NUTRACEA
Form 10QSB/A
August 16, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB/A

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT FOR THE TRANSITION PERIOD FROM _______________ to _______________

Commission File Number 0-32565

NUTRACEA
(Exact name of small business issuer as specified in its charter)

CALIFORNIA	87-0673375
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1261 Hawk's Flight Court El Dorado Hills, California	95762
(Address of Principal Executive Offices)	(Zip Code)

Issuer's telephone number: (916) 933-7000

NUTRASTAR INCORPORATED
(Former name)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

YES X NO ___

Common stock, no par value, 26,413,114 issued and outstanding as of August 6, 2004.

Transitional Small Business Disclosure Format (Check One): Yes ___ NO X

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NUTRACEA
(FORMERLY NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Consolidated Balance Sheet
(Unaudited)

	June 30, 2003 (Restated)
ASSETS	
CURRENT ASSETS	
Cash	$ 184,309
Accounts receivable	10,081
Inventory, net	98,850
Prepaid expenses	5,151
Total current assets	298,391
PROPERTY AND EQUIPMENT, net	97,644
PATENTS AND TRADEMARKS, net	48,964
GOODWILL	250,001
DEPOSITS	64,254
TOTAL ASSETS	$ 759,254

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NUTRACEA
(FORMERLY NUTRASTAR INCORPORATED)

AND SUBSIDIARIES
Consolidated Balance Sheet
(Unaudited)

	June 30, 2003 (Restated)
LIABILITIES AND SHAREHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	$ 742,045
Due to factor	103,066
Accrued salaries and benefits	34,047
Deferred salaries	376,677
Accrued expenses	101,740
Due to related parties	33,949
Customer deposits	179,132
Convertible notes payable	156,700
Notes payable - related parties	246,222
Total current liabilities	1,973,578
PUT OPTION	130,000
Total liabilities	2,103,578
COMMITMENTS AND CONTINGENCIES	
CONVERTIBLE, REDEEMABLE SERIES A PREFERRED STOCK, no par value, $1 stated value 3,000,000 shares authorized 2,144,707 shares issued and outstanding	2,135,995
SHAREHOLDERS' DEFICIT	
Common stock, no par value 50,000,000 shares authorized 26,633,547 shares issued and outstanding	6,498,901
Common stock committed	524,424
Deferred compensation	(659,912)
Accumulated deficit	(9,843,732)
Total shareholders' deficit	(3,480,319)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 759,254

NUTRACEA
(FORMERLY NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

For the Six Months Ended For the Three Months Ended

	June 30,		June 30,	
	2003	2002	2003	2002
	(Restated)	(Restated)	(Restated)	(Restated)
REVENUES				
Net sales	$ 575,432	$ 830,727	$ 349,441	$ 536,370
COST OF GOODS SOLD	323,120	553,998	195,721	371,526
GROSS PROFIT	252,312	276,729	153,720	164,844
OPERATING EXPENSES	1,298,356	2,246,838	835,749	1,065,370
LOSS FROM OPERATIONS	(1,046,044)	(1,970,109)	(682,029)	(900,526)
OTHER INCOME (EXPENSE)				
Interest income	-	204	-	-
Interest expense	(39,877)	(5,368)	(22,686)	(5,024)
Total other income (expense)	(39,877)	(5,164)	(22,686)	(5,024)
NET LOSS	(1,085,921)	(1,975,273)	(704,715)	(905,550)
CUMULATIVE PREFERRED DIVIDEND	(75,064)	(72,965)	(37,532)	(36,483)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$(1,160,985)	$(2,048,238)	$ (742,247)	$ (942,033)
BASIC AND DILUTED LOSS AVAILABLE TO COMMON SHAREHOLDERS PER SHARE	$ (0.47)	$ (0.95)	$ (0.29)	$ (0.44)
BASIC AND DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	2,470,871	2,164,952	2,522,280	2,164,952

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NUTRACEA
(FORMERLY NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Consolidated Statements of Cash Flow
(Unaudited)

For the six months ended
June 30,

	2003 (Restated)	2002 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,085,921)	$(1,682,767)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	64,100	62,380
Inventory obsolescence	-	8,702
Loss reserve for patents and trademarks	-	66,678
Amortization of deferred compensation	44,006	155,980
Non-cash issuances of stock options	398,650	221,688
Non-cash issuances of warrants	-	850
Non-cash issuances of committed stock	-	162,500
(Increase) decrease in		
Accounts receivable	(2,808)	(78,283)
Inventory	(56,155)	(46,430)
Prepaid expenses	22,029	(8,776)
Deposits	(103,021)	316,071
Increase (decrease) in		
Accounts payable	96,480	147,122
Due to factor	103,066	-
Accrued salaries and benefits	(17,145)	19,015
Deferred salaries	282,869	93,462
Accrued expenses	(10,104)	41,353
Customer deposits	134,816	-
Due to officer	7,355	(21,778)
Net cash used in operating activities	(121,783)	(542,233)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,103)	(66,149)
Purchase of patents and trademarks	(5,145)	(11,304)
Net cash used in investing activities	(6,248)	(77,453)

NUTRACEA
(FORMERLY NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Consolidated Statements of Cash Flow
(Unaudited)

	For the six months ended June 30, 2003 (Restated)	2002 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	$ (50,000)	$ -
Proceeds from convertible note payable	156,700	-

Proceeds from notes payable - related parties	275,422	100,000
Payments on notes payable - related parties	(210,000)	-
Proceeds from issuance of common stock	104,500	125,000
Proceeds from exercise of stock options	1,000	-
Net cash provided by financing activities	277,622	225,000
Net increase (decrease) in cash	149,591	(394,686)
CASH, BEGINNING OF PERIOD	34,718	405,502
CASH, END OF PERIOD	$ 184,309	$ 10,816

NUTRACEA AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1-BASIS OF PRESENTATION:

The accompanying unaudited interim consolidated financial statements of NutraCea have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report filed with the SEC on Form 10-KSB. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements that would substantially duplicate the disclosure contained in the audited financial statements for 2002 as reported in the 10-KSB have been omitted.

NOTE 2-RESTATEMENT:

NutraCea has restated its Consolidated Financial Statements for the second quarter and six months ended June 30, 2003 to correct a reporting error discovered in the fourth quarter of 2003 in the valuation of stock-based compensation. This restatement increased operating expenses and the net loss attributable to common shareholders by $373,900 for the quarter and six months ended June 30, 2003.

NutraCea has also restated its Consolidated Financial Statements for 2002 to correct a reporting error discovered in the fourth quarter of 2003. During 2002, NutraCea's CEO transferred personal shares of common stock to third-party consultants as compensation for services rendered to NutraCea and to settle certain contingencies related to the failure to file an effective registration by June 03, 2002. These transactions were omitted in error from the financial statements as originally reported. This restatement increases the net loss attributable to common shareholders by $292,506 for the quarter and six months ended June 30, 2002.

The following table presents the effects of the corrections and restatements on a condensed basis.

	For the six months ended June 30, 2003			For the th Jun	
	As previously reported	Restatement adjustments	As restated	As previously reported	R a
Operating expenses	$ 924,456	373,900	$ 1,298,356	$ 461,849	
Net loss available to common shareholders	$ (787,085)	(373,900)	$(1,160,985)	$ (368,347)	
Basic and diluted loss available to common shareholders per share	$ (0.32)	(0.15)	$ (0.47)	$ (0.15)	

	For the six months ended June 30, 2002			For the
	As previously reported	Restatement adjustments	As restated	As previously reported
Operating expenses	$ 1,954,332	292,506	$ 2,246,838	$ 772,864
Net loss available to common shareholders	$ (1,755,732)	(292,506)	$(2,048,238)	$ (649,527)
Basic and diluted loss attributable to common shareholders per share	$ (0.81)	(0.14)	$ (0.95)	$ (0.30)

NOTE 3-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 proforma 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.

	For the six months ended June 30, 2003	2002	For the three months ended June 30, 2003	2002
	(Restated)	(Restated)	(Restated)	(Restated)
Net loss available to common shareholders:				
As reported:	$(1,160,985)	$(2,048,238)	$ (742,247)	$(942,033)
Less: compensation expense charged to income:	398,650	222,538	398,650	14,850
Plus: proforma compensation expense:	(491,732)	(378,787)	(491,732)	(14,850)

Proforma net loss available to common shareholders:	$(1,254,067)	$(2,204,487)	$ (835,329)	$(942,033)
Basic loss per common share:				
As reported:	$ (0.47)	$ (0.95)	$ (0.29)	$ (0.44)
Proforma:	$ (0.51)	$ (1.02)	$ (0.33)	$ (0.44)

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NOTE 4 - NOTES PAYABLE AND FINANCING AGREEMENTS

In March, 2003 the Company executed two promissory notes totaling $45,000 to a third party investor. The notes bear interest at 2% per month, are due on demand, and are collateralized by shares of the Company's common stock. The Company retired $5,000 of this debt in September, 2003. In addition, the Company retired a $50,000 note payable to a third party investor in June of 2003.

During the six months ended June 30, 2003, the Company entered into a non-recourse factoring agreement with a financial institution to factor certain of its accounts receivable. According to the agreement, the purchase price of qualifying accounts receivable was up to 75% of the total outstanding purchase orders, plus a bonus based upon a certain percentage applied to the amount borrowed from the factor, depending on when the invoice is paid. A contingent reserve of 25% of the purchase price represents a hold-back to secure the performance, and the Company must meet various other conditions in accordance with the agreement. As of June 30, 2003, the Company recorded due to factor of $103,066, which represents 29% of certain purchase orders factored.

In June 2003, the Company entered into convertible note payable agreements with a third party investor for $111,500, including $4,800 in finder's fees. The note bears interest at 10% per annum and is due in July, 2004. The note is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the notes, the holder is entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of the issuance.

NOTE 5 - NOTES PAYABLE - RELATED PARTIES

The Company executed a note payable in June, 2003 in the amount of $50,000 to a greater than 5% shareholder. The note is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $.20 per share, bears interest at 10% per annum, and is due in June, 2004. Upon conversion of the note payable, the holder will be entitled to receive one warrant to purchase common stock for each common share issued. The warrant will have an exercise price of $.20 per share and will expire one year from the date of issuance.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Registration Statement

The Company will pay all of the costs connected with the registration on Form SB-2 related to the re-sale of up to 3,709,028 pre-reverse split shares of common stock originally filed on June 4, 2002, except the holder of the common stock will pay all sales commissions or brokers' discounts and the fees and expenses of the holders' legal counsel or accountants, if any. This registration statement was withdrawn on June 10, 2003.

Agreements

In April 2003, the Company entered into a three-year employment agreement with its Chief

Operating Officer, whereby the Company is to pay the officer a base salary of $10,000 per month. The agreement states that the first four months salary will be deferred, except for a 10% percentage bonus to be paid to the officer dependent upon certain reductions in monthly operation costs or conversion of debt into equity. The agreement also provides that the officer is entitled to an annual bonus based upon performance and a monthly car allowance of $500, beginning on the seventh month of employment. In addition, the officer was issued warrants to purchase 1,000,000 shares of the Company's common stock, 250,000 of which vest only if certain earnings benchmarks are met (see "common stock").

Litigation

On April 4, 2002, a complaint was filed against the Company by Millennium Integrated Services, Inc. ("MISI") in the Superior Court of California for the County of Sacramento. MISI provided Web site development services to the Company at a cost of $204,405. MISI sought contract payment of $204,405, plus interest of $32,031 and damages for alleged conversion and misappropriation of trade secrets. On April 9, 2002, MISI filed a Motion for a Writ of Attachment that would allow MISI to seize and hold the Company's assets worth $236,436, pending the resolution of the lawsuit. This Writ of Attachment was granted on April 10, 2002. On May 27, 2003, the Company entered into a settlement agreement with MISI for $148,000. Per the agreement, approximately $30,000 of this amount had been levied by the Writ of Attachment and attached to a bank account and accounts receivable. As of July 1, 2003, the Company paid a total of $118,000 in cash in full settlement of this matter.

On July 16, 2002, a Complaint was filed against the Company by Faraday Financial, Inc. ("Faraday"), in the United States District Court, for the District of Utah (Case No 02-CV-00959). The lawsuit stems from a settlement agreement entered into in December 2001, pursuant to which Faraday converted $500,000 of debt into 735,730 pre-reverse split shares of the Company's preferred stock. Among other terms, the settlement agreement required that a registration statement covering the resale of the 735,730 pre-reverse split shares be in effect by June 30, 2002. Although the Company filed a registration statement on June 4, 2002, such registration statement has not been declared effective. In the event that the Company failed to affect a registration statement by June 30, 2002, the Company's Chief Executive Officer, Ms. Patricia McPeak, was to transfer to Faraday an additional 735,730 pre-reverse split shares of her common stock and become personally liable to Faraday for the original $500,000 debt amount plus 12% interest per annum. Faraday is also seeking a judgment against the Company for $500,000 plus accrued, but unpaid interest. Faraday is also claiming attorney's fees and other costs related to the lawsuit.

On August 29, 2002, the Company filed a motion to dismiss the Complaint due to lack of personal jurisdiction for both itself and Ms. McPeak. On November 27, 2002, the Company's motion to dismiss was denied as to both the Company and Ms. McPeak. A tentative settlement agreement was reached on October 5, 2003, whereby the suit will be dismissed and Faraday shall be guaranteed payment or any deficiency upon the sale of their common stock.

NOTE 7 - SHAREHOLDERS' DEFICIT

As disclosed in Note 9, Subsequent Events, effective November 12, 2003 and pursuant to adoption of the Company's "Certificate of Amendment of Restated Articles of Incorporation"

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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. Unless otherwise noted, all prior period share amounts reflected in the following discussion of common stock and elsewhere in this Form 10-QSB have been adjusted to account for the one-for-ten reverse split.

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.

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 September 30, 2003, cumulative dividends totaled $108,489.

Common Stock

During the six months ended June 30, 2003, the Company issued 35,000 shares of common stock from committed stock totaling $47,2590.

From January 2003 to March 2003, the Company issued 1,033,333 shares of common stock for cash totaling $90,000.

In April 2003, The Company sold 307,143 shares of common stock for cash totaling $21,500.

In June 2003, the Company issued 1,000,000 shares of common stock to two employees for the exercise of stock options with cash totaling $1,000.

Due to the termination of certain employees during the six months ended June 30, 2003, the Company recorded a reversal of deferred compensation totaling $243,605.

Stock Options

During the six months ended June 30, 2003, the Company issued warrants to purchase 2,745,000 pre-reverse split shares of common stock at exercise prices ranging from $0.001 to $0.07 per

share to employees in lieu of deferred salaries totaling $232,154.

On March 5, 2003, the Company entered into a consulting agreement for certain consulting services. As compensation for any funding, the consultant is to be paid 7.5% of any cash received, 2.5% in value of such funding in warrants to purchase common stock of the Company, based on the closing price on the day any agreement is signed, and a warrant to purchase one share of the Company's common stock for every dollar funded. The warrants are exercisable at $0.50 per pre-reverse split share on or before three years from the anniversary of any funding. Pursuant to this agreement, during the nine months ended September 30, 2003, the Company issued warrants to purchase 108,708 pre-reverse split shares of common stock at an exercise price of $0.001 per share and warrants to purchase 444,200 pre-reverse split shares of common stock at an exercise price of $.50 per share. Non-cash compensation expense of $15,202 was recorded as a result of these awards. As of September 30, 2003, all of the 108,708 warrants at an exercise price of $0.001 had been exercised.

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 achievement by the Company of two successive calendar quarters of positive earnings before interest, tax, and depreciation and amortization

In relation to this transaction, the Company recorded compensation expense totaling $24,750 and deferred compensation totaling $74,250 as of June 30, 2003.

The expense, if any, of warrants issued to employees is recognized over the shorter of the term of service or vesting period. The expense of warrants issued to consultants or other third parties are recognized over the term of service. In the event services are terminated early, the entire amount is recognized. The unamortized portion of the expense to be recognized is recorded as deferred compensation.

NOTE 8 - BUSINESS SEGMENTS

For internal reporting purposes, management segregates the Company into operating segments as follows for the six and three months ended June 30, 2003 and 2002:

SIX MONTHS ENDED 6/30/2003 (RESTATED)	NET SALES	(LOSS) FROM OPERATIONS	INTEREST EXPENSE	TOTAL ASSETS	DEPRECIATIO AMORTIZATI
NutraStar Technologies Incorporated	$ 63,073	$ 106,404	$ 39,877	$625,991	$ 64,
NutraGlo Incorporated	512,359	183,714	-	133,263	
Unallocated corporate overhead	-	(1,336,162)	-	-	
Total, NutraCea	$ 575,432	$ (1,046,044)	$ 39,877	$759,254	$ 64,

SIX MONTHS ENDED 6/30/2002 (RESTATED)	NET SALES	(LOSS) FROM OPERATIONS	INTEREST EXPENSE	TOTAL ASSETS	DEPRECIATIO AMORTIZATIO
NutraStar Technologies Incorporated	$ 475,139	$ (303,941)	$ 5,368	$683,089	$ 62,
NutraGlo Incorporated	355,588	112,332	-	75,640	
Unallocated corporate overhead	-	(1,778,500)	-		
Total, NutraCea	$ 830,727	$ (1,970,109)	$ 5,368	$758,729	$ 62,

THREE MONTHS ENDED 6/30/2003 (RESTATED)	NET SALES	(LOSS) FROM OPERATIONS	INTEREST EXPENSE	TOTAL ASSETS	DEPRECIATIO AMORTIZATIO
NutraStar Technologies Incorporated	$ 38,323	$ 85,602	$ 22,686	$625,991	$ 31,
NutraGlo Incorporated	311,118	102,470	-	133,263	
Unallocated corporate overhead	-	(870,101)	-	-	
Total, NutraCea	$ 349,441	$ (682,029)	$ 22,686	$759,254	$ 31,

THREE MONTHS ENDED 6/30/2002 (RESTATED)	NET SALES	(LOSS) FROM OPERATIONS	INTEREST EXPENSE	TOTAL ASSETS	DEPRECIATIO AMORTIZATIO
NutraStar Technologies Incorporated	$ 383,627	$ (284,644)	$ 5,024	$683,089	$ 32,
NutraGlo Incorporated	152,743	43,878	-	75,640	
Unallocated corporate overhead		(659,760)	-	-	
Total, NutraCea	$ 536,370	$ (900,526)	$ 5,024	$758,729	$ 32,

NOTE 9 - SUBSEQUENT EVENTS

Convertible Notes Payable

On July 8, 2003, the Company entered into a convertible note payable agreement with a third party investor for $53,250, including $4,800 in finder's fees. The note bears interest at 10% per annum and is due on July 8, 2004. The note is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder is entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of the issuance.

During July 2003, the Company entered into a convertible note payable agreement with a third party totaling of $15,000. The note bears interest at 10% per annum and is due on July 28 2004. The note is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder will be entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance.

During August 2003, the Company entered into a convertible note payable agreement with a third party totaling $15,000. The note bears interest at 10% per annum and is due on August 1, 2004. The note is convertible into at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder is entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance.

During July 2003, the Company entered into a convertible note payable agreement with a third party totaling $5,000. The note bears interest at 10% per annum and is due on July 21, 2004. The note is convertible into at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder is entitled to receive one warrant to purchase common stock for each common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance. On July 23, 2003, the note payable was converted by the holder, and the Company issued 25,000 shares of common stock in relation to this conversion.

Agreements

During July 2003, the Company entered into a settlement agreement with a consultant for $60,000 as payment on accounts payable. Per the agreement, the Company issued options to purchase 150,000 shares of the Company's common stock at a price of $0.001 per share. Those shares along with a convertible promissory note for $60,000, bearing interest of 10%, due on July 21, 2004, represent the full settlement amount. The note is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder is entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance. As part of this transaction, the Company also issued warrants to purchase 150,000 shares of common stock at an exercise price of $0.001 per share. The warrants expire on the earlier date of July 12, 2008 or upon the Company's change of control through acquisition or sale of substantially all of its assets. On August 6, 2003 all the warrants had been exercised.

During July 2003, the Company entered into a compensation agreement with a

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terminated employee, whereby the Company will pay total of $15,592 of deferred compensation due to the employee in monthly payments of $2,000, payable on the first of the month beginning October 1, 2003. Per the agreement, the Company will also issue stock options to purchase 400,000 shares of common stock at an exercise price of $0.001 per share.

During July 2003, the Company entered into an agreement with a consultant to provide research and development services for an arthritis clinical trial to the Company for a total of $5,500.

Litigation

On May 27, 2003, the Company entered into a settlement agreement with MISI for $148,000. Per the agreement, approximately $30,000 of this amount had been levied by the Writ of Attachment (see Note 10) and attached to a bank account and accounts receivable. Subsequent to June 30, 2003, the Company paid a total of $118,000 in cash.

Preferred Stock

Subsequent to June 30, 2003, the Company cancelled 634,121 shares of preferred stock previously issued to a shareholder as collateral and issued 200,000 shares of preferred stock for accrued interest totaling $8,351 on a promissory note dated September 23, 2002.

Common Stock

On July 30, 2003, the Company issued 1,000,000 shares of common stock from committed stock and entered into a promissory note agreement with a consultant as payment on accounts payable totaling $24,000. The note is for $19,000 and is payable at $2,000 a month beginning November 1, 2003.

On August 5, 2003, the Company was committed to issue 749,427 shares of common stock to two consultants as a dividend payment on preferred stock earned by the consultants totaling $56,207. The Company also committed to issue 507,500 shares of common stock to the consultants upon conversion of the consultants' preferred stock into shares of the Company's common stock.

On August 6, 2003, the Company issued 30,000 shares of common stock to a consultant for services totaling $2,395. In addition, the Company was committed to issue 10,000 shares of common stock per month up to a value of $2,000, plus an additional $2,000 per month in cash, for future services.

During August 2003, the Company issued 399,174 shares of common stock to two shareholders from committed stock totaling $399,174.

During August 2003, the Company issued 25,000 shares of common stock to a consultant from committed stock totaling $25,250.

Stock Options

On July 7, 2003, the Company issued stock options to purchase 500,000 shares of common stock to an officer as interest on accounts payable at an exercise price of $0.08 per share. The stock options vest immediately and will expire on the earlier date of July 7, 2008 or upon the Company's change of control through acquisition or sale of

substantially all of its assets.

On August 15, 2003, the Company issued stock options to purchase 375,000 shares of common stock to a vendor as payment for royalties payable at an exercise price of $0.001 per share. The options vest immediately and expire on July 14, 2008.

On July 31, 2003, the Company issued stock options to purchase 71,429 shares of common stock to a vendor as payment on accounts payable totaling $6,000. The options have an exercise price of $0.001 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.

In July 2003, the Company issued stock options to purchase 600,000 shares of common stock to consultants for consulting expense at a purchase price of $0.05 per share. The options have an exercise price of $0.05 per share, vest immediately, and expire on the earlier of July 2, 2008 or upon the Company's change of control through acquisition or sale of substantially all of its assets.

In July 2003, the Company issued warrants to purchase 48,500 shares of common stock to a consultant for services rendered. The warrants have an exercise price of $0.001 per share and expire on July 10, 2008. These warrants were exercised with cash. In addition, the Company issued warrants to purchase 155,200 shares of common stock to the same consultant for services rendered. The warrants have an exercise price of $0.50 per share and expire on July 10, 2008.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

This Form 10-QSB includes "forward-looking" statements about future financial results, future business changes and other events that haven't yet occurred. For example, statements like the Company "expects," "anticipates" or "believes" are forward-looking statements. Investors should be aware that actual results may differ materially from the Company's expressed expectations because of risks and uncertainties about the future. The Company does not undertake to update the information in this Form 10-QSB if any forward-looking statement later turns out to be inaccurate. Details about risks affecting various aspects of the Company's business are discussed throughout this Form 10-QSB and should be considered carefully.

RESULTS OF OPERATION

Three Month Period Ended June 30, 2003 versus 2002

During the quarter ended June 30, 2003, NutraCea generated net sales of $349,441 compared to $536,370 for the same quarter of 2002, a decrease of 35% in comparison to the second quarter of last year. The decrease was caused by several factors including the loss of certain customers choosing to obtain their stabilized rice brand from The RiceX Company ("RiceX") and an overall lack of working capital which prevented the Company from aggressively pursuing its marketing plan. Since July 2002 the Company's primary supplier, RiceX, has required prepayment for products sold to the Company. This requirement has reduced the Company's ability to secure its raw materials in a timely manner.

The cost of goods sold for the quarter ended June 30, 2003 decreased by 47% to $195,721 from $371,526 for the quarter ended June 30, 2002. This decrease reflects the reduced production of products for resale during the second quarter of 2003 due to the lack of adequate rice soluble inventory caused by the COD nature of purchases from RiceX. The Company's gross profit decreased to $153,720 for the quarter ended June 30, 2003 compared to $164,844 for the quarter ended June 30, 2002; while the gross profit margin increased from 31% in the second quarter of 2002 to 44% in the same period of 2003. This increase reflects the Company's focus on selling its own higher margin products as compared to the cross-selling of RiceX products.

Operating expenses declined 22% to $835,749 in the second quarter of 2003 compared to the same quarter in fiscal year 2002 which had operating expenses of $1,065,370. This decrease primarily reflects decreases in employee related expenses, cash payments of professional and consulting fees, and non-cash compensation expense.

The Company incurred an operating loss of $682,029 during the quarter ended June 30, 2003 compared to an operating loss of $900,526 during the quarter ended June 30, 2002. This 24% decrease in operating loss reflects the significant decrease in operating expenses relating to the Company's reduced business operations, coupled with the Company's lower costs of goods sold during the most recent quarter.

During the quarter ended June 30, 2003, the Company recognized a sharp increase in interest expense to $22,686, which reflects interest paid on short-term promissory notes and other debt instruments outstanding during the quarter compared to only $5,024 for the quarter ended June 30, 2002. The Company's overall net loss for the second quarter of 2003 decreased to $330,815 compared to a net loss of $613,044 recorded for the comparable quarter of 2002. NutraCea also recognized accrued cumulative preferred dividends of $37,532 which increased the net loss attributable to common shareholders to $368,347 for the quarter ended June 30, 2003 compared to a net loss of $649,527 to common shareholders as of June 30, 2002.

During the three months ended June 30, 2003, the Company sold approximately 74% of its net sales to one customer. During the same period of 2002, this customer represented approximately 52% of net sales.

Six Month Period Ended June 30, 2003 versus 2002.

Total revenue for the six month period ended June 30, 2003 was $575,432 compared to $830,727 for the six months ended June 30, 2002. This 30% decrease reflects the Company's decreased sales, marketing and product selection primarily for the cross selling of RiceX products. 81% and 10% of NutraCea's net sales, respectively, were made to two customers. Cost of sales decreased from $323,120 for the six months ended June 30, 2003 compared to $553,998 for the same period in 2002 due to increased production of higher margin products for resale as well as a higher amount of costs included in the six month period of 2002. Operating expenses decreased 53% representing the Company's reduced cash payments of professional fees and consultants and non-cash consultant and employee compensation and the allocation to loss reserve for licenses during the six month period ended June 30, 2003. During the six months ended June 30, 2003 employee related expenses declined $527,200 to $378,142 as a result of lay-offs and reduced employee benefits paid during the first six months of 2003.

Gross profits decreased slightly to $252,312 for the six months ended June 30, 2003 from $276,729 in the similar period of 2002.

Factoring in the interest expense for the six months ended June 30, 2003 and 2002 of $39,877 and $5,368 respectively, resulted in a net loss of $1,085,921 for the six months ended June 30, 2003 which is a 43% decrease compared to a loss of $1,975,273 for the same period in 2002. The reduced net loss was due primarily to the reduced operating expenses incurred during the first six months of 2003. The Company recognized accrued cumulative preferred dividends of $75,064 which increased the net loss attributable to common shareholders to $1,160,985 for the six months ended June 30, 2003 compared to a net loss of $2,048,238 to common shareholders for the similar period ended June 30, 2002.

LIQUIDITY AND SOURCES OF CAPITAL

NutraCea has incurred significant operating losses since its inception, and, as of June 30, 2003 NutraCea had an accumulated deficit of $9,0843,732. At June 30, 2003, NutraCea had cash and cash equivalents of $184,309 and a net working capital deficit of $1,675,187.

To date, NutraCea has funded its operations, in addition to sales revenues, through a combination of short-term debt and the issuance of common and preferred stock. During the six months ended June 30, 2003, NutraCea raised a total of $246,222 from promissory notes and $156,700 from the issuance of convertible notes. The interest rate on these promissory notes ranged from 8% to 24% per annum with two of the notes also being collateralized by a total of 450,000 shares of the Company's common stock. The Company also raised $47,250 from the sale of 35,000 shares of its common stock during the quarter ended June 30, 2003. During the first six months of 2003, NutraCea agreed to collateralize a previous loan of $50,000 (plus $8,351 of accrued interest) with 634,121 shares of the Company's Series A preferred stock. All of the loans made to the Company came from proceeds of notes payable to the Chairperson of NutraCea or other related parties. The Company has also conserved cash by deferring $376,677 of compensation expenses and issuing options to purchase 2,745,000 shares of common stock at exercise prices ranging from $0.001 to $0.07 per share to employees in lieu of deferred salary totaling $232,154 during the six months ended June 30, 2003. The Company will continue to pursue cost cutting or expense deferral strategies in order to conserve working capital. These strategies will limit the Company's implementation of its business plan and increase the future liabilities of the Company.

On April 29, 2003, the Company entered into a non-recourse factoring agreement with a financial institution to factor certain of its accounts receivable. As of June 30, 2003, the Company had a due-to-factor of $103,066.

The Company is dependent on the proceeds from future debt or equity investments to fund its operations and fully implement the Company's business plan. If the Company is unable to raise sufficient capital, the Company will be required to delay or forego some portion of its business plan, which will have a material adverse effect on the Company's anticipated results from operations and financial condition. Alternatively, the Company may seek interim financing in the form of bank loans, private placement of debt or equity securities, or some combination thereof. Such interim financing may not be available in the amounts or at the times when the Company requires, and will likely not be on terms favorable to the Company.

Due to the Company's need for outside capital and its operating losses, the financial statements include a going concern footnote explaining the uncertainties relating to the Company's ability to continue operations.

CONTRACT WITH KEY SUPPLIER

NutraCea had entered into an agreement with The RiceX Company ("RiceX"), whereby RiceX would sell NutraCea its rice bran solubles and rice bran fiber complex at prices equal to the

lower of RiceX's standard price or the price negotiated by other customers for like quantities and products (the "RiceX Agreement"). The RiceX Agreement also provided that RiceX would not sell any rice bran solubles or rice bran fiber concentrate products in the United States except to NutraCea. On July 9, 2002, this Agreement was terminated. As a result of this termination, NutraCea no longer has the right to be the exclusive distributor of the RiceX rice solubles and rice bran fiber concentrates in the United States; however, NutraCea has continued to buy such products from RiceX on a nonexclusive basis.

The RiceX Agreement also provided for a license from RiceX to NutraCea for the domestic use of four patents relating to the use of rice bran supplements to help treat diabetes and hyperlipidemia. Due to the fact that Ms. McPeak is a co-inventor of these patents and NutraCea has been primarily responsible for prosecuting such patents during the past two years, NutraCea has raised the issue of possible ownership rights in such patents. Although discussions have been held with RiceX regarding NutraCea's possible competing ownership rights, no resolution or formal action has yet occurred. NutraCea will continue to be allowed to utilize these patents until a new use arrangement can be negotiated.

NutraCea currently purchases all of its stabilized rice bran from RiceX. However, NutraCea believes its special rice bran requirements could be met by other suppliers. If NutraCea were unable to acquire the amount of raw product it requires or if there were an interruption in product delivery for any reason, NutraCea's business, results from operations, and financial condition, would be adversely affected.

CRITICAL ACCOUNTING POLICIES

NutraCea's discussion and analysis of its financial conditions and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements require managers to make estimates and disclosures on the date of the financial statements. On an on-going basis, NutraCea evaluates its estimates, including, but not limited to, those related to revenue recognition. The Company uses authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates. NutraCea believes that the following critical accounting policies affect its more significant judgments and estimates in the preparation of its consolidated financial statements.

Revenue recognition

NutraCea is 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 the Company'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 include 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 the Company 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 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 will be 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. Upon adoption of SFAS No. 150, the Company will reclassify its redeemable preferred stock as a liability

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting and reporting for derivative instruments and hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for derivative instruments and hedging activities entered into or modified after June 30, 2003, except for certain forward purchase and sale securities. For these forward purchase and sale securities, SFAS No. 149 is effective for both new and existing

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securities after June 30, 2003. Management does not expect adoption of SFAS No. 149 to have a material impact on the Company's statements of earnings, financial position, or cash flows.

ITEM 3. CONTROLS AND PROCEDURES

The Company's principal executive and financial officers have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2003. They have determined that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 with respect to the Company is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

The Company has made no significant changes in its internal controls over financial reporting during the most recent fiscal quarter covered by this Report that materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is subject to legal proceedings and claims in the ordinary course of business including claims by certain of its vendors.

Information regarding current litigation is set forth in Note 10 of the Notes to Condensed, Consolidated Financial Statements included in Part I, Item 1 of this Report.

In June 2003, the Company reached a settlement agreement in the litigation between the Company and Millennium Integrated Services, Inc. ("MISI"). The terms of the settlement include the Company making two payments of $100,000 and $18,000 to be paid on July 11, 2003 and August 11, 2003. Subsequent to the end of the quarter, both of those payments were made. In addition, MISI will collect $26,342 through its previously served Writs of Attachment and will collect a refund of $3,657 from a third party vendor. Upon payment of the second installment, MISI has agreed to dismiss its complaint against the Company.

ITEM 2. CHANGES IN SECURITIES

SALES OF UNREGISTERED SECURITIES DURING THE QUARTER

In April 2003, the Company sold 307,143 shares of its common stock to one individual for total proceeds of $21,500.

In June 2003, the Company sold 35,000 shares of its common stock to one individual for total proceeds of $47,250.

During the quarter ended June 30, 2003, the Company issued 1,000,000 shares of its common stock to two employees for the exercise of stock options with cash totaling $1,000.

During the quarter ended June 30, 2003, the Company issued options to purchase 2,745,000 shares of common stock at exercise prices ranging from $0.001 to $0.07 per share to employees in lieu of deferred salaries totaling $232,154.

In June 2003, the Company issued options to purchase 329,000 shares of common stock at an exercise price of $0.001 per share to a consultant as payment of accounts payable of $23,000.

In April 2003, the Company issued options to purchase 1,000,000 shares of common stock to an employee in accordance with an employment agreement dated April 15, 2003. The options 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 achievement by the Company of two successive calendar quarters of positive earnings before interest, tax, and depreciation and amortization

Subsequent to the quarter ended June 30, 2003, the Company issued convertible promissory notes for $156,700. The notes are convertible into shares of common stock at a conversion rate of $0.20 per share. The notes bear interest at 10% per annum and have a term of one year.

Subsequent to the quarter ended June 30, 2003, the Company issued 1,000,000 shares of common stock and entered into a promissory note agreement with a consultant as payment on accounts payable totaling $24,000. The note is for $19,000 and is payable at $2,000 a month beginning November 1, 2003.

All of the above issuances of promissory notes, stock or stock options were made without any public solicitation, to a limited number of investors or related individuals or entities and were acquired for investment purposes only. Each of the individuals or entities had access to information about the Company and were deemed capable of protecting their own interests. The notes, stock and options were issued pursuant to the private placement exemption provided by Section 4(2) of the Securities Act of 1933. These are deemed to be "restricted securities" as defined in Rule 144 under the 1933 Act and the notes evidencing the loans and the stock certificates bear a legend stating the restrictions on resale.

ITEM 5. OTHER INFORMATION

In April 2003, the Company entered into a three-year employment agreement with John Howell to serve as its President and Chief Operating Officer, pursuant to which the Company is to pay Mr. Howell a base salary of $10,000 per month. The agreement provides for certain bonuses based on (i) certain reductions in monthly operating costs a conversion of debt to equity and (ii) future performance of the Company. He will also receive a $500 car allowance and stock options to purchase up to 1,000,000 shares of the Company's common stock. Mr. Howell brings extensive experience in corporate restructuring most recently having worked with Kingdom Ventures, Inc. in Nevada. These positions were assumed from Patricia McPeak who remains Chairperson of the Board of Directors and Chief Executive Officer.

On June 10, 2003, NutraCea withdrew its SB-2 registration statement which had been on file with the Securities and Exchange Commission since July, 2002. The withdrawal was due to the fact that due to the passage of time, many of the shares being registered for selling shareholders were now eligible for resale by other means.

Subsequent to the end of the quarter ended June 30, 2003, the Company charged its name from "NutraStar Incorporated" to "NutraCea."

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) The following documents are filed as exhibits to this report:

31.1 Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 Certification by CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K: None

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NUTRACEA

Dated: August 13, 2004 /s/ Patricia McPeak
Patricia McPeak
Chief Executive Officer

Dated: August 13, 2004 /s/ Joanna Hoover
Joanna Hoover,
Chief Financial Officer
(Principal Accounting Officer)

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