

NUTRACEA
Form 10KSB/A
February 03, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
AMENDMENT NO. 2**

For the Fiscal Year Ended
December 31, 2004

Commission File Number
0-32565

NUTRACEA

(Name of Small Business Issuer in It Charter)

California
(State of Incorporation)

87-0673375
(I.R.S. Employer Identification)

Principal Executive Offices:
1261 Hawk's Flight Court
El Dorado Hills, CA 95762
Telephone: (916) 933-7000

Securities registered pursuant to Section 12(b) of the Exchange Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---------------------|--|
| None | None |

Securities registered pursuant to Section 12(g) of the Exchange Act:

| Title of Class |
|----------------------------|
| Common Stock, no par value |

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB/A or any amendment to this Form 10-KSB/A. o

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The issuer's revenues for its most recent fiscal year were \$1,224,229.

As of March 30, 2005, the aggregate value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the bid and ask price on such date was approximately \$16,199,720 based upon the average price of \$0.58/share.

As of March 30, 2005, the Registrant had outstanding 36,214,611 shares of common stock.

Transitional Small Business Disclosure Format: Yes No

Explanatory Note

This amendment on Form 10-KSB/A (the 2004 Form 10-KSB/A) amends the annual report on Form 10-KSB of NutraCea (the “Company”) for the year ended December 31, 2004 (the 2004 Form 10-KSB), which was originally filed on March 31, 2005. This Amendment No. 2 to the 2004 Form 10-KSB/A is being filed for the purpose of further amending certain portions of the Management’s Discussion and Analysis or Plan of Operations and expanded disclosure appearing in the Consolidated Statements of Operations as well as the revision of the Consolidated Statements of Cash Flows appearing in the Company’s financial statements and the Controls and Procedures section.

As required by Rule 12b-15 of the Securities Exchange Act of 1934, set forth in their entirety are Item 6 (Management’s Discussion and Analysis or Plan of Operation), Item 7 (Financial Statements), Item 8A (Controls and Procedures) and Item 13 (Exhibits).

As part of this amendment, the Company is also filing new certifications from its chief executive officer and chief financial officer (Exhibits 31.1, 31.2, and 32.1).

No attempt has been made in this Form 10-KSB/A to update other disclosures presented in the 2004 Form 10-KSB or the Amendment No. 1 to the 2004 Form 10-KSB. Consequently, except for the adjustments described above, this Amendment No. 1 to the 2004 Form 10-KSB/A does not reflect events occurring after March 31, 2005, the date of the original filing of the Company’s 2004 Form 10-KSB, or modify or update those disclosures that may have been affected by subsequent events. Accordingly, this Amendment No. 2 to the 2004 Form 10-KSB/A should be read in conjunction with the Company’s filings made with the SEC subsequent to the filing of the 2004 Form 10-KSB, including Amendment No. 1 to the 2004 Form 10-KSB/A filed on November 18, 2005.

NutraCea
Form 10-KSB/A
For the Year ended December 31, 2004

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PART II

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

For more detailed financial information, please refer to the audited December 31, 2004 Financial Statements included in this Amendment No. 2 to the Form 10-KSB/A (referred to as the Form 10-KSB/A).

Caution about forward-looking statements

This Form 10-KSB/A includes "forward-looking" statements about future financial results, future business changes and other events that have not yet occurred. For example, statements like we "expect," we "anticipate" or we "believe" are forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties about the future. We do not undertake to update the information in this Form 10-KSB/A if any forward-looking statement later turns out to be inaccurate. Details about risks affecting various aspects of NutraCea's business are discussed throughout this Form 10-KSB/A and should be considered carefully.

Results of Operations

Our revenues decreased by \$311,924, to \$1,224,229 in 2004 from \$1, 536,153 in 2003. The 20% decrease resulted from a decrease of approximately \$730,500 in sales by our equine division from \$1,248,996 in 2003 to \$600,976 in 2004. This decrease was partially offset by product licensing fees of \$214,500 in 2004 (\$0 in 2003). We expect sales by our equine division to increase in 2005 and approach the level reached in 2003.

Cost of goods sold decreased by \$245,539 to \$600,129 in 2004 from \$845,668 in 2003. This 29% decrease results primarily from a decrease in cost of goods sold from our equine division of \$321,371 in 2004.

Gross profit decreased by \$66,385 to \$624,100 in 2004, from \$690,485 in 2003. This 10% decrease is due to lower equine division sales, which have been partially offset by the licensing fees revenue in 2004.

Operating expenses increased by \$15,257,973 to \$24,175,462 in 2004, from \$8,917,489 in 2003. This increase was primarily due to increased non-cash expenses related to issuances of common stock and common stock warrants and options awards. These non-cash items totaled \$21,672, 093 in 2004 and \$1,577,938 in 2003. During 2004, these non-cash expenses included \$8,360,000 relating to the issuance of 5.5 million restricted shares of common stock to the Company's CEO for services rendered and repayment of debt; \$4,100,603 representing the value of restricted shares and shares covered by the Company's S-8 registration statement issued to officers, directors and consultants for services; and \$8,537,516 representing the value of options and warrants issued to various employees and consultants. During 2003, non-cash expenses included \$14,795 representing the value of restricted stock issued to consultants for services; \$1,233,567 representing the value of options issued to consultants; and \$329,576 representing the value of options issued to employees and directors. The increased issuance of restricted stock, options and warrants during 2004 was deemed necessary by management to retain and compensate officers, directors, consultants and employees while conserving cash assets that would otherwise have been expended for these purposes. Management expects in the future to reduce the amount of securities issued as compensation in light of expected future increases in cash assets due to anticipated increases in revenue and anticipated availability of additional investment capital from outside sources. However, if additional invested capital is not realized as anticipated, the Company may be required to issue additional restricted stock, options and/or warrants to compensate service providers in the current fiscal year. Also, professional fees increased \$703,360 to \$1,122,250 in 2004 from \$418,890 in 2003. Primary reasons for the increase in professional fees include the use of consultants instead of hiring permanent employees (\$351,820), legal fees associated with transactions (\$157,570), and additional costs associated with public filings (\$109,042). Employee wages and related expense increased by \$153,640 due to increased bonuses of \$305,000 which were partially offset by reductions in the total number of employees.

Interest expense decreased by \$4,283,194 to \$27,602 in 2004, from \$4,310,796 in 2003 primarily due to the recording of \$4,224,246 in interest expense in 2003 relating to modifications of stock option and warrant awards attached to debt as a result of the 1 for 10 reverse split on November 12, 2003.

Capital Financing

During December 2004, we borrowed \$2,400,000 in notes payable to help finance future operations. The notes are for a one year term, bear interest at 7% interest compounded quarterly and are secured by all of the assets of NutraCea. The holders were issued warrants to purchase a total of 2,400,000 shares of NutraCea's common stock at an exercise price of \$0.30 per share. The warrants are immediately exercisable and expire in seven years from the date of issuance. Debt discount expense of \$786,370 was recorded in connection with issuance of these warrants and is being amortized over the life of the notes payable.

Liquidity and Capital Resources

We have incurred significant operating losses for its last three fiscal years and, as of December 31, 2004 NutraCea had an accumulated deficit of \$44,927,792. At December 31, 2004, NutraCea had cash and cash equivalents of \$1,928,281 and a net working capital of \$283,835. While we believe this amount is sufficient to fund current business requirements it is not deemed sufficient to cover our expanded business plan and growth, nor the repayment of debt obligations.

To date, we have funded our operating deficits through a combination of short-term debt and the issuance of common and preferred stock. During 2004, we raised \$2,400,000 from the issuance of third-party notes payable. We also raised \$2,776,468 through the exercise of stock options during 2004.

Critical Accounting Policies

Our discussion and analysis of our financial conditions and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of financial statements requires managers to make estimates and disclosures on the date of the financial statements. On an on-going basis, we evaluate our 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. We believe the following critical accounting policies affect our more significant judgments and estimates in the preparation of our consolidated financial statements.

Revenue recognition

We are required to make judgments based on historical experience and future expectations, as to the reliability of shipments made to its customers. These judgments are required to assess the propriety of the recognition of revenue based on Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," and related guidance. NutraCea makes these assessments based on the following factors: i) customer-specific information, ii) return policies, and iii) historical experience for issues not yet identified.

Valuation of long-lived assets

Long-lived assets, consisting primarily of property and equipment, patents and trademarks, and goodwill, comprise a significant portion of NutraCea's total assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Recoverability of assets is measured by a comparison of the carrying value of an asset to the future net cash flows expected to be generated by those assets. The cash flow projections are based on historical experience, management's view of growth rates within the industry, and the anticipated future economic environment.

Factors NutraCea considers important that could trigger a review for impairment includes the following:

- (a) significant underperformance relative to expected historical or projected future operating results,
- (b) significant changes in the manner of its use of the acquired assets or the strategy of its overall business, and
- (c) significant negative industry or economic trends.

When NutraCea determines that the carrying value of patents and trademarks, long-lived assets and related goodwill and enterprise-level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, it measures any impairment based on a projected discounted cash flow method using a discount rate determined by its management to be commensurate with the risk inherent in its current business model.

Marketable Securities - Marketable securities are marked to market at each period end. Any unrealized gains and losses on the marketable securities are excluded from operating results and are recorded as a component of Other comprehensive income (loss). If declines in value are deemed other than temporary, losses are reflected in Net income (loss).

Inventory - Inventory is stated at the lower of cost (first-in, first-out) or market and consists of nutraceutical products manufactured by an affiliated company, RiceX, which the Company enhances for final distribution to its customers. While the Company has an inventory of these products, which contain ingredients supplied by RiceX, any significant prolonged shortage of these ingredients or of the supplies used to enhance these ingredients could materially adversely affect the Company's results of operations.

Property and Equipment - Property and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the estimated useful lives as follows:

| | |
|-------------------------|-----------|
| Furniture and equipment | 5-7 years |
| Automobile | 5 years |
| Software | 3 years |
| Leasehold Improvements | 2.4 years |

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains or losses on the sale of property and equipment are reflected in the statements of operations.

Fair Value of Financial Instruments - For certain of the Company's financial instruments, including cash, accounts receivable, inventory, prepaid expenses, accounts payable, accrued salaries and benefits, deferred compensation, accrued expenses, customer deposits, due to related party, notes payable - related party, and note payable the carrying amounts approximate fair value due to their short maturities.

Stock-Based Compensation - Compensation is recorded for stock-based compensation grants based on the excess of the estimated fair value of the common stock on the measurement date over the exercise price. Additionally, for stock-based compensation grants to consultants, NutraCea recognizes as compensation expense the fair value of such grants as calculated pursuant to SFAS No. 123, recognized over the related service period. SFAS No. 148 requires companies to disclose pro forma results of the estimated effect on net income and earnings per share to reflect application of the fair value recognition provision of SFAS No. 123.

Off Balance Sheet Arrangements

None

ITEM 7.

FINANCIAL STATEMENTS

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**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

Board of Directors
NutraCea and subsidiaries
El Dorado Hills, California

We have audited the accompanying consolidated balance sheet of NutraCea as of December 31, 2004, and the related statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the two years then ended. These financial statements are the responsibility of NutraCea's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NutraCea as of December 31, 2004, and the results of its operations and its cash flows for each of the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, the consolidated statement of cash flows for the year ended December 31, 2004 has been restated.

MALONE & BAILEY, PC
www.malone-bailey.com
Houston, Texas

February 14, 2005
(November 11, 2005 as to the effects of the restatement discussed in Note 16)

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NUTRACEA AND SUBSIDIARIES**Consolidated Balance Sheet****December 31, 2004****ASSETS****Current assets**

| | | |
|-----------------------------|----|------------------|
| Cash | \$ | 1,928,281 |
| Marketable securities | | 183,801 |
| Accounts receivable | | 7,681 |
| Inventory | | 304,064 |
| Prepaid expenses | | 30,755 |
| Total current assets | | 2,454,582 |

| | | |
|---|--|----------------|
| Restricted marketable securities | | 183,801 |
| Property and equipment, net | | 119,650 |
| Patents and trademarks, net | | 329,851 |
| Goodwill | | 250,001 |

| | | |
|---------------------|-----------|------------------|
| Total assets | \$ | 3,337,885 |
|---------------------|-----------|------------------|

LIABILITIES AND SHAREHOLDERS' DEFICIT**Current liabilities**

| | | |
|------------------------|----|-----------|
| Accounts payable | \$ | 261,073 |
| Accrued expenses | | 180,049 |
| Due to related parties | | 73,978 |
| Notes payable | | 1,635,174 |

| | | |
|---|--|------------------|
| Convertible, mandatorily redeemable series A preferred stock, no par value, \$1 stated value 20,000,000 shares authorized 0 shares issued and outstanding | | 20,473 |
| Total current liabilities | | 2,170,747 |

Commitments and contingencies**Shareholders' equity**

| | | |
|--|--|------------------|
| Common stock, no par value 100,000,000 shares authorized 36,130,544 shares issued and outstanding | | 48,123,282 |
| Deferred compensation | | (15,954) |
| Accumulated deficit | | (44,927,792) |
| Accumulated other comprehensive income, unrealized loss on marketable securities | | (2,012,398) |
| Total shareholders' equity | | 1,167,138 |

| | | |
|---|-----------|------------------|
| Total liabilities and shareholders' equity | \$ | 3,337,885 |
|---|-----------|------------------|

The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES
Consolidated Statements of Operations

| | For the years ended December 31 | |
|--|---------------------------------|-----------------|
| | 2004 | 2003 |
| Revenues | | |
| Net product sales | \$ 1,009,729 | \$ 1,536,153 |
| Licensing fees | 214,500 | - |
| Total revenues | 1,224,229 | 1,536,153 |
| Cost of goods sold | 600,129 | 845,668 |
| Gross profit | 624,100 | 690,485 |
| Operating Expense | | |
| Sales, general and administrative expense | 11,621,288 | 6,926,689 |
| Research and development expense | 126,212 | 224,760 |
| Professional fees | 12,389,905 | 1,667,253 |
| Depreciation and amortization expense | 38,057 | 98,787 |
| Operating expenses | 24,175,462 | 8,917,489 |
| Loss from operations | (23,551,362) | (8,227,004) |
| Other income (expense) | | |
| Interest income | 4,497 | 2 |
| Interest expense | (27,602) | (4,310,796) |
| Total other income (expense) | (23,105) | (4,310,794) |
| Net loss | (23,574,467) | (12,537,798) |
| Cumulative preferred dividends | 8,373 | 124,411 |
| Net loss available to common shareholders | \$ (23,582,840) | \$ (12,662,209) |
| Basic and diluted loss available to common shareholders per share | \$ (1.18) | \$ (2.07) |
| Basic and diluted weighted-average shares outstanding | 19,905,965 | 6,106,548 |

The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES**Consolidated Statements of Comprehensive Loss**

| | For the years ended December 31 | |
|--|---------------------------------|-----------------|
| | 2004 | 2003 |
| Net loss | \$ (23,574,467) | \$ (12,537,798) |
| Other comprehensive loss | | |
| Unrealized loss on marketable securities | (2,012,398) | - |
| Comprehensive loss | \$ (25,586,865) | \$ (12,537,798) |

The accompanying notes are an integral part of these financials

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NUTRACEA AND SUBSIDIARIES**Consolidated Statements of Changes in Stockholders' Equity****For the Years Ended December 31, 2004 and 2003**

| | Convertible, Redeemable Series A Preferred Stock | | Common Stock | | Committed Common Stock | Deferred Compensation | Other Comprehensive Income | Accumulated Deficit | Total |
|--|---|---------------------|------------------|---------------------|------------------------------|--------------------------|----------------------------------|------------------------|-----------------------|
| | Shares | Amount | Shares | Amount | | | | | |
| Balance, December 31, 2002 | 2,144,707 | \$ 2,060,931 | 2,375,807 | \$ 5,861,702 | \$ 571,674 | \$ (873,273) | \$ - | \$ (8,682,746) | \$ (3,122,643) |
| Preferred stock issued for accrued interest | 200,000 | 8,351 | | | | | | | |
| Preferred stock dividend | | 124,411 | | | | | | (124,411) | (124,411) |
| Preferred stock converted to common stock | (1,674,707) | (1,633,453) | 254,323 | 1,651,860 | | | | | 1,651,860 |
| Preferred dividends converted to common stock | | (208,450) | 278,766 | 190,043 | | | | | 190,043 |
| Common stock issued for committed stock | | | 145,917 | 571,674 | (571,674) | | | | |
| for cash | | | 134,048 | 111,500 | | | | | 111,500 |
| for services rendered | | | 28,688 | 29,795 | | | | | 29,795 |
| for deferred salaries | | | 475,555 | 416,899 | | | | | 416,899 |
| for accounts payable | | | 80,114 | 62,724 | | | | | 62,724 |
| for convertible notes payable | | | 3,431,251 | 823,119 | | | | | 823,119 |
| for loan collateral | | | 50,000 | | | | | | |
| Issuance costs | | | | (7,000) | | | | | (7,000) |
| Amortization of deferred compensation | | | | | | 140,114 | | | 140,114 |
| Reversal of deferred compensation | | | | (243,605) | | 243,605 | | | |
| Stock options exercised for cash | | | 4,519,373 | 427,575 | | | | | 427,575 |

The accompanying notes are an integral part of these financials

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NUTRACEA AND SUBSIDIARIES**Consolidated Statements of Changes in Stockholders' Equity (Continued)****For the Years Ended December 31, 2004 and 2003****Stock options****issued**

| | | | | | |
|---------------------------------|--|--|-----------|-----------|-----------|
| in lieu of deferred salaries | | | 150,465 | | 150,465 |
| for services rendered | | | 1,274,584 | (109,000) | 1,165,584 |
| for accounts payable | | | 40,527 | | 40,527 |
| for convertible debt | | | 183,855 | | 183,855 |

**Beneficial
conversion
feature for
convertible
debt**

| | | | | | |
|--|--|--|--------|--|--------|
| | | | 99,516 | | 99,516 |
|--|--|--|--------|--|--------|

**Stock options
cancelled**

| | | | | | |
|--|--|--|-----------|---------|---|
| | | | (476,362) | 476,362 | — |
|--|--|--|-----------|---------|---|

**Modification of
options and
warrants**

| | | | | | |
|---------------|--|--|-----------|--|-----------|
| non-employees | | | 9,507,253 | | 9,507,253 |
| employees | | | 303,750 | | 303,750 |

Net loss

| | | | | | |
|--|--|--|--|--------------|--------------|
| | | | | (12,537,798) | (12,537,798) |
|--|--|--|--|--------------|--------------|

**Balance,
December 31,
2003**

| | | | | | | | | | |
|--|---------|------------|------------|---------------|------|--------------|------|-----------------|--------------|
| | 670,000 | \$ 351,790 | 11,773,842 | \$ 20,979,874 | \$ - | \$ (122,192) | \$ - | \$ (21,344,955) | \$ (487,273) |
|--|---------|------------|------------|---------------|------|--------------|------|-----------------|--------------|

**Preferred stock
dividend**

| | | | | | | |
|--|--|--|-------|--|---------|---------|
| | | | 8,373 | | (8,373) | (8,373) |
|--|--|--|-------|--|---------|---------|

**Preferred stock
dividend paid**

| | | | | | |
|--|--|--|----------|--|--|
| | | | (48,004) | | |
|--|--|--|----------|--|--|

**Preferred stock
repurchased**

| | | | | | |
|--|--|--|-----------|--|--|
| | | | (130,000) | | |
|--|--|--|-----------|--|--|

**Preferred stock
converted to
common stock**

| | | | | | | |
|--|-----------|-----------|---------|---------|--|---------|
| | (540,000) | (348,351) | 630,000 | 348,351 | | 348,351 |
|--|-----------|-----------|---------|---------|--|---------|

**Preferred
dividends
converted to
common stock**

| | | | | | | |
|--|--|---------|-------|-------|--|-------|
| | | (5,986) | 5,759 | 5,986 | | 5,986 |
|--|--|---------|-------|-------|--|-------|

**Common stock
issued**

| | | | | | | |
|------------------------------|--|--|-----------|-----------|--|-----------|
| for marketable securities | | | 7,000,000 | 2,380,000 | | 2,380,000 |
| for services rendered | | | 4,407,950 | 3,470,100 | | 3,470,100 |
| | | | 180,000 | 239,100 | | 239,100 |

| | | | |
|------------------------------|-----------|-----------|-----------|
| for patent incentive plan | | | |
| for accounts payable | 168,626 | 57,944 | 57,944 |
| for settlements | 5,780,000 | 8,837,816 | 8,837,816 |

The accompanying notes are an integral part of these financials

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NUTRACEA AND SUBSIDIARIES**Consolidated Statements of Changes in Stockholders' Equity (Continued)****For the Years Ended December 31, 2004 and 2003**

| | | | | | |
|--|-------------|------------|---------------|---------------|-----------------|
| Amortization of deferred compensation | | | 57,648 | | 57,648 |
| Reversal of stock options | | (48,590) | 48,590 | | - |
| Common stock cancelled | (50,000) | | | | - |
| Stock options exercised for cash | 6,579,323 | 2,776,468 | | | 2,776,468 |
| Stock options issued | | | | | |
| for services rendered | | 8,582,516 | | | 8,582,516 |
| for notes payable | | 786,370 | | | 786,370 |
| Reclass of options to preferred stock | 62,651 | (62,651) | | | (62,651) |
| Common stock repurchased | (344,956) | (230,000) | | | (230,000) |
| Other comprehensive loss | | | | (2,012,398) | (2,012,398) |
| Net loss | - | - | - | - | (23,574,467) |
| Balance, December 31, 2004 | - \$ 20,473 | 36,130,544 | \$ 48,123,284 | \$ - (15,954) | \$ (2,012,398) |
| | | | | | \$ (44,927,795) |
| | | | | | \$ 1,167,137 |

The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES
Consolidated Statements of Cash Flows

| | For the Year Ended December 31, | |
|--|---------------------------------|-----------------|
| | 2004 | 2003 |
| | Restated | |
| Cash flows from operating activities | | |
| Net loss | \$ (23,574,467) | \$ (12,537,798) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 38,057 | 238,900 |
| Non-cash issuances of common stock | 12,365,859 | 29,795 |
| Non-cash issuances of stock options & warrants | 9,306,234 | 1,349,439 |
| Beneficial conversion feature | - | 99,516 |
| Modifications of options and warrants, non-employees | 62,651 | 9,507,253 |
| Modifications of options and warrants, employees | (48,590) | 303,750 |
| (Increase) decrease in | | |
| Accounts receivable | 22,772 | (23,180) |
| Inventory | (233,170) | (28,199) |
| Prepaid expenses | (15,898) | 12,323 |
| Increase (decrease) in | | |
| Advances from related parties | 55,590 | (8,206) |
| Accounts payable | (43,280) | |
| Accrued salaries and benefits | 7,287 | 19,149 |
| Deferred compensation | 106,238 | 289,244 |
| Accrued expenses | (51,058) | (53,107) |
| Customer deposits | - | 57,170 |
| Net cash provided (used) in operating activities | (2,001,775) | (975,012) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (117,421) | (20,075) |
| Purchase of patents and trademarks | (56,184) | (17,770) |
| Net cash used in investing activities | (173,605) | (37,845) |
| Cash flows from financing activities | | |
| Proceeds from notes payable, net | 1,635,174 | 544,000 |
| Proceeds from notes payable-related parties | - | 320,422 |
| Principal payments on notes payable | - | (60,000) |
| Principal payments on notes payable-related parties | - | (258,335) |
| Payment of preferred dividends | (48,004) | |
| Repurchase of preferred stock | (130,000) | |
| Repurchase of common stock | (230,000) | |
| Proceeds from the issuance of common stock, net | | 104,500 |
| Proceeds from exercise of stock options | 2,776,468 | 427,575 |
| Net cash provided by financing activities | 4,003,638 | 1,078,162 |

The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)

| | | |
|--|---------------------|-------------------|
| Net increase (decrease) in cash | 1,828,258 | 65,305 |
| Cash, beginning of year | 100,023 | 34,718 |
| Cash, end of year | \$ 1,928,281 | \$ 100,023 |
| Cash paid for interest | \$ 1,391 | \$ 21,631 |
| Cash paid for income taxes | \$ - | \$ - |
| Non-cash disclosures: | | |
| Purchase of Langley PLC Shares with common stock | \$ 2,380,000 | \$ - |
| Purchase of patents with common stock | \$ 239,100 | |
| Conversion of preferred stock to common stock | \$ 354,337 | |

The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1 - ORGANIZATION AND LINE OF BUSINESS

General

NutraCea was originally incorporated on February 4, 2000 in California as NutraStar Technologies Incorporated. On December 14, 2001, NutraStar Technologies Incorporated ("NTI") effected a reorganization with the inactive publicly-held company, Alliance Consumer International, Inc., and the name was changed to NutraStar Incorporated. The name was changed again to NutraCea on October 1, 2003.

NutraCea is a relatively new health science company focused on the development and distribution of products based upon the use of stabilized rice bran and proprietary rice bran formulations. Rice bran is the outer layer of brown rice which until recently was a wasted by-product of the commercial rice industry. These products include food supplements and medical foods which provide health benefits for humans and animals (known as "nutraceuticals") as well as cosmetics and beauty aids based on stabilized rice bran, rice bran derivatives and the rice bran oils.

On April 27, 2000, NTI formed NutraGlo Incorporated ("NutraGlo"), a Nevada corporation, which was owned 80% by NTI and 20% by NaturalGlo Investors L.P. During 2001, NutraGlo started marketing, manufacturing and distributing one of NutraCea's products to the equine market. In 2002, NutraCea issued 250,001 shares of its common stock to NaturalGlo Investors L.P. in exchange for the remaining 20% of the common stock of NutraGlo. The value of the shares was \$250,001. As a result, NutraGlo is now a wholly owned subsidiary of NTI.

For internal reporting purposes, management segregates NutraCea into two segments: (1) NutraCea, including the transactions of TheraFoods®, ProCeuticals®, and NutraBeauticals®, and (2) NutraGlo.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of NutraCea and its wholly owned subsidiaries, NutraCea Technologies Incorporated and NutraGlo® (collectively, the "Company"). All significant inter-company accounts and transactions are eliminated in consolidation.

Revenue Recognition - Revenue is generally recognized upon shipment of product with a provision for estimated returns and allowances recorded at that time, if applicable. Commission revenue is generally recognized when earned and collection is reasonably assured. Licensing revenue is recognized when earned and collection is reasonably assured.

Accounts Receivable-The Company provides for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. As of December 31, 2004, there were no uncollectible accounts.

Marketable Securities-Marketable securities are marked to market at each period end. Any unrealized gains and losses on the marketable securities are excluded from operating results and are recorded as a component of Other comprehensive income (loss). If declines in value are deemed other than temporary, losses are reflected in Net income (loss).

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventory-Inventory is stated at the lower of cost (first-in, first-out) or market and consists of nutraceutical products manufactured by an affiliated company, RiceX, which the Company enhances for final distribution to its customers. While the Company has an inventory of these products, which contain ingredients supplied by RiceX, any significant prolonged shortage of these ingredients or of the supplies used to enhance these ingredients could materially adversely affect the Company's results of operations.

Property and Equipment-Property and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the estimated useful lives as follows:

| | |
|-------------------------|-----------|
| Furniture and equipment | 5-7 years |
| Automobile | 5 years |
| Software | 3 years |
| Leasehold Improvements | 2.4 years |

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains or losses on the sale of property and equipment are reflected in the statements of operations.

Patents and Trademarks-The Company has exclusive licenses for several patents, which were acquired from independent third parties and a related party. All costs associated with the patents are capitalized. Patents acquired from related parties are recorded at the carryover basis of the transferor. The Company paid cash as consideration for all patents and trademarks acquired, except the Via-Bran registered trademark, which was acquired for 21,409 shares of common stock valued at \$21,409.

Amortization is computed on the straight-line method based on estimated useful lives of 17 to 20 years. The Company also has registered trademarks, which are amortized over estimated useful lives of 10 years.

The Company recorded a loss reserve totaling \$75,359 as of December 31, 2002 related to the impairment of certain patents.

Deferred Compensation-Deferred compensation at December 31, 2004 represents the intrinsic value of options previously issued to employees that have not been vested.

Fair Value of Financial Instruments-For certain of the Company's financial instruments, including cash, accounts receivable, inventory, prepaid expenses, accounts payable, accrued salaries and benefits, deferred compensation, accrued expenses, customer deposits, due to related party, notes payable - related party, and note payable the carrying amounts approximate fair value due to their short maturities.

Stock-Based Compensation-Compensation is recorded for stock-based compensation grants based on the excess of the estimated fair value of the common stock on the measurement date over the exercise price. Additionally, for stock-based compensation grants to consultants, NutraCea recognizes as compensation expense the fair value of such grants as calculated pursuant to SFAS No. 123, recognized over the related service period. SFAS No. 148 requires companies to disclose pro forma results of the estimated effect on net income and earnings per share to reflect application of the fair value recognition provision of SFAS No. 123.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | For the years ended December 31, | |
|--|----------------------------------|-----------------|
| | 2004 | 2003 |
| Net loss available to common shareholders: | | |
| As reported: | \$ (23,582,840) | \$ (12,662,209) |
| Pro forma: | \$ (25,955,080) | \$ (12,754,495) |
| Basic loss per common share: | | |
| As reported: | \$ (1.18) | \$ (2.07) |
| Pro forma: | \$ (1.31) | \$ (2.09) |

Advertising Expense-The Company expenses all advertising costs, including direct response advertising, as they are incurred. Advertising expense for 2004 and 2003 was \$22,074 and \$21,959, respectively.

Income Taxes-The Company accounts for income taxes under the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Loss Per Share-Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. As such, basic and diluted loss per share is the same.

Estimates-The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk-On May 1, 2001, the Company entered into a three-year, exclusive distribution agreement with a customer, in which the customer is required to purchase a minimum of 90,000 pounds of the Company's product on or before July 1, 2001, 120,000 pounds before September 1, 2002, 275,000 pounds between September 1, 2002 and August 31, 2003, and 350,000 pounds between September 1, 2003 and August 31, 2004. During 2004, sales to this customer totaled \$600,976 (59% of total sales). During 2003, sales to this customer totaled \$1,247,086 (81% of total sales).

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Pronouncements-SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise will be effective at the beginning of the first interim period beginning after June 15, 2003. Having adopted of SFAS No. 150 in 2003, NutraCea has reclassified its preferred dividends as a current liability.

In December 2004, the FASB issued SFAS No. 123R, "Accounting for Stock-Based Compensation" SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS No. 123R, only certain pro forma disclosures of fair value were required. SFAS No. 123R shall be effective for small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The impact of the adoption of this new accounting pronouncement would be similar to the Company's calculation of the pro forma impact on net income of SFAS 123 included above.

NOTE 3 - MARKETABLE SECURITIES

On September 8, 2004 NutraCea purchased 1,272,026 shares of Langley Park Investment Trust, PLC, a United Kingdom closed-end mutual fund that is actively traded on a London exchange. Per the Stock Purchase Agreement, NutraCea paid with 7,000,000 shares of its own common stock.

Per the Agreement, NutraCea may sell 636,013 shares of Langley at any time, and the remaining 636,013 shares of Langley and the 7,000,000 shares of NutraCea are escrowed for a 2-year period. At the end of the period, Langley's NutraCea shares are measured for any loss in market value and if so, NutraCea must give up that pro-rata portion of its Langley shares up to the escrowed 636,013 shares.

As of December 31, 2004 the NutraCea shares had not lost any value. However, the Langley shares are marked down to their fair market value of \$367,602, with one-half or \$183,801 shown as a current asset because they may be sold at any time, and the other one-half shown as long-term because they are held in escrow pending the 2-year review of NutraCea's stock valuation.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 consisted of the following:

| | | |
|-------------------------------|----|-----------|
| Furniture and equipment | \$ | 62,007 |
| Automobile | | 73,096 |
| Software | | 286,047 |
| Leasehold improvements | | 13,870 |
| Subtotal | \$ | 435,020 |
| Less accumulated depreciation | | (315,370) |

Total

\$ 119,650

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NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Depreciation expense was \$16,303 and \$88,589 for 2004 and 2003, respectively.

NOTE 5 - PATENTS AND TRADEMARKS

Patents and trademarks at December 31, 2004 consisted of the following:

| | |
|--|-------------------|
| Patents, net of \$75,359 of impairment expense from 2002 | \$ 317,024 |
| Trademarks | 62,328 |
| | 379,352 |
| Less accumulated amortization | (49,501) |
| Total | \$ 329,851 |

At December 31, 2004, \$91,009 of the NutraCea's patents and trademarks had been purchased from RiceX. Amortization expense was \$21,754 and \$10,198 for 2004 and 2003, respectively.

NOTE 6 - NOTES PAYABLE

In December 2004 NutraCea executed three promissory notes to third party investors totaling \$2,400,000. The notes are for a one year term, bear interest at 7% interest compounded quarterly and are secured by all of the assets of NutraCea. The holders were issued warrants to purchase a total of 2,400,000 shares of NutraCea's common stock at an exercise price of \$0.30 per share. The warrants are immediately exercisable and expire in seven years from the date of issuance. A discount on the debt of \$786,370 was recorded for these warrants and is being amortized over the life of the notes.

NOTE 7 - PUT OPTION

During the year ended December 31, 2001, NutraCea issued 130,000 shares of Series A preferred stock to a related party as payment of accounts payable totaling \$130,000. On January 15, 2002, these holders of the Series A preferred stock executed a put/call agreement. The put allowed for the holder to sell to NutraCea all, but not less than all, of the 130,000 shares of NutraCea's Series A preferred stock, or common stock if any of the Series A preferred stock were converted, for \$130,000, plus all accumulated, but unpaid dividends, at any time after six months from January 15, 2002. In addition, NutraCea maintained the right to call the option and purchase back the shares of the Series A preferred stock for \$130,000, plus any unpaid and accrued dividends at any time, subject to certain provisions. Prior to December 31, 2004 NutraCea purchased back the shares of the Series A preferred stock for \$130,000.

NOTE 8 - INCOME TAXES

NutraCea has had losses since inception and, therefore, has not been subject to federal or state income taxes. As of December 31, 2004, NutraCea had accumulated net operating loss ("NOL") carryforwards for income tax purposes of approximately \$28.2 million, resulting in a deferred tax asset amount of \$9.6 million. All deferred tax asset amounts are fully reserved. These carryforwards expire in 2019 through 2024.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Lease

NutraCea leases its office space under a non-cancelable operating lease with RiceX that expires in September 2006 and requires monthly payments of \$6,366. Future minimum payments under this lease agreement at December 31, 2004 were as follows:

| <u>Year Ending December 31,</u> | |
|---------------------------------|-------------------|
| 2005 | \$ 76,389 |
| 2006 | 57,292 |
| Total | \$ 133,681 |

Rent expense was \$64,688 and \$63,899 for the years ended December 31, 2004 and 2003, respectively.

Agreements

For all agreements where stock is awarded as partial or full consideration, the expense is valued at the fair value of the stock. Expense for stock options and warrants issued to consultants is calculated at fair value using the Black-Scholes valuation method.

Effective January 1, 2004, NutraCea amended two executive employment contracts to reflect quarterly bonuses. Under the contract, compensation shall be \$45,000 per calendar quarter, with 250,000 shares of common stock to be granted in the event NutraCea achieves gross revenues of \$1 million or more for the quarter. In addition, a one-time stock grant of 550,000 shares of common stock will be awarded for the first quarter gross revenues equal or exceed \$5 million. This bonus agreement is effective until April 15, 2006, unless extended by the board. NutraCea also agreed to maintain an annual bonus program for members of the senior management group, including the Chief Executive Officer. The Chief Executive Officer shall be eligible to receive an annual bonus under terms otherwise governing the annual bonus program.

Effective January 1, 2004, NutraCea amended the stock options section of an executive employment contract dated April 15, 2003. The amendment changed the vesting conditions on 250,000 shares of common stock to “upon the completion of the twelfth month of employment “instead of “upon the Company achieving two successful calendar quarters of net profits from operations of the business of the Company before interest, taxes, depreciation and amortization as conclusively determined by the independent certified public accountant for the Company”.

On January 12, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing company. Under the terms of the agreement, compensation shall be warrants to purchase 4,000,000 shares of common stock as follows: 300,000 shares at \$.50 per share on or before January 12, 2004; 400,000 shares at \$.50 per share on or before February 17, 2004; and 3,300,000 shares at \$.50 per share on or before April 19, 2004. Non-cash compensation expense of \$3,911,886 was recorded relating to this agreement. All of the warrants had been exercised at March 31, 2004.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On January 28, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing company. Under the terms of the agreement, compensation shall be warrants to purchase 90,000 shares of common stock at an exercise price of \$.01 per share. Non-cash compensation expense of \$137,158 was recorded relating to this agreement. As of March 31, 2004, these warrants had been exercised.

On February 2, 2004, NutraCea entered into a six -month consulting agreement with a communications company. Under the terms of the agreement, compensation shall be \$2,500 per month, plus shares of common stock valued at \$6,000 issued at signing of contract. Either party may terminate the agreement with sixty days written notice. At March 31, 2004, the shares had been issued in full.

On February 23, 2004, NutraCea entered into a one-year consulting agreement with a marketing company. Under the terms of the agreement, compensation shall be monthly issuance of shares of common stock valued at \$7,500 per month. In addition, the consultant is entitled to a 3% commission on equity or debt financing introduced to NutraCea.

On March 1, 2004, NutraCea entered into a 90-day consulting agreement with a financial relations company. Compensation shall be the issuance of 100,000 shares of common stock per month. As of March 31, 2004, 100,000 shares valued at \$142,000 had been issued to the consultant.

On March 1, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing company. Compensation shall be the issuance of 25,000 shares of common stock. At March 31, 2004, these shares had been issued. Non-cash compensation expense of \$35,500 was recorded relating to this agreement.

On March 9, 2004, NutraCea entered into a one-year consulting agreement with a communications company. Under the terms of the agreement, compensation shall be issuance of shares of common stock valued at \$36,000. At March 31, 2004, these shares have been issued in full.

On March 15, 2004, NutraCea entered into a six-month consulting agreement with a sales and marketing company. Under the terms of the agreement, compensation shall be warrants to purchase 400,000 shares of common stock, at an exercise price of \$.001 and warrants to purchase up to 1,000,000 shares of common stock at an exercise price of \$1.20, to be exercised within three years. At March 31, 2004, the 400,000 warrants exercisable at \$.001 had been exercised. Non-cash compensation expense of \$2,149,598 was recorded relating to this agreement.

On March 19, 2004, NutraCea approved granting a one-time cash bonus of 2/3 of normal salary to the CEO and President. The bonus amount for both executives is \$180,000, was paid by April 1, 2004.

On March 25, 2004, NutraCea entered into two, two-year consulting agreements with two medical advisors. Under the terms of the agreement, compensation shall be 100,000 shares of common stock each, payable in advance, and options to purchase 100,000 shares of common stock at a price of \$.50 per share for the second year of service. The 200,000 shares of common stock are valued at \$286,000, and the options are valued at \$107,684. Expense for these amounts was recorded in April 2004 when the shares and options were issued.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On March 25, 2004, NutraCea entered into a three-year consulting agreement with a development and marketing company. Under the terms of the agreement, compensation shall be \$1 per unit (a minimum 30-day supply of NutraCea product) for up to a total accumulated payment of \$750,000, and \$.50 per unit thereafter, payable quarterly within 45 days after the end of the quarter. In addition, NutraCea will issue 100,000 shares of common stock for each probiotic formulation NutraCea markets, and options to purchase 300,000 shares of common stock at an exercise price of \$1 per share with 100,000 options to be vested immediately and 50,000 shares per year thereafter. The vested options are valued at \$102,782.

On April 2, 2004, NutraCea entered into a 180-day consulting agreement with a marketing and investor relations company. The term can be extended another 180 days by mutual agreement. Under the terms of the agreement, compensation shall be 400,000 shares of common stock, and \$4,000 cash per month. Compensation shall also include an 8% cash commission on equity or debt financing introduced to NutraCea, as well as a warrant, exercisable within 3 years, for common shares to equal 10% of the gross financing proceeds. The warrant is to be priced at 110% of the closing bid price for the preceding 30 business days of the day of closing, such warrant or shares to be issued at closing.

On April 15, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing consultant. Under the terms of the agreement, compensation shall be warrants to purchase 50,000 shares of common stock at \$.80 per share upon the completion of certain benchmarks. The warrants are valued at \$46,758 and expire in 3 years.

On April 29, 2004, NutraCea entered into a one-year consulting agreement (with options to extend for four successive terms of one year each) with two retired employees of NutraCea. Under the terms of the agreements, annual compensation of \$70,000 and \$80,000 each is payable on a monthly basis. In addition, each of the consultants received warrants to purchase 50,000 shares of common stock at \$.20 a share. The 100,000 warrants are valued at \$91,370 and expire in 5 years. Either party can cancel this agreement with 30-day written notice.

On April 15, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing consultant. Under the terms of the agreement, compensation shall be warrants to purchase 50,000 shares of common stock at \$.80 per share upon the completion of certain benchmarks. The warrants are valued at \$46,758 and expire in 3 years.

On June 2, 2004, NutraCea entered into two consulting agreements with sales and marketing consultants. Under the terms of the agreements, each consultant was issued 150,000 restricted shares of common stock, valued at \$161,500. The agreement called for these shares to be included in the next registration statement filed.

On July 14, 2004, NutraCea entered into a six-month consulting agreement with a business consultant to provide NutraCea with consulting services and advice pertaining to NutraCea's business affairs. Compensation was \$12,000 payable in cash monthly. In addition, should the consultant provide assistance to NutraCea in the raising of capital either in the form of equity or debt, NutraCea agreed to pay an additional future bonus or fee, which the consultant would receive based on the efforts expended and results obtained.

On August 1, 2004, NutraCea entered in a 90-day Independent Contractor Agreement with a contractor to prepare reports regarding investor relations, prepare advertising and marketing materials, and prepare press releases. Compensation was \$12,000 payable in cash monthly.

On September 2, 2004, NutraCea entered into a 90-day consulting agreement with a securities firm to serve as NutraCea's investment advisor regarding acquisitions or similar corporate transactions and to provide assistance and advice with respect to raising capital required to consummate an acquisition or similar corporate transaction. A

non-reimbursable initial fee of \$50,000, to be credited against Phase I fees, was paid at execution of the agreement. Services were to be rendered as Phase I and Phase II services and compensated as follows.

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NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Phase I services: A fee of two percent of the total value of a target acquisition to be paid simultaneously with the closing of the acquisition or similar corporate transaction, to be paid 50% in cash and 50% in newly issued stock by NutraCea based on the closing values of the transaction on that day.

Phase II services: A cash fee of ten percent of the total amount of capital raised pursuant to sources introduced to NutraCea by the consultant. In the event NutraCea shall issue any equity or convertible securities to raise capital in connection with an acquisition or similar corporate transaction, NutraCea shall issue warrants for ten percent of the total amount of securities issued. The warrants shall have an exercise price equal to one hundred and twenty percent (120%) of the per share equity valuation established in the capital raising transaction, but in no case less than 100% of the market value of the shares on the date of the transaction, and shall be exercisable for a term of five years. A cash fee of six percent will be paid in any capital raising transaction involving unsecured debt securities.

On November 26, 2004, the Company hired a consultant to help in the facilitation of the Company's business model. As compensation, the consultant was paid with 715,000 shares of common stock. Additionally, the consultant also entered into a non-exclusive, non-transferable, revocable licensing agreement to import and distribute the Company's products in accordance with its marketing plan. The consultant paid the Company \$214,500 for these distribution rights.

On December 10, 2004 the Company entered into an employment agreement that expires December 31, 2007 with its Chief Executive Officer whereby the Company is to pay the officer a base salary of \$150,000 in year one; a base salary of \$150,000 in year two; and a base salary of \$250,000 in year three. The agreement also provides that the officer is entitled to an annual incentive bonus based upon performance and to be provided a car of the employee's choice. The incentive bonus shall be paid annually within 10 days of the completion of the Company's annual independent audit. In addition, the officer was issued warrants to purchase 2,000,000 shares of the Company's common stock at an exercise price of \$0.30 per share. The warrants are immediately exercisable and expire in ten years from the date of issuance.

On December 17, 2004 the Company entered into an employment agreement that expires December 31, 2007 with its President whereby the Company is to pay the officer a base salary of \$50,000 in year one; a base salary of \$150,000 in year two; and a base salary of \$250,000 in year three. The agreement also provides that the officer is entitled to an annual incentive bonus based upon performance and to be provided a car allowance of \$600 per month. The incentive bonus shall be paid annually within 10 days of the completion of the Company's annual independent audit. In addition, the officer was issued warrants to purchase 6,000,000 shares of the Company's common stock at an exercise price of \$0.30 per share. The warrants are immediately exercisable and expire in ten years from the date of issuance.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minimum future payments under these two agreements at December 31, 2004 were as follows:

Year Ending December 31.

| | | |
|--------------|----|------------------|
| 2005 | \$ | 200,000 |
| 2006 | | 300,000 |
| 2007 | | 500,000 |
| Total | \$ | 1,000,000 |

Generally, if the Company terminates these agreements without cause or the employee resigns with good reason, as defined, the Company will pay the employees' salaries, bonuses, and benefits payable for the remainder of the term of the agreements.

Litigation

On July 16, 2002, the Company was summoned to answer a Complaint filed by Faraday Financial, Inc. ("Faraday") in District Court, County of Salt Lake, Utah (Case No. 020906477). The Complaint alleges that the Company issued convertible promissory notes totaling \$450,000 and a promissory note totaling \$50,000. On December 13, 2001, Faraday entered into a settlement agreement with the Company, whereby Faraday agreed to cancel the promissory notes in exchange for 735,730 shares of preferred stock. Faraday claims that the settlement agreement required that the Company effect a registration statement covering the preferred stock by June 30, 2002, which the Company failed to do, and demands the Company immediately forfeit to Faraday 735,730 shares of common stock owned by the Chief Executive Officer of the Company. Faraday has filed its fourth claim for relief for a judgment against the Company for \$500,000, plus accrued, but unpaid interest, attorneys' fees and costs, and other such costs. A Settlement Agreement was executed on December 10, 2003. In consideration for the mutual releases, Faraday converted 735,730 preferred into 735,730 common shares and \$90,127 of accrued preferred dividends into 1,201,692 common shares. Within the next year, if Faraday cannot realize \$551,797 and approximately \$9800 in legal expenses from the sale of the common shares, NutraCea will make up any deficiency. If stock sale exceeds \$561,597, Faraday is entitled to keep any excess. Subsequent to December 31, 2003, the Company issued an additional 250,000 shares to Faraday. Concurrently, with the executed Settlement Agreement, a joint stipulated motion to stay all proceedings was filed with the Court. After all the above conditions are met, if Faraday has not lifted the stay within 18 months of December 10, 2003, NutraCea shall deliver to Faraday an executed stipulation for dismissal with prejudice of the Complaint and Counterclaim.

NOTE 10 - PREFERRED AND COMMON STOCK

Effective November 12, 2003 and pursuant to adoption of the Company's "Certificate of Amendment of Restated Articles of Incorporation" dated October 27, 2003, the Company effected a reverse split of all previously issued common stock on the basis of one-for-ten shares. Additionally, per the "Certificate of Amendment of Restated Articles of Incorporation", the number of authorized shares of common stock was increased from 50,000,000 to 100,000,000, and the number of authorized shares of preferred stock was increased from 10,000,000 to 20,000,000. All share amounts reflected in the following discussion of common stock and elsewhere in this Form 10-KSB/A have been adjusted to account for the one-for-ten reverse split.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Convertible, Redeemable Series A Preferred Stock

In December 2001, the Company approved the issuance of 3,000,000 shares of convertible, redeemable Series A preferred stock and executed a certificate of designation of the rights, preferences, and privileges of the Series A preferred stock. Each shareholder of Series A preferred stock is entitled to receive a 7% cumulative dividend, which is only payable in the case of liquidation or redemption. The Series A preferred stock has a \$1 per share stated value and will receive certain liquidation preferences after satisfaction of claims of creditors, but before payment or distributions of assets and surplus funds. On November 12, 2003, the number of authorized shares of preferred stock was increased from 10,000,000 shares to 20,000,000 shares.

Furthermore, the Series A preferred stock is convertible at the option of the holder at \$1 per share into the Company's common stock, subject to certain anti-dilution provisions. In addition, the Series A preferred stock will automatically convert into common stock in the event of a qualified public trading benchmark, which is defined as (i) the common stock is listed on a national exchange at twice its conversion price or (ii) the common stock is quoted on the over-the-counter bulletin board at an average bid price of at least \$1.25 per share over any 30-day trading period. At December 31, 2004, all the outstanding preferred stock was converted under option (ii) above.

On July 7, 2003, the Company cancelled 634,121 shares of preferred stock previously issued to a shareholder as collateral and issued 20,000 shares of preferred stock for accrued interest totaling \$8,351 on a promissory note dated September 23, 2002.

During the year ended December 31, 2003, the Company converted 1,674,707 shares of preferred stock to 254,323 shares of common stock valued at \$1,651,860.

During the year ended December 31, 2003, the Company issued 278,766 shares of common stock in payment of preferred stock dividends due in the amount of \$190,043.

During the year ended December 31, 2004 the Company repurchased 130,000 shares of preferred stock for \$130,000.

During the year ended December 31, 2004, the Company converted 540,000 shares of preferred stock to 630,000 shares of common stock valued at \$348,351.

During the year ended December 31, 2004, the Company issued 5,759 shares of common stock in payment of preferred stock dividends due in the amount of \$5,986.

The Company may redeem any and all outstanding shares of Series A preferred stock. Upon the five-year anniversary of the date of issuance, the Company is required to redeem all of its outstanding shares of Series A preferred stock at \$1 per share, plus all accrued and unpaid dividends declared. As of December 31, 2004 all outstanding shares of preferred stock had either been repurchased or converted into shares of common stock. As of December 31, 2004 there was a balance of unpaid and accrued dividends of \$20,473.

As of December 31, 2004, cumulative dividends totaled \$20,473.

Common Stock

During 2003, NutraCea issued 134,048 shares of common stock for \$104,500, net of \$7,000 in related commissions.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2003, NutraCea issued 4,519,373 shares of common stock pursuant to the exercise of stock options and warrants for \$427,575.

During 2003, NutraCea issued 28,688 shares of common stock to various consultants for services rendered with a fair value of \$29,795.

On August 18, 2003, NutraCea agreed to pay a consultant for unpaid fees in the amount of \$9,236. NutraCea will pay \$4,636 in monthly installments of \$1,159, payable on the first of each month beginning October 1, 2003. NutraCea also agreed to issue 2,421 shares of common stock, valued at \$4,600, to the consultant as payment in full.

In September 2003, NutraCea agreed to pay \$38,771 of unpaid fees to a consultant, of which \$8,771 is payable upon execution of the agreement and the balance, \$30,000, is payable in monthly installments of \$2000, payable on the first of each month beginning October 1, 2003. NutraCea also agreed to issue 73,519 shares of common stock, valued at \$56,037, to the consultant as payment in full.

On October 31, 2003, the Board of Directors approved the issuance of common stock in lieu of compensation to the Company's Chief Operating Officer and Chief Executive Officer. Chief Operating Officer John Howell received 72,911 shares of common stock in lieu of \$94,784 in salary and other compensation accrued for past services; Chief Executive Officer Patricia McPeak received 402,644 shares of common stock in lieu of \$322,115 in salary and other accrued compensation for past services. These shares of common stock were issued under the 2003 Stock Compensation Plan.

Due to the termination of certain employees during 2003, the Company recorded a reversal of deferred compensation totaling \$243,605.

During 2003, the Company issued 3,431,251 shares of common stock, valued at \$823,119, to various parties for conversion of convertible notes payable and accrued interest in the amount of \$776,887 and \$46,232, respectively.

On March 25, 2004, NutraCea established the NutraCea Patent Incentive Plan, which grants 15,000 shares of common stock to each named inventor on each granted patent, which is assigned to NutraCea. Under the terms of this plan during the year ended December 31, 2004, NutraCea issued 180,000 shares of common stock valued at \$239,100.

During the year ended December 31, 2004, NutraCea issued 280,000 shares of common stock to two consultants in settlement of contractual agreements valued at \$477,816.

During the year ended December 31, 2004, NutraCea issued 5,500,000 shares of common stock valued at \$8,360,000 to NutraCea's Chief Executive Officer for services and cancellation of indebtedness.

On April 1, 2004, NutraCea repurchased 344,956 shares of common stock valued at \$230,000 from the Chief Executive Officer of NutraCea pursuant to a repurchase agreement of that date.

During the year ended December 31, 2004, NutraCea converted preferred dividends in the amount of \$5,986 into 5,759 shares of common stock.

On September 8, 2004, NutraCea and Langley Park Investments PLC ("Langley") signed a Stock Purchase Agreement under which NutraCea agreed to sell 7,000,000 shares of its common stock to Langley. The transaction will close at the time that Langley's shares are trading on the London Stock Exchange for anticipated consideration to NutraCea (i)

immediately following the closing of approximately \$1,190,000 U.S.D. in Langley stock, and (ii) additional consideration of that number of Langley shares which, as of the closing, will have a value of approximately \$1,190,000 (the “Langley Shares”). NutraCea has agreed to hold the Langley Shares in escrow for two years from the date of closing. After the two-year holding period, the Langley Shares will be subject to possible reduction in number if NutraCea’s common shares are trading at a value of less than \$0.34 U.S.D. After such reduction, if any, the remaining Langley Shares may be sold by NutraCea at their then current value.

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NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Purchase Agreement, Langley has agreed that it will not sell, transfer or assign any or all of the NutraCea shares for a period of two years following the closing without the prior written consent of NutraCea, which consent may be withheld by NutraCea in its sole discretion.

During the year ended December 31, 2004, Nutracea issued 3,767,950 shares of common stock to consultants for services rendered valued at \$2,542,300.

During the year ended December 31, 2004, Nutracea issued 640,000 shares of common stock to officers and directors for services rendered valued at 927,800.

During the year ended December 31, 2004, NutraCea issued 168,626 shares of common stock to vendors in payment of accounts payable totaling \$57,944.

During the year ended December 31, 2004, Nutracea issued 6,579,323 shares of common stock pursuant to the exercise of stock options for cash totaling \$2,776,468.

During the year ended December 31, 2004, NutraCea converted 540,000 shares of preferred stock to 630,000 shares of common stock pursuant to the Mandatory Conversion paragraph of the Private Placement Memorandum dated November 9, 2001.

NOTE 11 - STOCK OPTIONS AND WARRANTS

Expense for stock options and warrants issued to consultants is calculated at fair value using the Black-Scholes valuation method.

On October 31, 2003, the Board of Directors approved and adopted the 2003 Stock Compensation Plan and authorized the President of the Company to execute a registration statement under the Securities Act of 1933 for 10,000,000 shares of common stock. As of December 31, 2004, 9,895,190 shares of common stock and no options have been granted under the 2003 Stock Compensation Plan.

The expense, if any, of stock options issued to employees is recognized over the shorter of the term of service or vesting period. The expense of stock options issued to consultants or other third parties are recognized over the term of service. In the event services are terminated early or no specific future performance is required by the Company, the entire amount is recognized. The unamortized portion of the expense to be recognized is recorded as deferred compensation.

In April 2003, the Company issued warrants to purchase 1,000,000 shares of common stock to its Chief Operating Officer in accordance with an employment agreement dated April 15, 2003. The warrants have an exercise price of \$0.001 per share and vest as follows:

| | | |
|--|---|--|
| | § | 250,000 on April 15, 2003 |
| | § | 250,000 upon the fourth month of employment |
| | § | 250,000 upon the eighth month of employment |
| | § | 250,000 upon the twelfth month of employment |

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In relation to this transaction, the Company recorded deferred compensation expense totaling \$109,000. In addition, because this grant as modified due to the reverse split of November 21, 2003 must be accounted for as a variable award, an additional \$303,750 was recorded relating to this award as of December 31, 2003.

On June 20, 2003, the Company issued warrants to purchase 32,900 shares of common stock to a vendor as payment on accounts payable totaling \$27,786. The warrants have an exercise price of \$.01 per share and expire June 18, 2008. In addition, the Company entered into a note payable agreement with the consultant totaling \$17,000, payable at \$3,000 per month beginning September 2003.

On July 31, 2003, the Company issued warrants to purchase 7,143 shares of common stock to a vendor as payment on accounts payable totaling \$5,676. The warrants have an exercise price of \$0.01 per share and expire June 12, 2008. In addition, the Company entered into a note payable agreement with the consultant totaling \$4,000, payable at \$1,000 a month beginning October 1, 2003.

During September 2003, the Company entered into a compensation agreement with a consultant, whereby the Company will pay a total of \$5,356 of unpaid fees due to the consultant in monthly payments of \$670, payable on the first of the month beginning October 1, 2003. Per the agreement, the Company also issued warrants valued at \$7,065 to purchase 4,167 shares of common stock at an exercise price of \$0.01 per share. The warrants expire on August 5, 2008.

During the six months ended June 30, 2003, the Company issued warrants to purchase 321,285 shares of common stock at exercise prices ranging from \$0.01 to \$0.70 per share to employees in lieu of deferred salaries totaling \$150,465. The warrants expire five years from date of issue.

During the year ended December 31, 2003, options and warrants representing 4,519,373 shares of common stock were exercised for a total value of \$427,575.

During the year ended December 31, 2003 the Company issued 3,796,563 options to various consultants for services rendered. The options have exercise prices between \$.001 and \$5.00 and expire at varying times between six months and five years. Non-cash consulting expense of \$1,165,584 was recorded relating to these agreements.

During the year ended December 31, 2003, the Company issued warrants to purchase 2,545,000 shares of common stock exercisable at \$.20 per share and expiring five years from date of issue. The warrants were issued in connection with the conversion of \$823,119 of convertible notes payable and accrued interest to common shares of the Company, and non-cash expense of \$183,855 was recorded relating to these warrants.

During the year ended December 31, 2004, NutraCea issued 6,998,493 warrants with exercise prices between \$.001 and \$5.00 per share to consultants. The warrants expire at varying times between six months and five years. A total of \$7,761,515 in non-cash compensation expense was recorded relating to the issue of these warrants.

On July 9, 2004, NutraCea issued 25,000 stock options with an exercise price of \$.20, expiring in five years, to an employee of the Company. Non-cash compensation expense of \$21,000 was recorded relating to the issue of these options.

During the quarter ended December 31, 2004, Nutracea issued 2,400,000 warrants with an exercise price of \$0.30, in conjunction with notes payable issued by the Company during the quarter. The warrants are immediately exercisable and expire in seven years from the date of issuance. A total of \$786,371 of accrued debt discount expense was

recorded relating to the issue of these warrants and is being amortized over the term of the notes payable.

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NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the quarter ended December 31, 2004, Nutracea issued 8,000,000 stock options with an exercise price of \$0.30, expiring in 10 years to officers of the Company. Non-cash compensation expense of \$800,000 was recorded relating to the issue of these options.

Modification of Employee Awards Accounted for Under APB 25

NutraCea granted 1,000,000 options in 2003 to an employee where the option agreement contained a provision whereby neither the number of options nor the exercise price would be adjusted by reverse splits. Effective November 12, 2003, NutraCea authorized a 1 for 10 reverse split. This triggered variable accounting for this award. As of November 12, 2003, 500,000 options had been exercised and only 500,000 remained. Variable accounting requires any intrinsic value at the modification date in excess of the amount measured at the original measurement date shall be recognized as compensation cost over the remaining future service period if the award is unvested, or immediately if the award is vested, for any employee who could benefit from the modification. The award vested 75% in 2003 and 25% in 2004. The award will be marked to market each balance sheet date with the changes charged to compensation expense and additional paid in capital. As of December 31, 2003, the additional intrinsic value on the vested portion totaled \$303,750.

Modification of Non-Employee Awards Accounted for Under FAS 123

Nutraceuticals granted 5,725,000 warrants to outsiders in 2003 where the warrant agreements contained a provision whereby neither the number of warrants nor the exercise price would be adjusted by reverse splits. Effective November 12, 2003, NutraCea authorized a 1 for 10 reverse split. This triggered a modification for this award. A modification of the terms of an award that makes it more valuable shall be treated as an exchange of the original award for a new award. In substance, the entity repurchases the original instrument by issuing a new instrument of greater value, incurring additional compensation cost for that incremental value. The incremental value shall be measured by the difference between (a) the fair value of the modified option/warrant determined in accordance with the provisions of this section and (b) the value of the old option/warrant immediately before its terms are modified, determined based on the shorter of (1) its remaining expected life or (2) the expected life of the modified option/warrant. As of December 31, 2003, the additional value totaled \$9,811,002 which was recorded as non-cash compensation expense.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes all of the Company's stock option and warrant transactions:

| | EMPLOYEES | | | |
|----------------------------------|---------------------------------------|---------------------|---------------------------------------|---------------------|
| | Year Ended December 31, 2004 | | Year Ended December 31, 2003 | |
| | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price | Number of Shares |
| | | | | |
| Outstanding, Beginning of Period | \$ 0.56 | 764,700 | \$ 0.41 | 1,090,564 |
| Granted | \$ 0.30 | 8,025,000 | \$ 0.11 | 1,371,285 |
| Expired | \$ 0.00 | 0 | \$ 6.60 | (24,361) |
| Reverse Split | \$ 0.00 | 0 | \$ 4.17 | (981,503) |
| Exercised | \$ 0.01 | (500,000) | \$ 0.02 | (691,285) |
| Outstanding, End of Period | \$ 0.34 | 8,289,700 | \$ 0.56 | 764,700 |
| Exercisable, End of Period | \$ 0.34 | 8,289,700 | \$ 0.56 | 764,700 |

| | CONSULTANTS | | | |
|----------------------------------|---------------------------------------|---------------------|---------------------------------------|---------------------|
| | Year Ended December 31, 2004 | | Year Ended December 31, 2003 | |
| | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price | Number of Shares |
| | | | | |
| Outstanding, Beginning of Period | \$ 0.98 | 3,196,819 | \$ 0.90 | 2,096,890 |
| Granted | \$ 0.62 | 9,598,493 | \$ 0.29 | 6,989,105 |
| Expired | \$ 4.94 | (220,833) | \$ 5.31 | (76,182) |
| Reverse Split | \$ 0.00 | 0 | \$ 8.42 | (1,884,951) |
| Exercised | \$ 0.43 | (6,479,323) | \$ 0.12 | (3,928,043) |
| Outstanding, End of Period | \$ 0.85 | 6,095,156 | \$ 0.98 | 3,196,819 |
| Exercisable, End of Period | \$ 0.85 | 5,845,156 | \$ 0.98 | 3,196,819 |

Other information regarding stock options and warrants outstanding at December 31, 2004 is as follows:

| Options/Warrants Outstanding | | | | Options/Warrants Exercisable | | | |
|------------------------------|---------------------------|------------------|---------------------------------------|------------------------------|---------------------------------------|------------------|---------------------------------------|
| Range of Exercise Price | Remaining Life (Years) | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| \$.01-\$.072 | .5-5 | 151,230 | \$ 0.012 | 151,230 | \$ 0.012 | | |
| \$.20-\$.50 | 5-10 | 11,805,000 | \$ 0.292 | 11,805,000 | \$ 0.292 | | |
| \$.70-\$.80 | 3-5 | 230,000 | \$ 0.743 | 230,000 | \$ 0.743 | | |
| \$1.00-\$1.20 | .5-5 | 1,660,000 | \$ 1.120 | 1,410,000 | \$ 1.140 | | |
| \$2.50-5.00 | 4-10 | 493,259 | \$ 4.300 | 493,259 | \$ 4.300 | | |
| \$10.00 | 10 | 45,363 | \$ 10.000 | 45,363 | \$ 10.000 | | |

14,384,852

14,134,852

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NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average fair value of the stock options granted during 2004 and 2003 was \$0.69 and \$1.04 respectively. Variables used in the Black Scholes option/warrant-pricing model include (1) 2.0% risk-free interest rate, (2) expected option/warrant life is the actual remaining life of the options/warrants as of each year-end, (3) expected volatility ranged from 77% to 251%, and (4) zero expected dividends.

NOTE 12 - RELATED PARTY TRANSACTIONS

In November 2004 the Board of Directors resolved to purchase a new automobile valued at \$73,096 for use by the Chief Executive Officer. The CEO waived a car allowance in exchange for use of the automobile. At December 31, 2004, the Company has booked a payable to related party for \$73,096.

RiceX Company is a publicly owned company. The spouse of our majority stockholder owns approximately 5% of RiceX and is the former CEO and the current Chairman of the Board and a current director of Ricex. RiceX is NutraCea®'s sole supplier for rice bran derivatives, which are integral to NutraCea®'s sales strategy and which account for about 72% of NutraCea®'s total cost of sales.

On December 12, 2001, NutraCea agreed with RiceX to be their exclusive distributor of rice solubles and rice bran fiber concentrate in the United States of America and to have the exclusive rights to various patents and trademarks owned by RiceX under a 15-year agreement. Under the terms of this agreement, RiceX agreed to cancel certain indebtedness by NutraCea in exchange for 130,000 shares of Series A preferred stock and payment of \$41,335 in interest, agreed to new minimum purchase requirements, and agreed to extend the term of the agreement for five years, with two additional renewal periods of five years each. The sales price to NutraCea will be the lower of RiceX's published standard price or the price negotiated by other customers for like quantities and products.

In January 2002, NutraCea revised this 15-year agreement with RiceX. To maintain rights under this revised agreement, NutraCea was to purchase \$250,000 of product from RiceX by April 2002, \$500,000 by July 2002, \$750,000 by October 2002, \$1,250,000 by January 2003, \$1,500,000 by July 2003, \$2,250,000 by January 2004, \$6,000,000 by January 2005, and increasing thereafter by 10% per annum through the remaining term of the agreement. During 2002, NutraCea received notice from RiceX, stating that NutraCea was in default under the terms of this distribution agreement with RiceX. On July 9, 2002, RiceX exercised its right to terminate the exclusive distribution agreement and the related license agreements with NutraCea due to NutraCea's default. However, RiceX has agreed that NutraCea has a license to use the patents in its business pursuits.

NOTE 13 - 401(K) PROFIT SHARING PLAN

Effective April 2000, NutraCea adopted a 401(k) profit sharing plan (the "Plan") for the exclusive benefit of eligible employees and their beneficiaries. Substantially all employees are eligible to participate in the Plan. Matching contributions to the Plan are 3% of the employees' gross salary, not to exceed a certain percentage. For 2004 and 2003, NutraCea made matching contributions of \$16,064 and \$12,616, respectively.

NOTE 14 - BUSINESS SEGMENTS

For internal reporting purposes, management segregates NutraCea into two segments as follows for 2004 and 2003:

NUTRACEA AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SEGMENT INFORMATION**

| <u>Twelve months ended December 31, 2004</u> | Net Sales | (Loss) from Operations | Interest Expense | Total Assets | Depreciation/Amortization |
|---|---------------------|-------------------------------|-------------------------|---------------------|----------------------------------|
| NutraStar Technologies Incorporated | \$ 408,753 | \$ 84,431 | \$ 27,602 | \$ 3,302,018 | \$ 38,057 |
| NutraGlo Incorporated | 600,976 | 213,023 | - | 35,867 | - |
| Unallocated corporate overhead | - | (23,848,816) | - | - | - |
| Total, NutraCea | \$ 1,009,729 | \$ (23,551,362) | \$ 27,602 | \$ 3,337,885 | \$ 38,057 |

| <u>Twelve months ended December 31, 2003</u> | Net Sales | (Loss) from Operations | Interest Expense | Total Assets | Depreciation/Amortization |
|---|---------------------|-------------------------------|-------------------------|---------------------|----------------------------------|
| NutraStar Technologies Incorporated | \$ 251,157 | \$ (1,946,352) | \$ 4,292,109 | \$ 482,089 | \$ 98,787 |
| NutraGlo Incorporated | 1,284,996 | 541,091 | 18,687 | 58,992 | - |
| Unallocated corporate overhead | - | (6,821,743) | - | - | - |
| Total, NutraCea | \$ 1,536,153 | \$ (8,227,004) | \$ 4,310,796 | \$ 541,081 | \$ 98,787 |

NOTE 15 - SUBSEQUENT EVENTS (UNAUDITED)

Effective January 1, 2005, NutraCea entered into a four month consulting agreement with an individual to act as the interim Chief Financial Officer of the Company. Minimum monthly compensation is \$6,250 payable in cash monthly.

On January 25, 2005 the Company entered into a three year employment agreement with its Senior Vice President whereby the Company is to pay the officer a base salary of \$150,000 per year. The agreement also provides that the officer is entitled to a one-time initial bonus of \$25,000 and will be eligible for future incentive bonuses based solely on the discretion of the Chief Executive Officer or President of the Company and to be approved by the Company's Compensation Committee. Warrants to purchase 1,000,000 shares of the Company's common stock at an exercise price of \$0.30 per share were issued and will vest 500,000 at signing of the employment agreement and 500,000 on January 25, 2006. Warrants to purchase 1,000,000 shares of the Company's common stock at an exercise price of \$0.30 per share were also issued and will vest upon the achievement of NutraCea obtaining "Gross Sales over \$25,000,000" and the Company reports a positive EBITDA for the period. All warrants expire in ten years from the date of issuance.

On January 26, 2005 the Company entered into a non-exclusive distribution agreement to distribute the Company's rice based nutraceutical products in the United States. An initial order for \$25,000 was made concurrently with the signing of the agreement. The term of the agreement is for three years. Products are sold to the distributor at NutraCea's standard price schedule; purchases above certain annual minimum requirements will then receive a 5% discount. Additionally, failure to meet these minimum purchase requirements is cause for termination of the agreement at the Company's option. NutraCea may also at its option terminate the agreement upon 60 days written notice to the distributor.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 9, 2005, NutraCea issued 200,000 stock options with an exercise price of \$0.45 per share, vesting in three years, expiring in ten years, to two employees of the Company with each receiving 100,000 options. Non-cash compensation expense of \$2,000 was recorded relating to the issue of these options.

On February 10, 2005 NutraCea entered into a one year consulting agreement with a financial relations company. Compensation shall be \$10,000 per month and the issuance of 700,000 warrants to purchase shares of common stock at a price of \$.45 per share; 700,000 warrants to purchase shares of common stock at a price of \$.65 per share; and 700,000 warrants to purchase shares of common stock at a price of \$.85 per share. In conjunction with this agreement the Company agreed to pay a finder's fee to a consulting company consisting of stock options to purchase 135,000 shares of common stock at a price of \$0.45 per share.

On February 28, 2005 the Company terminated an existing consulting agreement with a retired employee that was entered into on April 19, 2004. At the Company's sole discretion it may retain the services of the consultant on a monthly basis at a rate of \$80 per hour, not to exceed 10 hours per month for the first three months following the termination of the agreement. Additionally, for each patent granted to the Company whereby the consultant is listed as inventor, the consultant shall receive 15,000 shares of restricted common stock; however the maximum value of the stock grant shall not exceed \$15,000 based on the closing bid price of the Company's common stock on the date the patent is granted, with the total shares granted reduced accordingly.

On March 1, 2005, NutraCea amended and restated a consulting agreement (with Company options to extend on an annual basis) with a retired employee of NutraCea. Under the terms of the agreement, monthly compensation of \$7,500 is payable. In addition, the consultant received warrants to purchase 10,000 shares of common stock at \$.43 a share. The 10,000 warrants are valued at \$3,131 and expire in three years. Either party can cancel this agreement with 30-day written notice. If the agreement is extended past the first year then monthly compensation will be increased to \$8,333 with additional warrants to purchase 15,000 shares of common stock at the market price per share at the date of extension. Additionally, for each patent granted to the Company whereby the consultant is listed as inventor, the consultant shall receive 15,000 shares of restricted common stock; however the maximum value of the stock grant shall not exceed \$15,000 based on the closing bid price of the Company's common stock on the date the patent is granted, with the total shares granted reduced accordingly.

On March 23, 2005, NutraCea agreed to pay \$15,000 of unpaid fees to a consultant. NutraCea also agreed to issue 26,786 shares of common stock, valued at \$15,000, to the consultant as payment in full. During the quarter ended March 31, 2005, Nutracea issued 33,067 shares of common stock to consultants for services rendered valued at \$15,000.

During the quarter ended March 31, 2005, Nutracea issued 6,000 shares of common stock pursuant to the exercise of warrants for cash totaling \$432.

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. RESTATEMENT

NutraCea has restated its consolidated statement of cash flows for 2004 to correct a reporting error that was discovered in the fourth quarter of 2005. NutraCea incorrectly reported non-cash issuances of common stock as well as omitted certain items of non-cash disclosure.

This restatement does not have any effect on NutraCea's reported earnings. The following table presents the effects of the correction and restatement on the selected items of the consolidated statement of cash flows.

| | As Previously Reported | Restatement | As Restated |
|--|---------------------------|-------------|-------------|
| Adjustments to reconcile net loss to net cash used in operating activities | | | |
| Non-cash issuances of Preferred stock | (354,337) | 354,337 | - |
| Non-cash issuances of common stock | 15,339,296 | (2,973,437) | 12,365,859 |
| Net cash provided (used in operating activities) | 617,325 | (2,619,100) | (2,001,775) |
| Cash flows from investing activities | | | |
| Purchase of marketable securities | (2,380,000) | 2,380,000 | - |
| Purchase of patents and trademarks | (295,284) | 239,100 | (56,184) |
| Net cash used in investing activities | (2,792,705) | 2,619,100 | (173,605) |
| Non-cash disclosures: | | | |
| Purchase of patents with common stock | - | 239,100 | 239,100 |
| Conversion of preferred stock to common stock | - | 354,337 | 354,337 |

ITEM 8A.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

NutraCea has adopted and implemented internal disclosure controls and procedures that are designed to ensure that information required to be disclosed by NutraCea in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. Under the supervision and with the participation of NutraCea's management, including NutraCea's President and Chief Financial Officer and NutraCea's Controller and Principal Financial Officer, NutraCea has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of the end of the year covered by this report. Based on that evaluation, the President and Chief Executive Officer and the Controller and Principal Financial Officer have concluded that these disclosure controls and procedures are effective as of December 31, 2004.

(b) Changes in Internal Controls

There were not changes in NutraCea's internal controls over financial reporting that occurred during the fourth quarter of fiscal 2004 that have had a material affect or are reasonably likely to have a material affect on NutraCea's internal controls over financial reporting.

PART III

**ITEM EXHIBITS
13.**

(a) Exhibits

| | |
|-------------------------------|---|
| Exhibit 2 ⁽¹⁾ | Plan and Agreement of Exchange. |
| Exhibit 3.1 ⁽²⁾ | Restated Articles of Incorporation filed March 28, 2001. |
| Exhibit 3.2 ⁽²⁾ | Bylaws |
| Exhibit 3.3 ⁽⁵⁾ | Restated and Amended Articles of Incorporation dated December 11, 2001. |
| Exhibit 3.4 ⁽⁶⁾ | Certificate of Amendment of Restated Articles of Amendment |
| Exhibit 10.1 ⁽⁵⁾ | Executive Employment Agreement between NutraCea and Patricia McPeak. |
| Exhibit 10.1.1 ⁽⁵⁾ | Amended Executive Employment Agreement between NutraCea and Patricia McPeak. |
| Exhibit 10.2 ⁽⁵⁾ | Executive Employment Agreement for Edward Newton. |
| Exhibit 10.3 ⁽⁷⁾ | 2003 Stock Compensation Plan |
| Exhibit 10.4 ⁽¹⁰⁾ | Executive Employment Agreement between NutraCea and Bradley Edson. |
| Exhibit 10.5 ⁽¹⁰⁾ | Executive Employment Agreement between NutraCea and Margie Adelman. |
| Exhibit 10.6 ⁽¹⁰⁾ | RiceX License Agreement. |
| Exhibit 10.7 ⁽¹⁰⁾ | W.F. Young Distribution Agreement (Confidential Treatment Requested). |
| Exhibit 10.8 ⁽¹⁰⁾ | W.F. Young Technology Agreement (Confidential Treatment Requested). |
| Exhibit 10.9 ⁽⁹⁾ | Stock Purchase Agreement between NutraCea and Langley Park Investments Trust, PLC |
| Exhibit 10.10 ⁽¹¹⁾ | Restricted Stock Agreement between Patricia McPeak and NutraCea |
| Exhibit 10.11 ⁽¹¹⁾ | Employment Agreement between NutraCea and Patricia McPeak |
| Exhibit 16.1 ⁽³⁾ | Letter on change in certifying accountant dated March 13, 2002. |
| Exhibit 16.2 ⁽⁴⁾ | Updated letter on change in certifying accountant dated March 25, 2002. |
| Exhibit 16.3 ⁽⁴⁾ | Letter on change in certifying accountant dated March 21, 2002. |
| Exhibit 16.4 ⁽⁸⁾ | Letter on change in certifying accountant dated October 28, 2003. |
| <u>Exhibit 23.1*</u> | Accountant's Consent |
| <u>Exhibit 31.1*</u> | Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>Exhibit 31.2*</u> | Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>Exhibit 32.1*</u> | Certification by CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(1) Incorporated by reference to exhibits previously filed on Form 8-K filed on November 19, 2001.

(2) Incorporated by reference to exhibits previously filed on Form 10-SB filed on April 19, 2001.

(3) Incorporated by reference to exhibits previously filed on Form 8-K filed on March 14, 2002.

(4) Incorporated by reference to exhibits previously filed on Form 8-K/A filed on March 25, 2001.

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- (5) Incorporated by reference to exhibits previously filed on Form 10-KSB filed on April 16, 2002.
 - (6) Incorporated by reference to exhibits previously filed on Form 10-QSB filed on November 18, 2003
 - (7) Incorporated by reference to exhibits previously filed on Form S-8 filed November 19, 2003.
 - (8) Incorporated by reference to exhibits previously filed on Form 8-K/A filed on November 7, 2003.
 - (9) Incorporated by reference to exhibit previously filed on Form 8-K filed on September 14, 2004
 - (10) Incorporated by reference to exhibit previously filed on Form 10-KSB filed March 31, 2005
 - (11) Incorporated by reference to exhibits previously filed on Form 10-KSB/A filed November 18, 2005.
- * Filed with this Form 10-KSB/A.

SIGNATURES

In accordance with Section 13 or 15 (d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 31, 2006 NUTRACEA
 By: /s/ Bradley Edson
 Bradley Edson
 Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|--|---|--------------------|
| /s/ Bradley Edson Bradley Edson | Director and Chief Executive Officer | January 31, 2006 |
| /s/ Patricia McPeak Patricia McPeak | Director | February 2, 2006 |
| /s/ Eliot Drell Eliot Drell | Director | January 31, 2006 |
| /s/ David Bensol David Bensol | Director | January 31, 2006 |
| /s/ Steven W. Saunders Steven W. Saunders | Director | January 31, 2006 |
| /s/ James C. Lintzenich James C. Lintzenich | Director | January 31, 2006 |
| /s/ Edward L. McMillan Edward L. McMillan | Director | January 31, 2006 |
| /s/ Margie Adelman Margie Adelman | Secretary | January 31, 2006 |
| /s/ Todd C. Crow Todd C. Crow | Chief Financial Officer (Principal Financial and Accounting Officer) | January 31, 2006 |