

RiceBran Technologies
Notes to Consolidated Financial Statements

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards. A valuation allowance is established, when necessary, to reduce that deferred tax asset if it is more likely than not that the related tax benefits will not be realized. The realization of deferred tax assets can be affected by, among other things, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the length of statutory carryforward periods, our experience with utilizing operating losses and tax credit carryforwards by jurisdiction, and tax planning alternatives that may be available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that may be different from current estimates of the tax liabilities. If our estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities may result in income tax benefits being recognized in the period when it is determined that the liabilities are no longer necessary.

We recognize interest and penalties related to uncertain tax positions, if any, in selling, general and administrative expenses.

Fair Value – 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 may be presented in the financial statements at fair value. Assets and liabilities measured at fair value on a non-recurring basis may include property and equipment.

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.

NOTE 3. ACQUISITIONS

MGI

On April 4, 2019, we acquired substantially all of the assets comprising the business of MGI Grain Processing, LLC, a Minnesota limited liability company, now conducting business as MGI Grain Incorporated (MGI) for an aggregate purchase price of \$3.8 million. The purchase price included \$0.3 million deposited in an escrow account at closing which was subsequently released to the sellers in June 2019. MGI owns and operates a grain mill and processing facility in East Grand Forks, Minnesota. We acquired MGI as part of our strategy to expand our product portfolio. The acquisition has been accounted for as a business combination. The results of MGI’s operations are included in our consolidated financial statements beginning April 4, 2019. In 2019, we incurred \$0.1 million of MGI acquisition-related costs which are included in selling, general and administrative expenses.

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The purchase price for MGI was subject to adjustment if the estimated closing working capital with respect to the assets purchased and the liabilities assumed was different than the actual closing working capital, as defined in the purchase agreement. The seller of MGI paid a working capital adjustment of \$18 thousand in 2019. The following table summarizes the purchase price allocation, the consideration transferred to acquire MGI and the amounts of identified assets acquired and liabilities assumed (in thousands).

	Estimated at June 30, 2019	Adjustments	Final as of December 31, 2019
Cash	\$ 3,795	\$ -	\$ 3,795
Working capital adjustment to purchase price	(38)	20	(18)
Total fair value of consideration transferred	3,757	20	3,777
Accounts receivable	591	-	591
Inventories	149	-	149
Deposits and other current assets	4	8	12
Property and equipment	1,560	-	1,560
Customer relationship	930	-	930
Other finite-lived intangible assets	35	-	35
Accounts payable	(219)	-	(219)
Finance lease liabilities	(18)	-	(18)
Net recognized amounts of identifiable assets acquired and liabilities assumed	3,032	8	3,040
Goodwill	\$ 725	\$ 12	\$ 737

In the fourth quarter of 2019, our appraiser finalized certain fair value calculations and we completed our review of the calculations. The fair value of MGI's trade receivables at acquisition, equaled the gross amount of trade receivables. The fair value of the customer relationship intangible at acquisition was estimated using an income approach based on expected future cash flows. As discussed in Note 9, we are amortizing the customer relationship intangible to expense over the 15-year period of expected future economic benefit, in proportion to the discounted expected future cash flows used to estimate the value of the intangible at acquisition. Goodwill primarily was attributed to intangible assets that do not qualify for separate recognition and synergies generated by MGI when combined with our existing operations. The \$0.7 million allocated to goodwill is deductible for tax purposes over the next fifteen years.

Our revenues for 2019 include \$1.9 million related to the acquired MGI business. Our net loss for 2019 includes \$0.3 million of net loss from the acquired MGI business. The following table provides unaudited pro forma information for the periods presented as if the MGI acquisition had occurred January 1, 2018.

	Year Ended December 31	
	2019	2018
Revenues (in thousands)	\$ 224,913	\$ 17,542
Loss from continuing operations (in thousands)	\$ (13,432)	\$ (7,792)
Loss per share - continuing operations	\$ (0.42)	\$ (0.35)
Weighted average number of common shares outstanding - basic and diluted	32,359,316	22,099,149

No adjustments have been made in the pro forma information for synergies that are resulting or planned from the MGI acquisition. The unaudited proforma information is not indicative of the results that may have been achieved had the companies been combined as of January 1, 2018, or of our future operating results.

Golden Ridge

In November 2018, we acquired substantially all of the assets comprising the business of Golden Ridge Rice Mills, LLC, now conducting business as Golden Ridge Rice Mills, Inc. (Golden Ridge). The primary activity of the business is the operation of a rice mill in Wynne, Arkansas. We acquired the business as part of our strategy to vertically integrate in order to leverage our proprietary technologies for producing SRB and derivative products. The acquisition has been accounted for as a business combination. The results of Golden Ridge's operations are included in our consolidated financial statements beginning November 28, 2018. In 2018, we incurred \$0.1 million of Golden Ridge acquisition-related costs which are included in selling, general and administrative expenses.