

Edgar Filing: NUTRACEA - Form 10QSB

ITEM 1. FINANCIAL STATEMENTS	2
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS	14
ITEM 3. CONTROLS AND PROCEDURES.	16
PART II - OTHER INFORMATION.	17
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	17
ITEM 5. OTHER INFORMATION.	17
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	20
SIGNATURES	21

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NUTRACEA INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet as of March 31, 2005 (Unaudited)	3
Consolidated Statements of Operations for the three months ended March 31, 2005 and 2004 (Unaudited)	4
Consolidated Statements of Comprehensive Loss for the three Months ended March 31, 2005 and 2004 (Unaudited).	5
Consolidated Statements of Cash Flows for the three months ended March 31, 2005 and 2004 (Unaudited)	6
Notes to Unaudited Consolidated Financial Statements.	7

2

NUTRACEA AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET MARCH 31, 2005 (unaudited)

ASSETS

CURRENT ASSETS

Cash	\$ 1,274,317
Marketable securities	182,248
Accounts receivable	258,433
Inventory	284,136

Edgar Filing: NUTRACEA - Form 10QSB

Prepaid expenses		28,844	

Total current assets		2,027,978	
RESTRICTED MARKETABLE SECURITIES		182,248	
PROPERTY AND EQUIPMENT, net		116,592	
PATENTS AND TRADEMARKS, net		326,431	
GOODWILL		250,001	

TOTAL ASSETS		\$ 2,903,250	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$	374,805	
Accrued expenses		210,753	
Due to related parties		1,825	
Notes payable		1,828,529	
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		2,436,385	
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY			
Common stock, no par value 100,000,000 shares authorized 36,214,611 shares issued and outstanding		48,335,569	
Deferred compensation		(60,715)	
Accumulated deficit		(45,792,485)	
Accumulated other comprehensive income, unrealized loss on marketable securities		(2,015,504)	

Total shareholders' equity		466,865	

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 2,903,250	=====

3

NUTRACEA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the three months ended	
	March 31,	
	2005	2004
	-----	-----
REVENUES		
Net product sales	\$ 459,314	\$ 122,069
COST OF GOODS SOLD	281,185	78,665

Edgar Filing: NUTRACEA - Form 10QSB

GROSS PROFIT	178,129	43,404
OPERATING EXPENSES	807,477	17,846,459
LOSS FROM OPERATIONS	(631,748)	(17,803,055)
OTHER INCOME (EXPENSE)		
Interest income	2,811	938
Interest expense	(235,756)	(495)
Total other income (expense)	(232,945)	443
NET LOSS	(864,693)	(17,802,612)
CUMULATIVE PREFERRED DIVIDENDS	-	8,373
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$ (864,693)	\$ (17,810,985)
BASIC AND DILUTED LOSS AVAILABLE TO COMMON SHAREHOLDERS PER SHARE	\$ (0.02)	\$ (1.29)
BASIC AND DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	36,170,129	13,860,551

4

NUTRACEA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited)

	For the three months ended March 31,	
	2005	2004
NET LOSS	\$ (864,693)	\$ (17,802,612)
OTHER COMPREHENSIVE LOSS		
Unrealized loss on marketable securities	(3,106)	-
COMPREHENSIVE LOSS	\$ (867,799)	\$ (17,802,612)

NUTRACEA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(unaudited)

	For the three months ended March 31,	
	2005	2004

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (864,693)	\$ (17,802,612)
Adjustments to reconcile net loss to net cash used in operating activities		
Accretion of warrants used as a debt discount	193,355	-
Depreciation and amortization	35,820	40,860
Non-cash issuances of common stock	33,500	9,561,197
Non-cash issuances of stock options & warrants	113,355	7,271,060
(Increase) decrease in		
Accounts receivable	(250,752)	14,059
Inventory	19,928	(109,052)
Prepaid expenses	1,911	(12,884)
Increase (decrease) in		
Advances from related parties	(72,153)	176,127
Accounts payable	113,732	6,796
Accrued salaries and benefits	(24,211)	(22,067)
Deferred compensation	-	(47,842)
Accrued expenses	42,203	(2,523)
Customer deposits	12,712	64,664

Net cash (used) in operating activities	(645,243)	(862,217)

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(5,901)	(2,237)
Purchase of patents and trademarks	(3,202)	(42,622)

Net cash used in investing activities	(9,103)	(44,859)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	432	2,744,507
Net cash provided by financing activities	432	2,744,507

Net increase (decrease) in cash	(653,964)	1,837,431

CASH, BEGINNING OF PERIOD	1,928,281	100,023

CASH, END OF PERIOD	\$ 1,274,317	\$ 1,937,454
	=====	

Edgar Filing: NUTRACEA - Form 10QSB

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 NutraCea'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 2004 as reported in the 10-KSB have been omitted.

NOTE 2 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 three months ended March 31,	
	2005	2004
Net loss available		
to common shareholders		
As reported	\$ (864,693)	\$ (17,810,985)
Plus: compensation expense		
charged to income	65,000	7,271,062
Less: proforma compensation		
expense	(502,278)	(7,271,062)
	\$ (1,301,971)	\$ (17,810,985)
Proforma net loss available		
to common shareholders	\$ (1,301,971)	\$ (17,810,985)
	=====	=====
Basic and diluted loss per common share		
As reported	\$ (0.02)	\$ (1.29)
Proforma	\$ (0.04)	\$ (1.29)

7

NUTRACEA AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 MARKETABLE SECURITIES

On September 8, 2004, NutraCea purchased 1,272,026 shares of Langley Park

Edgar Filing: NUTRACEA - Form 10QSB

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 together 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 March 31, 2005, the NutraCea shares have not lost any value. However, the Langley shares are marked down to their fair market value of \$364,496, with one-half or \$182,248 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.

Any unrealized holding gains and losses on the marketable securities are excluded from operating results and are recognized as other comprehensive income. The fair value of the securities is determined based on prevailing market prices.

NOTE 4 COMMITMENTS AND CONTINGENCIES

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

On January 25, 2005 NutraCea entered into a three year employment agreement with its Senior Vice President whereby NutraCea 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 NutraCea and to be approved by NutraCea's Compensation Committee. Warrants to purchase 1,000,000 shares of NutraCea'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 NutraCea'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 NutraCea reports a positive EBITDA for the period. All warrants expire in ten years from the date of issuance.

NUTRACEA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On January 26, 2005 NutraCea entered into a non-exclusive distribution agreement to distribute NutraCea'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,

Edgar Filing: NUTRACEA - Form 10QSB

failure to meet these minimum purchase requirements is cause for termination of the agreement at NutraCea's option. NutraCea may also at its option terminate the agreement upon 60 days written notice to the distributor.

On February 9, 2005, NutraCea issued 200,000 stock options with an exercise price of \$0.45 per share, vesting over three years, expiring in ten years, to two employees of NutraCea 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 Trilogy, 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. This agreement was subsequently terminated (see Note 7). In conjunction with this agreement NutraCea 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 NutraCea terminated an existing consulting agreement with a retired employee that was entered into on April 19, 2004. At NutraCea'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 NutraCea 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 NutraCea'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 NutraCea 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 NutraCea's common stock on the date the patent is granted, with the total shares granted reduced accordingly.

9

NUTRACEA AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On March 15, 2005, NutraCea entered into a five year consulting agreement with a medical advisor. Under the terms of the agreement, annual compensation shall be 15,000 warrants to purchase shares of common stock at the market price on each anniversary date. The option price for the first year of service is a price of \$.50 per share.

On March 23, 2005, NutraCea agreed to pay \$15,000 of unpaid fees to a web design consultant. NutraCea also agreed to issue 26,786 shares of common stock, valued at \$15,000, to the consultant as payment in full for all prior services.

Edgar Filing: NUTRACEA - Form 10QSB

NOTE 5 COMMON STOCK

Common and Preferred Stock

All stock issued is valued at the fair value of the stock.

During the quarter ended March 31, 2005, NutraCea issued 43,067 shares of common stock to consultants for services rendered valued at \$19,500.

During the quarter ended March 31, 2005, NutraCea issued 35,000 shares of common stock to officers and directors totaling \$14,000.

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

Stock Options & Warrants

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

During the quarter ended March 31, 2005, NutraCea issued 145,000 warrants with exercise prices between \$0.43 and \$0.46 per share to consultants. The warrants expire three years from the date of issue. A total of \$48,355 in non-cash compensation expense was recorded relating to the issue of these warrants.

During the quarter ended March 31, 2005, NutraCea issued 1,000,000 warrants and 200,000 options with exercise prices between \$0.43 and \$0.46 per share to employees. The warrants and options expire ten years from the date of issue. A total of \$65,000 in non-cash compensation expense was recorded relating to the issue of these warrants and an additional \$65,000 of deferred compensation is being amortized over one year.

NOTE 6 BUSINESS SEGMENTS

For internal reporting purposes, management segregates NutraCea into operating segments as follows for the three months ended March 31, 2005 and 2004:

10

NUTRACEA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2005	NET SALES	SEGMENT INFORMATION			TOTAL ASSETS	DE AM
		INCOME (LOSS) FROM OPERATIONS	INTEREST EXPENSE	TOTAL		
NutraStar Technologies Incorporated	\$ 107,545	\$ (20,828)	\$235,756	\$ 2,641,970	\$	
NutraGlo Incorporated	351,769	154,905	-	261,280	-	
Unallocated corporate overhead	-	(807,481)	-	-	-	
Total, NutraCea	\$ 459,314	\$ (631,748)	\$235,756	\$ 2,903,250	\$	

Edgar Filing: NUTRACEA - Form 10QSB

THREE MONTHS ENDED MARCH 31, 2004	NET SALES	(LOSS) FROM OPERATIONS	INTEREST EXPENSE	TOTAL ASSETS	DE AM
NutraStar Technologies Incorporated	\$ 121,963	\$ (194,514)	\$ (495)	\$ 2,396,525	\$
NutraGlo Incorporated	106	(25,740)	-	139,544	
Unallocated corporate overhead	-	(17,582,801)	-	-	
Total, NutraCea	\$ 122,069	\$ (17,803,055)	\$ (495)	\$ 2,536,069	\$

NOTE 7 SUBSEQUENT EVENTS

On April 4, 2005, NutraCea and The RiceX Company ("RiceX") announced the execution of an Agreement and Plan of Merger and Reorganization, dated as of April 4, 2005 ("Merger Agreement"), by and among NutraCea, Red Acquisition Corporation, a wholly-owned subsidiary of NutraCea ("Merger Sub"), and RiceX, pursuant to which, Merger Sub will merge with and into RiceX ("Merger"). As a result of the Merger, RiceX will become a wholly-owned subsidiary of NutraCea.

At the effective time of the Merger, the stockholders of RiceX will receive shares of NutraCea common stock in exchange for their shares of RiceX common stock, and NutraCea will assume the outstanding options and warrants to purchase RiceX common stock. NutraCea anticipates that the aggregate number of shares of Nutracea common stock that will be issued to the holders of RiceX common stock upon the Merger will be between approximately 28,000,000 and 36,000,000 shares. In addition, after the Merger, NutraCea anticipates that the RiceX security holders will hold between approximately 42% and 48% of the combined company on a fully diluted basis, which includes shares underlying NutraCea and RiceX options and warrants. The number of shares of NutraCea common stock issuable to RiceX stockholders is subject to adjustment for certain events, including the market price of NutraCea common stock and the number of outstanding RiceX options and warrants on the effective date of the Merger.

On April 5, 2005 NutraCea entered into an agreement with a financial services firm to assist in evaluating the proposed merger with RiceX and to provide a fairness opinion. A fee of \$50,000 for this work was paid upon execution of the agreement.

NUTRACEA AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On April 5, 2005 NutraCea entered into a royalty agreement with an information technology firm to assist in the development of sales of NutraCea's products over the Internet. Compensation shall be in the form of a royalty to be paid to the firm of 50% of gross revenues received by NutraCea (excluding shipping and handling charges and sales taxes). The term of the contract is for three years. Additionally, options to purchase 360,000 shares of common stock of NutraCea at a price \$0.60 per share were issued at the effective date of the contract, with 45,000 options vesting at the signing of the contract and the remainder of the options vesting at 15,000 options per month over the next 21 months.

On April 10, 2005 NutraCea terminated an existing consulting agreement with Trilogy, a financial relations company that was entered into on February 10, 2005. As a result, NutraCea has no further financial obligation pursuant to this contract and all warrants originally issued under the contract were cancelled.

Edgar Filing: NUTRACEA - Form 10QSB

On April 12, 2005 NutraCea signed various agreements with its principal equine division products customer that specifically include:

- The grant to NutraCea of exclusive worldwide rights to manufacture certain equine products for the customer.
- The transfer and assignment of the customer's technology rights granted to it in a prior Technology Agreement dated September 13, 2003. 1,222,222 shares of NutraCea's common stock were issued to the customer as consideration for the transfer and assignment.
- The transfer and assignment of technology rights of a limited liability corporation formed by the customer and granted to it in a prior Technology Agreement dated September 13, 2003. 166,667 shares of NutraCea's common stock were issued to the limited liability corporation as consideration for the transfer and assignment.
- The grant of marketing and distribution rights to the customer covering: 1) the right of first offer to market new products as may be developed by NutraCea or proposed to be developed by the customer for non-human markets; and 2) the right of first refusal in the event a third party independently contacts NutraCea regarding the marketing and distribution of new, non-human products. Also, the customer agrees to use NutraCea as the exclusive manufacturer for any new, non-human products as defined. Additionally, NutraCea may earn a 5% royalty on new products on revenues exceeding annual volume levels.

On April 18, 2005 the Chairman and Chief Executive Officer of NutraCea signed a talent and license agreement with a term of two years with a direct response marketing company whereby she will receive a royalty of \$1 per unit sold resulting from infomercials that will demonstrate specific products of NutraCea. Royalty payments will be made by the direct response marketing company.

On April 19, 2005 NutraCea signed an agreement with a direct response marketing company to market and sell products through infomercials. The agreement is for one year and may be extended for an additional year. The agreement covers pricing of specific products at wholesale prices which will be private labeled for direct sale by the marketing company. During the term

12

NUTRACEA AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

of the agreement NutraCea will not sell its products through any other infomercials so long as the marketing company maintains minimum quarterly orders beginning October 1, 2005 of \$500,000.

On May 5, 2005 NutraCea's Board of Directors approved an agreement with Utek Corporation, a consulting company to provide patent and license analysis. The agreement is for one year and may be terminated by either party with 30 days written notice. Compensation shall be in the form of 448,980 shares of common stock granted to the consulting company. 50% of the shares vest upon the signing of the agreement; a minimum of 134,693 shares vest within three months of certain reporting requirements being made by the consulting company; and the remaining shares vest upon NutraCea taking action on recommendations of the consulting company.

Edgar Filing: NUTRACEA - Form 10QSB

13

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 have not yet occurred. For example, statements like NutraCea "expects," "anticipates" or "believes" are forward-looking statements. Investors should be aware that actual results may differ materially from NutraCea's expressed expectations because of risks and uncertainties about the future. NutraCea 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 NutraCea's business are discussed throughout this Form 10-QSB and should be considered carefully.

RESULTS OF OPERATIONS

Three-Month Period Ended March 31, 2005 versus 2004

Revenues of NutraCea increased by \$337,245, to \$459,314 for the quarter ended March 31, 2005 from \$122,069 for the quarter ended March 31, 2004. In March 2005 the NutraGlo subsidiary recorded a sale of approximately \$351,400; the corresponding sale in 2004 in the amount of \$199,300 was not recorded until April 2004.

Cost of goods sold increased by \$202,520, to \$281,185 for the quarter ended March 31, 2005 from \$78,665 for the quarter ended March 31, 2004. The increase relates directly to the increase in sales.

Operating expenses decreased by \$17,038,982, to \$807,847 for the quarter ended March 31, 2005 from \$17,846,459 for the quarter ended March 31, 2004. Most of the decrease is due to decreased non-cash stock and option awards in the amount of \$16,844,444 recorded in the first quarter of 2004. Other decreases include commissions and finders fees in the amount of \$170,438 and marketing expense of \$44,443. In addition, salaries and wages decreased by approximately \$143,318 due to one-time cash bonuses paid in 2004 to the CEO and previous President. Professional fees increased by \$153,271 due to costs associated with the proposed merger with The RiceX Company.

Interest expense increased by \$235,261, to \$235,756 for the quarter ended March 31, 2005 from \$495 for the quarter ended March 31, 2004. The increase is due to \$42,075 of interest expense on notes payable that were funded in December 2004 and amortization of debt discount of \$193,355 related to the same notes payable.

The net loss for the quarter ended March 31, 2005 was \$864,693 compared to a net loss of \$17,803,055 recorded for the quarter ended March 31, 2004. The significantly lower net loss for the first quarter of 2005 was due primarily to the non-cash stock and option awards expensed during the first quarter of 2004. Increased revenue during the quarter ended March 31, 2005 also contributed to the lower net loss.

Off-Balance Sheet Arrangements -----

During the quarter ended March 31, 2005, NutraCea did not engage in any off-balance sheet arrangements as defined in Item 303 (c) of the SEC's Regulation S-B

LIQUIDITY AND SOURCES OF CAPITAL

NutraCea has incurred significant operating losses since its inception, and, as of March 31, 2005 NutraCea had an accumulated deficit of \$45,792,485. At March 31, 2005, NutraCea had cash and cash equivalents of \$1,274,317 and working capital deficit of \$408,407. 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, 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 three months ended March 31, 2005, NutraCea has issued a total of 84,067 shares of common stock of which 78,067 shares were issued as compensation to officers and consultants of NutraCea. NutraCea continues to pursue cost cutting or expense deferral strategies in order to conserve working capital.

Due to NutraCea's limited cash flow and operating losses, it is unlikely that NutraCea could obtain financing through commercial or banking sources. Consequently, NutraCea is dependent on continuous cash infusions from major investors and the exercise of outstanding warrants and options in order to fund its current operations. If these sources of capital were unwilling or unable to provide additional working capital to NutraCea, NutraCea would probably not be able to sustain its full range of operations. There is no written agreement or contractual obligation which would require NutraCea's past funding sources to fund NutraCea's future operations up to certain amounts or indeed continue to finance NutraCea's operations at all.

As of March 31, 2005, NutraCea's principal commitments include a lease commitment that expires in September 2006 of \$ 6,366 per month for NutraCea's corporate offices.

Management of NutraCea believes that it will need to raise additional capital to continue to develop, promote and conduct its operations. Such additional capital may be raised through public or private financing as well as borrowing from other sources. Although NutraCea believes that current and/or future investors will continue to fund NutraCea's expenses, there is no assurance that such investors will continue to fund NutraCea's ongoing operations or the terms upon which such investments will be made.

CRITICAL ACCOUNTING POLICIES

NutraCea's discussion and analysis of its financial condition 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 of America. The preparation of financial statements requires managers to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures on the date of the financial statements. On an on-going basis, NutraCea's accountants' evaluate the estimates, including, but not limited to, those related to revenue recognition. NutraCea uses authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates.

NutraCea has adopted the fair value based method of accounting prescribed in Financial Accounting Standards Board ("FASB") Statement No. 123, "Accounting for Stock-Based Compensation," for its employee stock option plans.

NutraCea has adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" which requires gains and losses from extinguishment of debt to be reported as part of recurring operations.

ITEM 3. CONTROLS AND PROCEDURES

NutraCea carried out an evaluation, under the supervision and with the participation of NutraCea's management, including NutraCea's President and Chief Executive Officer along with NutraCea's Chief Financial Officer, of the effectiveness of the design and operation of NutraCea's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based upon that evaluation, NutraCea's President and Chief Executive Officer along with NutraCea's Chief Financial Officer concluded that NutraCea's disclosure controls and procedures are effective to ensure the information required to be disclosed by NutraCea in reports filed or submitted under the Exchange Act were timely recorded, processed and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

There have been no significant changes in NutraCea's internal controls over financial reporting or in other factors which occurred during the quarter covered by this report, which could materially affect or are reasonably likely to materially affect NutraCea's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

SALES OF UNREGISTERED SECURITIES DURING THE QUARTER

During the quarter ended March 31, 2005, NutraCea issued 43,067 shares of common stock to consultants for services rendered valued at \$19,500.

During the quarter ended March 31, 2005, NutraCea issued 35,000 shares of restricted common stock to officers and directors for services rendered valued at \$14,000.

During the first quarter, NutraCea issued options to consultants to purchase 145,000 shares of NutraCea's common stock. The options were valued at \$48,355.

During the first quarter, NutraCea issued options to employees to purchase 1,200,000 shares of NutraCea's common stock. The options were valued at \$65,000.

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

All of the above issuances 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 NutraCea and was deemed capable of protecting their own interests. The securities were issued pursuant to the private placement

Edgar Filing: NUTRACEA - Form 10QSB

exemption provided by Section 4(2) of the Securities Act of 1933 ("1933 Act"). These are deemed to be "restricted securities" as defined in Rule 144 under the 1933 Act and bear a legend stating the restrictions on resale.

ITEM 5. OTHER INFORMATION

On January 25, 2005 NutraCea entered into a three year employment agreement with its Senior Vice President whereby NutraCea 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 NutraCea and to be approved by NutraCea's Compensation Committee. Warrants to purchase 1,000,000 shares of NutraCea'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 NutraCea'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 NutraCea reports a positive EBITDA for the period. All warrants expire in ten years from the date of issuance.

On April 4, 2005, NutraCea entered into an Agreement and Plan of Merger and Reorganization ("Merger Agreement") with The RiceX Company, a publicly held manufacturer and distributor of foods and ingredients made from stabilized rice bran whose stock is traded on the OTC Bulletin Board ("RiceX"). The signing of the Merger Agreement was announced on April 4,

17

2005 in a press release and a report on Form 8-K that NutraCea filed with the Securities and Exchange Commission. The Merger Agreement provides that, subject to the satisfaction of certain conditions, a wholly owned subsidiary of NutraCea will merge with and into RiceX, which will result in RiceX becoming a wholly-owned subsidiary of NutraCea ("Merger").

At the effective time of the Merger, the stockholders of RiceX will receive shares of NutraCea common stock in exchange for their shares of RiceX common stock, and NutraCea will assume the outstanding options and warrants to purchase RiceX common stock. NutraCea anticipates that the aggregate number of shares of NutraCea common stock that will be issued to the holders of RiceX common stock upon the effective date of the Merger will be between approximately 28,000,000 and 36,000,000 shares. In addition, after the Merger, NutraCea anticipates that the RiceX security holders will hold between approximately 42% and 48% of the combined company on a fully diluted basis, which includes shares underlying NutraCea and RiceX options and warrants. The number of shares of NutraCea common stock issuable to RiceX stockholders is subject to adjustment based upon the market price of NutraCea common stock and the number of outstanding RiceX options and warrants on the effective date of the Merger.

The Merger Agreement calls for certain changes in NutraCea's corporate structure. First, it calls for NutraCea to increase the size of its board of directors from five to seven directors upon the effectiveness of the Merger, with NutraCea's board of directors immediately after consummation of the merger to consist of three representatives from NutraCea, three representatives from RiceX and one representative mutually designated by NutraCea and RiceX. In addition, it is currently a condition to consummation of the Merger that NutraCea's articles of incorporation be amended to increase the authorized number of NutraCea's common shares from 100,000,000 to 150,000,000 shares.

The closing of the transactions contemplated by the Merger Agreement is also subject to (i) approval by the respective stockholders of NutraCea and RiceX,

Edgar Filing: NUTRACEA - Form 10QSB

(ii) a determination of the fairness of the terms and conditions of the Merger at a hearing before the Commissioner of Corporations for the State of California (iii) holders of no more than 17% of the outstanding shares of NutraCea common stock having exercised dissenters' rights with respect to their shares by virtue of the Merger, and (iv) holders of no more than 5% of the outstanding shares of RiceX common stock having exercised dissenters' rights with respect to their shares by virtue of the Merger, and (v) other customary closing conditions.

As disclosed in previous filings made by NutraCea with the Securities and Exchange Commission ("SEC"), RiceX is NutraCea's principal supplier of stabilized rice bran, and NutraCea subleases its principal executive offices from RiceX. In addition, RiceX's Chairman of the Board and the Former Chief Executive Officer, Daniel L. McPeak, Sr., is the spouse of Patricia McPeak, RiceX's former director and President, and current Chief Executive Officer for and director of NutraCea. Mr. McPeak recused himself from the vote taken by the board of directors of RiceX to approve the Merger. Additional information regarding these relationships can be found in NutraCea's Annual Report on Form 10-KSB for the year ended December 31, 2004 filed with the SEC on March 31, 2005.

18

On January 26, 2005 NutraCea entered into a non-exclusive distribution agreement to distribute NutraCea'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 NutraCea's option. NutraCea may also at its option terminate the agreement upon 60 days written notice to the distributor.

On February 10, 2005 NutraCea entered into a one year consulting agreement with Trilogy, a financial relations company. Compensation was to 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 NutraCea 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. Subsequent to the quarter ended March 31, 2005, NutraCea terminated this consulting agreement and cancelled the warrants originally issued under the contract.

On February 28, 2005 NutraCea terminated an existing consulting agreement with a retired employee that was entered into on April 19, 2004. At NutraCea'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 NutraCea 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 NutraCea'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

Edgar Filing: NUTRACEA - Form 10QSB

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 NutraCea 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 NutraCea's common stock on the date the patent is granted, with the total shares granted reduced accordingly.

19

On March 14, 2005 NutraCea appointed Dr. Harold Stein to its Scientific Advisory Board. Pursuant to the Scientific Advisory member Agreement, Dr. Stein's appointment is for a three year term with annual compensation of 15,000 warrants to purchase shares of common stock at the market price on each anniversary date. The option price for the first year of service is a price of \$.50 per share. Dr. Stein is a professor in the University of Toronto's Department of Ophthalmology and Vision Sciences and the author or co-author of several ophthalmology textbooks. Dr. Stein joins Dr. Barbara Levin, Dr. Eliot Drell and Dr. Eric Pecha on the Scientific Advisory Board.

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:

- (i) Form 8-K filed on February 18, 2005 reporting under Item 1.01 the issuance of 35,000 shares of common stock to each director of NutraCea.
- (ii) Form 8-K filed on March 8, 2005 reporting under Item 3.02 the appointment of David S. Bensol, R. Ph. to the board of directors.

20

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: May 6, 2005

/s/Patricia McPeak

Patricia McPeak
Chief Executive Officer

Dated: May 6, 2005

/s/ James W. Kluber

Edgar Filing: NUTRACEA - Form 10QSB

James W. Kluber,
Chief Financial Officer
(Principal Accounting Officer)

21