the payment of pre-petition liabilities. In April 2013, we sold two proprietary rice bran stabilization extruders for use in China for \$0.5 million. These funds are being used for general corporate purposes.

In 2011, we entered into a joint research and development agreement with a partner with the goal of developing technology to extract and concentrate protein from rice bran. In March 2013, the agreement was mutually terminated under terms whereby we each received (i) the right to separately develop, modify and improve the jointly developed technology owned by the partner and (ii) we received a nonexclusive, royalty free, perpetual license to that technology (License). We paid the partner \$1.2 million as a lump sum in April 2013. Our obligation to pay the \$1.2 million is reflected as payable for technology license as of March 31, 2013. In April 2013 we sold a 50% interest in our subsidiary holding the License and paid this \$1.2 million obligation with the proceeds of the sale.

Cash provided by financing activities in the first three months of 2012 included \$2.4 million of proceeds, net of costs, which we received from the January 2012 issuance of subordinated convertible notes, the senior convertible debenture and related warrants (see the Debt note to the consolidated financial statements). The net proceeds of \$2.4 million have been used to fund the working capital needs of the Corporate and USA segments, including distributions to the unsecured creditors.

Brazil

The Brazil segment used \$0.1 million in operating cash in the first three months of 2013, compared to \$0.5 million of operating cash in the first three months of 2011. The reduction in use of cash was primarily the result of increased payable.

Cash used in investing activities in the first three months of 2013 includes \$0.5 million of restricted cash receipts in the Brazil segment. In the first quarter of 2013, Irgovel received R\$2.0 million (\$1.0 million) under a working capital line of credit agreement. The lending bank is holding R\$1.0 million (\$0.5 million as of March 31, 2013) of the amount borrowed in a bank account, which is classified as restricted cash on our balance sheet, until such time as Irgovel has sufficient accounts receivable.

Irgovel is currently undergoing a capital expansion project involving installation of new equipment and improvements to existing infrastructure. Financing for significant equipment purchases was secured in the fourth quarter of 2011. Additional financing and/or capital will be required to complete the project. As a result of the project, we also expect production at the Irgovel facility to shut down near the end of December 2013 for approximately 4-6 weeks while certain new equipment is brought on line. The timing of this shut down is subject to change based on availability of funds, the timing of the delivery of equipment from suppliers, the availability of installers and other factors. Where possible, we intend to stockpile certain inventory for sale during the period the plant is shutdown.

The investors who hold a 49% interest in Nutra SA, LLC, which owns Irgovel, have the right to purchase from Nutra SA up to an additional 750,000 units for another \$1.5 million. If immediately prior to such purchase Nutra SA and Irgovel have sufficient cash to complete certain projects, then the units will have no voting rights. In April 2013, we invested \$0.1 million in Nutra SA. We are currently attempting to raise funds such that we can make an additional capital investment in Nutra SA, sufficient to (i) complete the projects (ii) provide the working capital Irgovel requires and (iii) maintain our 51% ownership interest in Nutra SA, LLC.

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.

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Critical Accounting Policies

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

For further information about other critical accounting policies, see the discussion of critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

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

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.

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, 2012, which could materially affect our business, financial condition, liquidity or future results. The risks described in our

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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

During the quarter ended March 31, 2013, we issued the securities described below without registration under the Securities Act.

On January 2, 2013, we issued options to nonemployee directors for the purchase of up to 1,250,000 shares of common stock at exercise prices of \$0.08 per share. The options vest in twelve equal installments through December 31, 2013.

On January 31, 2013, we issued 250,000 shares of our common stock pursuant to an investor relations advisor agreement

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On March 31, 2013, we issued 168,750 shares of our common stock pursuant to a consulting agreement.

Unless otherwise indicated above, the securities were issued pursuant to the private placement exemption provided by Section 4(2) of the Securities Act of 1933. All issuances above were made without any public solicitation, to a limited number of persons and were acquired for investment purposes only.

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, LLC. Pursuant to the terms of our senior convertible debentures, we may not pay any dividends while the debentures are outstanding.

Item 3.Defaults upon Senior Securities

None

Item 4.Mine Safety Disclosures

None.

Item 5.Other Information

None

Item 6.Exhibits

The following exhibits are attached hereto and filed herewith:

| Exhibit Number | Description of Exhibit |
|----------------|--|
| 10.58 | License Agreement dated March 14, 2013 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on March 20, 2013) |
| 10.59 | Membership Interest Purchase Agreement dated April 2, 2013 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on April 5, 2013) |
| 10.60 | Sublicense Agreement with RBT PRO LLC and Wilmar (Shanghai) Biotechnology Research Development Center Co., Ltd. dated April 2, 2013 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on April 5, 2013) |
| 10.61 | Sublicense Agreement with RBT PRO LLC dated April 2, 2013 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on April 5, 2013) |
| 10.62 | Cross License Agreement with Wilmar (Shanghai) Biotechnology Research Development Center Co., Ltd. dated April 2, 2013 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on April 5, 2013) |
| 10.63 | Amended and Restated Limited Liability Company Agreement dated April 2, 2013 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on April 5, 2013) |
| <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 | XBRL Instance Document |
| (1) | |

101.SCH XBRL Taxonomy Extension Schema Document

(1)

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

(1)

101.DEF XBRL Taxonomy Extension Calculation Definition Document

(1)

101.LAB XBRL Taxonomy Extension Calculation Label Document

(1)

101.PRE XBRL Taxonomy Extension Calculation Presentation Document

(1)

(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 14, 2013

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

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