SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended September 30, 2010

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

For the transition period from __________ to __________

Commission File Number 0-32565

NutraCea
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| California<br>(State or other jurisdiction of incorporation or organization) | 87-0673375<br>(I.R.S. Employer Identification No.) |
| 6720 North Scottsdale Road., Suite 390<br>Scottsdale, AZ<br>(Address of Principal Executive Offices) | 85253<br>(Zip Code) |

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

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

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

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

Large accelerated filer o    Accelerated filer o

Non-accelerated filer o (do not check if a smaller reporting company)    Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule l2b-2 of the Exchange Act).  Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of March 15, 2011, 195,509,109 shares of the registrant's common stock were outstanding.

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NutraCea (Debtor in Possession)
Condensed Consolidated Statements of Operations
(Unaudited; in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues | $8,403 | $8,260 | $23,126 | $25,054 |
| Cost of goods sold | 6,269 | 6,478 | 17,788 | 20,339 |
| Gross profits | 2,134 | 1,782 | 5,338 | 4,715 |
| | | | | |
| Operating expenses: | | | | |
| Selling, general and administrative | 3,842 | 5,102 | 11,468 | 16,194 |
| Professional fees | 668 | 457 | 1,632 | 2,408 |
| Impairment of property, plant and equipment | - | 8,845 | 1,000 | 8,845 |
| Loss on disposal of trademarks, property, plant and equipment | 540 | (12) | 943 | 342 |
| Provision (recovery) for doubtful accounts receivable and notes receivable | 86 | (2) | 209 | (66) |
| Research and development | 1 | 167 | 123 | 841 |
| Impairment of trademarks | - | 1,494 | - | 1,494 |
| Total operating expenses | 5,137 | 16,051 | 15,375 | 30,058 |
| | | | | |
| Loss from operations | (3,003) | (14,269) | (10,037) | (25,343) |
| | | | | |
| Other income (expense): | | | | |
| Interest income | 14 | 119 | 31 | 376 |
| Interest expense | (404) | (293) | (985) | (1,701) |
| Loss on equity method investments | (10) | (151) | (31) | (203) |
| Foreign exchange gain (loss) | - | 62 | - | (91) |
| Warrant liability (expense) income | 250 | (74) | 63 | 1,497 |
| Other income | 31 | - | 231 | - |
| Other expense | - | (100) | - | (106) |
| Total other income (expense) | (119) | (437) | (691) | (228) |
| | | | | |
| Reorganization expenses: | | | | |
| Professional fees | 111 | - | 847 | - |
| Total reorganization expenses | 111 | - | 847 | - |
| Loss before income taxes | (3,233) | (14,706) | (11,575) | (25,571) |
| Income tax benefit | 143 | 82 | 687 | 282 |
| Net loss | (3,090) | (14,624) | (10,888) | (25,289) |
| Net loss attributable to noncontrolling interest | - | 27 | - | 108 |
| Net loss attributable to NutraCea shareholders | $(3,090) | $(14,597) | $(10,888) | $(25,181) |
| | | | | |
| Loss per share attributable to NutraCea shareholders | | | | |
| Basic | $(0.02) | $(0.08) | $(0.06) | $(0.14) |
| Diluted | $(0.02) | $(0.08) | $(0.06) | $(0.14) |

| | | | | |
|---|---|---|---|---|
| Weighted average number of shares outstanding | | | | |
| Basic | 193,028 | 191,114 | 193,016 | 180,375 |
| Diluted | 193,028 | 191,114 | 193,016 | 180,375 |

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NutraCea (Debtor in Possession)
Condensed Consolidated Balance Sheets
(Unaudited; in thousands, except share amounts)

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $1,273 | $952 |
| Restricted cash | 1,916 | 1,915 |
| Accounts receivable, net of allowance for doubtful accounts of $277 and $153 | 3,348 | 3,506 |
| Inventories | 2,951 | 3,238 |
| Notes receivable, current portion, net of allowance for doubtful notes receivable of $636 and $636 | 1,200 | 1,200 |
| Deposits and other current assets | 2,451 | 2,637 |
| Assets held for sale - property, plant and equipment | 4,498 | 14,551 |
| Assets held for sale - trademarks | - | 650 |
| Total current assets | 17,637 | 28,649 |
| | | |
| Notes receivable, net of current portion | 900 | 1,800 |
| Property, plant and equipment, net | 24,388 | 26,243 |
| Intangible assets, net | 6,644 | 7,679 |
| Goodwill | 5,746 | 5,626 |
| Equity method investments | 60 | 91 |
| Other long-term assets | 95 | 80 |
| Total assets | $55,470 | $70,168 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $2,667 | $2,588 |
| Accrued expenses | 4,813 | 5,080 |
| Long-term debt - current portion | 3,716 | 6,642 |
| Warrant liability, current portion | - | 34 |
| Total current liabilities | 11,196 | 14,344 |
| | | |
| Liabilities subject to compromise | 6,406 | 6,988 |
| | | |
| Long-term liabilities: | | |
| Long-term debt, net of current portion | 5,459 | 5,957 |
| Deferred tax liability | 4,481 | 5,110 |
| Warrant liability, net of current portion | 1,216 | 1,245 |
| Other long-term liabilities | 1,000 | 1,000 |
| Total liabilities | 29,758 | 34,644 |
| | | |
| Commitments and contingencies | | |
| | | |
| Equity: | | |
| Equity attributable to NutraCea shareholders: | | |
| | - | - |

| | | |
|---|---|---|
| Convertible, series E preferred stock, no par value, $1,000 stated value, 2,743 shares authorized, no shares outstanding | | |
| Convertible, series D preferred stock, no par value, $1,000 stated value, 10,000 shares authorized, no shares outstanding | - | - |
| Common stock, no par value, 350,000,000 shares authorized, 193,027,680 and 192,967,680 shares issued and outstanding | 206,163 | 205,291 |
| Accumulated deficit | (180,032) | (169,144) |
| Accumulated other comprehensive loss | (263) | (467) |
| Total equity attributable to NutraCea shareholders | 25,868 | 35,680 |
| Noncontrolling interest | (156) | (156) |
| Total equity | 25,712 | 35,524 |
| Total liabilities and equity | $55,470 | $70,168 |

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NutraCea (Debtor in Possession)
Condensed Consolidated Statements of Cash Flows
(Unaudited; in thousands)

| | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net loss | $(10,888) | $(25,289) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation and amortization | 3,471 | 5,376 |
| Provision for doubtful accounts receivable and notes receivable | 209 | (66) |
| Impairment of property, plant and equipment | 1,000 | 8,845 |
| Loss on disposal of trademarks, property, plant and equipment | 943 | 342 |
| Share-based employee and director compensation | 866 | 398 |
| Share-based consultant compensation | 6 | - |
| Warrant liability expense (income) | (63) | (1,497) |
| Deferred tax benefit | (691) | (296) |
| Reorganization expenses | 847 | - |
| Impairment of intangible assets | - | 1,494 |
| Foreign exchange loss | - | 91 |
| Loss on equity method investments | 31 | 203 |
| Share-based interest expense | - | 861 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 11 | 530 |
| Inventories | 332 | 1,083 |
| Other current assets | 178 | 1,142 |
| Accounts payable and accrued expenses | (911) | 1,285 |
| Net cash used in operating activities before reorganization item | (4,659) | (5,498) |
| | | |
| Reorganization item - professional fees | (738) | - |
| Net cash used for reorganization item | (738) | - |
| Net cash used in operating activities | (5,397) | (5,498) |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from payments on notes receivable | 900 | 522 |
| Purchases of property and equipment | (415) | (1,317) |
| Proceeds from sale of trademarks, property, plant and equipment | 8,872 | - |
| Proceeds from sale of equity method investment | - | 1,675 |
| Restricted cash | - | 2,211 |
| Other | (16) | - |
| Net cash provided by investing activities | 9,341 | 3,091 |
| | | |
| Cash flows from financing activities: | | |
| Payments on redemption of convertible, preferred stock | - | (556) |
| Proceeds from noncontrolling interest | - | 32 |
| Payments on debt | (3,595) | (1,847) |
| Net cash used in financing activities | (3,595) | (2,371) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (28) | 48 |

| | | |
|---|---|---|
| Net increase (decrease) in cash and cash equivalents | 321 | (4,730) |
| Cash and cash equivalents, beginning of year | 952 | 4,867 |
| Cash and cash equivalents, end of year | $1,273 | $137 |
| | | |
| Supplemental disclosures: | | |
| Cash paid for interest | $812 | $665 |
| Cash paid for income taxes | - | - |

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NutraCea (Debtor in Possession)
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

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

These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto in our Annual Report on Form 10-K, for the year ended December 31, 2009.

The interim results of operations and interim cash flows for the three months and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period and have been prepared assuming we will continue as a going concern based on the realization of assets and the satisfaction of liabilities in the normal course of business. We have experienced recurring losses and negative cash flows from operations. In the past we have turned to the equity markets for additional liquidity. This was not a source of funds during 2010 and 2009 due to our financial position, the state of the equity markets and the bankruptcy filing discussed below. However, exiting bankruptcy on November 30, 2010, combined with improving financial performance and equity market conditions, may allow us to raise equity funds. We intend to provide the necessary cash to continue operations through the monetization of certain assets, growth of sales, and possible equity financing transactions.

Certain reclassifications have been made to prior period amounts to conform to classifications adopted in the current year.

Note 2. Chapter 11 Reorganization, Liquidity and Management's Plan

Chapter 11 Reorganization

On November 10, 2009, NutraCea (the Parent Company) filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (Bankruptcy Code) in the United States Bankruptcy Court for the District of Arizona (the Bankruptcy Court), in the proceeding entitled In re: NutraCea, Case No. 2:09-bk-28817-CGC (the Chapter 11 Reorganization). None of the Parent Company's subsidiaries, including its Brazilian rice bran oil operation, were included in the bankruptcy filing. The Parent Company continued to manage its assets and operate its business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. Under the Bankruptcy Code, certain claims against the Parent Company in existence prior to the filing of the bankruptcy petition were stayed during the pendency of the Chapter 11 Reorganization. Additional claims arose subsequent to the filing date from the Parent Company's business operations, its secured borrowing from Wells Fargo Bank, N.A. (Wells Fargo), its employment of professionals, its disposition of certain non-core assets (as described below) and its treatment of certain executory contracts. The claim of Wells Fargo, the primary secured creditor of the Parent Company, was secured by perfected liens against the Parent Company's real and personal property, including, without limitation, its plant and equipment, trade receivables and inventory.

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On August 10, 2010, the Parent Company and the Official Unsecured Creditors Committee filed with the Bankruptcy Court an amended plan of reorganization (Amended Plan) in accordance with the Bankruptcy Code. The Amended Plan called for the payment in full of all allowed claims. Creditors voted overwhelmingly in favor of the Amended Plan and, on October 27, 2010, the Bankruptcy Court entered its order confirming the Amended Plan. The confirmation order became final on November 10, 2010, and the Amended Plan became effective on November 30, 2010.

In connection with the Chapter 11 Reorganization, we entered into a Senior Secured Super-Priority Debtor-In-Possession Credit and Security Agreement (DIP Credit Agreement), successor loan to the Wells Fargo secured borrowing, which was paid in full as of December 31, 2010.

The liabilities subject to compromise existing at December 31, 2009 became the Parent Company's payment obligations under the Amended Plan of approximately $7.0 million when the Amended Plan became effective. As of December 2010, the portion of these obligations remaining unpaid is reflected as pre-petition liabilities. During 2010, $0.6 million of these obligations were paid with proceeds from the sale of the Phoenix, Arizona building. Interest accrued on the allowed liabilities subject to compromise from November 2009 through November 2010, at an annual rate of 0.38%. Interest accrues on the unpaid prepetition liabilities at an annual rate of 8.25% beginning in December 2010.

The Parent Company intends to discharge the obligation to pay these pre-petition liabilities by selling non-core assets, possible equity financing transactions, collecting outstanding receivables, and borrowing on a secured basis. To secure a portion of these payment obligations, unsecured creditors were granted a lien in all of the Parent Company's assets. The lien is administered and may be enforced by a plan agent, who was jointly selected by the Parent Company and the Official Unsecured Creditors Committee. The plan agent may, among other things, sell specified assets if the payment benchmarks set forth in the Amended Plan are not met.

Under the Amended Plan, if we fail to meet certain benchmarks for payment to our general unsecured creditors as described in the Amended Plan, the plan agent may direct and control the sale of pledged assets as follows:

| Benchmark Date | Required Cumulative Payment | Pledged Assets Subject to Sale by Plan Agent, if Benchmark Not Met | Net Proceeds Plan Agent Retains for the General Unsecured Creditors |
|---|---|---|---|
| July 15, 2011 | 50% | Dillon, Montana facility and all loose equipment, | 75% of proceeds from the sale of the facility and up to 100% of the proceeds from the sale of loose equipment |
| October 15, 2011 | 75% | Dillon, Montana facility and all loose equipment | 75% of proceeds from the sale of the facility and up to 100% of the proceeds from the sale of loose equipment |
| January 15, 2012 | 100% | Lake Charles, Louisiana facility and any remaining pledged assets | Up to 100% of net proceeds from the sale |

Since we will not be able to control the sale of the above assets if we do not meet the payment benchmarks, we cannot guarantee that the assets will be sold at a value satisfactory to us. As of March 31, 2011, we have made distributions to the general unsecured creditors totaling $3.1 million, or approximately 44% of the amount owed, plus accrued interest.

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Under the Amended Plan, the following must be paid to the general unsecured creditors, if and when received:

- 75% of the net proceeds from the sale of the Dillon, Montana facility;
- the greater of (i) $2.2 million or (ii) 40% of the first $5.0 million in net proceeds we receive from the monetization of our interest in Nutra SA, LLC (Nutra SA) plus 50 % of any net proceeds over $5.0 million;
- 50% of the net proceeds from the sale of our interest in Rice Science, LLC or Rice Rx LLC;
- 100% of the net proceeds from the sale of any loose (uninstalled) equipment;
- 75% of any prepayments received on the note receivable from Ceautamed Worldwide, LLC (Ceautamed), if any, and all receipts on the note beginning April 1, 2011;
- 75% of the net proceeds from the sale or monetization of the Lake Charles, Louisiana improvements or Mermentau, Louisiana facility, after payment of professional fees;
- 75% of the net proceeds from the sale or monetization of any other pledged assets;
- 100% of any recoveries from avoidance actions or actions against former officers and directors.

Liquidity and Management's Plans

The Parent Company and it's wholly and majority owned subsidiaries have experienced recurring losses and negative cash flows from operations. Due to defaults under our credit agreement with Wells Fargo our credit lines were reduced to approximately $3.5 million as of July 2009, which was the level of the current outstanding loans and obligations at that time. We also entered into a forbearance agreement with Wells Fargo pursuant to which Wells Fargo agreed to forebear from exercising its rights and remedies with respect to the existing defaults. We were behind on our payments to vendors and had defaulted on several agreements due to non-payment resulting in declaring bankruptcy as described above. Although we emerged from bankruptcy in November 2010, we have not yet demonstrated the ability to generate sufficient cash flows from operations to meet our working capital needs. These factors raise substantial doubt about our ability to continue as a going concern.

We have taken steps to improve profitability and liquidity by reducing our U.S. based employee headcount at both the corporate and plant operations level. The reductions in force that occurred at various times throughout 2009 resulted in annualized savings of approximately $2.4 million (unaudited). In January 2010, an additional corporate reduction in force was enacted resulting in annualized savings of $0.8 million (unaudited). Effective January 1, 2010, we moved our corporate headquarters to less expensive office space resulting in yearly rent savings of approximately $1.2 million (unaudited). The combined effect of the cost cutting efforts total $4.4 million (unaudited).

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

- growing sales in existing markets, including bulk Stabilized Rice Bran (SRB) and rice bran oil;
- aligning with strategic partners who can provide channels for additional sales of our products including rice-bran oil extraction;
- price increases; and
- growing consumer retail product sales.

In the past we have turned to the equity markets for additional liquidity. This was not a source of funds during 2010 and 2009 due to our financial position, the state of the equity markets and the bankruptcy filing. However, exiting bankruptcy on November 30, 2010, combined with improving financial performance and equity market conditions, may allow us to raise equity funds. We intend to provide the necessary cash to continue operations through the monetization of certain assets, growth of sales, and possible equity financing transactions. Asset monetization may include some or all of the following:

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

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Some of these sales could result in additional non-cash write downs of asset values. Although management believes that they will be able to obtain the funds necessary to continue as a going concern there can be no assurances that our efforts will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Note 3. General Business

We are a food ingredient and health company focused on the procurement, processing and refinement of rice bran and derivative products. We