NUTRACEA
Form 10KSB/A
July 21, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A
Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended	Commission File Number
December 31, 2002	0-32565

NUTRACEA
(Name of Small Business Issuer in Its Charter)

California	87-0673375
(State or Other Jurisdiction of Incorporation or Organization)	IRS Employer Identification No.)

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

(916) 933-7000
(Issuer's Telephone Number, Including Area Code)

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

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

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

Common Stock
(Title of Class)

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

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

State issuer's revenues for its most recent fiscal year. $1,536,153.

As of June 30, 2004, 2004, the aggregate value of the voting stock held by

non-affiliates of the registrant, computed by reference to the average of the bid and ask price on such date was approximately $16,665,348.

ISSUER INVOLVED IN BANKRUPTCY PROCEEDING
DURING THE PAST FIVE YEARS

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [X] No [ ]

As of June 30, 2004, the registrant had outstanding 26,101,048 shares of common stock.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

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EXPLANATORY NOTE

This Amended Annual Report on Form 10-KSB/A is filed for the purpose of amending and replacing the Financial Statements and Management's Discussion and Analysis and Plan of Operations filed on March report is filed with the Securities Exchange Commission on April 15, 2003. Pursuant to Rule 12b-15 only the following items in Form 10-KSB have been included in this amendment:

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATIONS.

ITEM 7. FINANCIAL STATEMENTS.

ITEM 8A. CONTROLS AND PROCEDURES.

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

For more detailed financial information, please refer to the audited December 31, 2002 Financial Statements included in this Form 10-KSB.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

This Form 10-KSB includes "forward-looking" statements about future financial results, future business changes and other events that haven't yet occurred. For example, statements like we "expect," we "anticipate" or we "believe" are forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties about the future. We do not undertake to update the information in this Form 10-KSB 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-KSB and should be considered carefully.

PLAN OF OPERATION FOR THE NEXT TWELVE MONTHS

NTI was formed on February 4, 2000 and became the wholly-owned subsidiary of NutraStar on December 14, 2001. To date, NutraStar has focused on its relationship with the producer of its raw materials, RiceX, and on its strategic alliances. NutraStar has commenced the limited distribution of its stabilized rice bran and rice bran products on the Internet and through direct-to-consumer

response advertising campaigns. In the very near future, NutraStar intends to commence the full distribution of its products as private label brands through strategic distributors on the occurrence of certain events, including the raising of additional capital required to implement its business plan. NutraStar's fiscal year is the calendar year.

NutraStar anticipates that in the next 12 to 24 months, it will need an additional $10 to $20 million in financing. NutraStar anticipates that it will need $5 to $15 million to make certain acquisitions, $2.5 million to further increase production capacity, and $2.5 million for additional working capital, including the purchase of inventory for anticipated sales growth. NutraStar expects to obtain this additional funding from private placements of the Company's debt and/or equity securities, or through the public offering of its Common Stock.

RESULTS OF OPERATION

Year Ended December 31, 2002 versus 2001

NutraStar generated revenues of $1,286,439 during the fiscal year 2002 compared to total revenues of $1,610,222 generated in fiscal year 2001. While net sales remained virtually the same for both years, commission revenue of $317,668 was realized in fiscal year 2001 compared to no such revenues realized in fiscal year 2002.

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Cost of goods sold for fiscal year 2002 decreased by 15% to $800,255 compared to costs of goods sold of $945,633 in fiscal year 2001. This decrease reflects lower product sales and increasing the standard product canister size from 360 grams to 600 grams. Gross profits decreased from $664,589 in fiscal year 2001 to $486,184 in fiscal year 2002. This 27% decline in gross profits was primarily due to the 20% decrease in total revenues realized in fiscal year 2002. Operating expenses of $3,592,337 reflect a 7% increase from $3,356,904 of operating expenses incurred in fiscal year 2001. Operating expenses for fiscal year 2002 include legal and accounting costs of approximately $63,400 incurred in the preparation of the Company's SB-2 registration statement which was filed with the SEC in June 2002, and $403,906 in non-cash consulting fees.

The Company's operating loss increased to $3,106,153 during fiscal year 2002 compared to an operating loss of $2,692,315 during the previous fiscal year. This increase in operating loss reflects the 20% decrease in total revenues during fiscal year 2002 which was offset to some extent by a decrease in costs of goods sold. The net loss for fiscal year 2002 declined $567,031 to $3,204,443 compared to a net loss of $3,771,474 for fiscal year 2001. The decrease in net loss for 2002 was due primarily to the significant reduction in interest expense which fell from $1,080,602 in fiscal year 2001 to $98,927 in fiscal year 2002, offset by $403,906 in 2002 non-cash expense. The decrease in interest expense reflects the reduction of debt resulting primarily from exchanging $1,590,000 of debt for equity during fiscal year 2002.

Due to the December 14, 2001 share exchange with Alliance, for accounting purposes, the acquisition has been treated as a recapitalization of NutraStar (formerly Alliance) with NTI as the acquirer (reverse acquisition). Consequently, the financial statements of NTI are presented as those of the Company. As a result, a comparison of the current financial statements as compared to those of Alliance as previously reported in its Form 10-SB may not be deemed relevant.

CAPITAL FINANCING

As a part of the exchange transaction with NTI, Alliance issued 17,000,000 shares of its common stock to the shareholders of NTI in exchange for all of the outstanding shares of NTI. An additional $249,770 shares were issued for services rendered in connection with the exchange transaction. This transaction has been accounted for as a reverse acquisition, whereby NTI is considered the acquiring company and Alliance the acquired company.

In connection with the exchange agreement, Alliance obtained $1,000,000 in 2001 from the sale of one million shares of its common stock which was issued at $1.00 per share. The Company issued an additional 249,770 shares of common stock for services rendered valued at $249,770.

During fiscal year 2001, NutraStar also issued 2,084,707 shares of its Series A Preferred Stock for services, settlement of a lawsuit, payment of accounts payable and in exchange for outstanding promissory notes and interest thereon valued at $1,899,000.

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During fiscal year 2002, NutraStar raised an aggregate of $234,800 through the issuance of short-term promissory notes. These notes bear interest of 10% per annum. At December 31, 2002, certain of these notes were delinquent. Subsequent to year end, all of those notes were modified to be due on demand. In addition to the above, NutraStar entered into two secured promissory note agreements. Both notes were in the principal amount of $50,000 and collateralized by shares of the Company's stock. One of the notes was repaid during the year 2002. The other note bears interest of 2% per month and is secured by 634,121 shares of the Company's Series A preferred stock.

During fiscal year 2002, NutraStar's CEO gave personal NutraStar common stock to an investment banker for the benefit of the Company, as compensation to the consultant. No services were performed by this consultant, and the consultant acknowledged that the stock should be returned to the Company. As the investment capital company is currently involved in litigation with their stock broker, it is uncertain when these shares will be returned to the Company. As of December 31, 2002, the Company recorded $75,400 in non-cash consulting expense related to this transaction.

LIQUIDITY AND CAPITAL RESOURCES

NutraStar has incurred significant operating losses for its last three fiscal years and, as of December 31, 2002, NutraStar had an accumulated deficit of $8,682,746. At December 31, 2002, the Company had cash and cash equivalents of $34,718 and a net working capital deficit of $1,386,173.

To date, NutraStar has funded its operations through a combination of revenues, short term debt and the issuance of common and preferred stock. During December 2001 NutraStar completed two private placements; the first raised $1,000,000 from the sale of common stock at $1.00 per share; and the second raised approximately $1,841,707 through the conversion of debt into preferred stock that was priced at $1.00 per share which is classified as convertible, redeemable Series A Preferred Stock to conform with SEC accounting requirements. During fiscal year 2002, NutraStar raised $100,000 from the sale of units consisting of one share of common stock and a warrant to purchase one additional share. The Company also committed to issue 1,060,000 shares of common stock in payment of consulting fees valued at $172,500.

The Company is dependent on the proceeds from future debt or equity investments to expand NutraStar's operations and fully implement NutraStar'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 may 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.

The Company has various financial commitments including the following:

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- as of December 31, 2002, the Company owed $150,129 in cumulative dividends on its Series A Preferred Stock.
- the Company owes $244,333 on the remaining four years of its office lease.
- the Company has entered into several employment agreements with key employees with terms ranging from 3 to 10 years and minimum future payments under such agreements aggregating $2,130,416.

DEPENDENCE ON KEY SUPPLIER

NutraStar has entered into an agreement with The RiceX Company, whereby RiceX will sell NutraStar its rice bran derivatives at prices equal to the lower of RiceX's standard price or the price negotiated by other customers for like quantities and products. The agreement also provided that RiceX would not sell any rice bran derivatives products in the United States except to NutraStar. This latter part of the agreement was terminated on July 9, 2002. To purchase products from RiceX, NutraStar is required to pay for all purchase orders on a COD basis.

In addition to the risks associated with the potential termination of RiceX as NutraStar's major supplier, the inability of RiceX to deliver the amount of product that NutraStar requires, any interruption in product delivery for any reason, or the inability of RiceX to fulfill its contractual obligations would have a material adverse effect on NutraStar's business, results from operations, and financial condition, as NutraStar could not readily find and implement alternative suppliers and likely not on advantageous terms. RiceX's ability to manufacture certain of NutraStar's core products is currently limited to the production capability of RiceX's Dillon, Montana plant (the "Dillon Plant"). Currently, the Dillon Plant is capable of producing only a limited quantity of NutraStar's products, which will not be sufficient to meet NutraStar's long-term sales goals. The Company and/or RiceX plan to add production capacity during the current year.

CRITICAL ACCOUNTING POLICIES

NutraStar'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 generally accepted accounting principles 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, NutraStar 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. NutraStar believes that the following critical accounting policies affect its more significant judgments and estimates in the preparation of its consolidated financial statements.

Revenue recognition

NutraStar is required to make judgments based on historical experience and future expectations, as to the realizability 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. NutraStar 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 NutraStar 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 June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." This statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Pre-Acquisition Contingencies of Purchased Enterprises." All business combinations in the scope of this statement are to be accounted for using one method, the purchase method. The provisions of this statement apply to all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method for those business combinations is prohibited. This statement also applies to all business combinations accounted

for using the purchase method for which the date of acquisition is July 1, 2001 or later. The Company does not expect adoption of SFAS No. 141 to have a

material impact, if any, on its financial position or results of operations.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. It is effective for fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued previously. The Company does not expect adoption of SFAS No. 142 to have a material impact, if any, on its financial position or results of operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of long-lived assets, except for certain obligations of lessees. This statement is not applicable to the Company.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business, and amends Accounting Research Bulletin No. 51, "Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The Company does not expect adoption of SFAS No. 144 to have a material impact, if any, on its financial position or results of operations.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Accounting Principles Board No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same

manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. This statement is not applicable to the Company.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability

Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue 94-3, a liability for an exit cost, as defined, was recognized at the date of an entity's commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002 with earlier application encouraged. This statement is not applicable to the Company.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." SFAS No. 147 removes the requirement in SFAS No. 72 and Interpretation 9 thereto, to recognize and amortize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. This statement requires that those transactions be accounted for in accordance with SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." In addition, this statement amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include certain financial institution-related intangible assets. This statement is not applicable to the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," an amendment of SFAS No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. This statement is effective for financial statements for fiscal years ending after December 15, 2002. SFAS No. 148 will not have any impact on the Company's financial statements as management does not have any intention to change to the fair value method.

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ITEM 7. FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

NutraStar Incorporated and subsidiaries

We have audited the accompanying consolidated balance sheet of NutraStar Incorporated and subsidiaries as of December 31, 2002, as restated, and the related consolidated statements of operations, shareholders' deficit, and cash flows for each of the two years in the period ended December 31, 2002, as restated. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above, as restated, present fairly, in all material respects, the financial position of NutraStar Incorporated and subsidiaries as of December 31, 2002, as restated, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2002, as restated, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, during the year ended December 31, 2002, as restated, the Company incurred a net loss of $3,204,443, as restated, and had negative cash flows from operations of $871,266, as restated. In addition, the Company had an accumulated deficit of $8,682,746 at December 31, 2002, as restated. These factors, among others, as discussed in Note 3 to the financial statements, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements, as restated, do not include any adjustments that might result from the outcome of this uncertainty. As discussed in Note 2 to the consolidation financial statements, the December 31, 2002 consolidated financial statements have been restated to correct a reporting error.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
March 29, 2003

NUTRASTAR INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31,2002 (restated)

ASSETS

CURRENT ASSETS	
Cash	$ 34,718
Accounts receivable	7,273
Inventory	42,695

Prepaid expenses	27,180
Total current assets	111,866
PROPERTY AND EQUIPMENT, net	155,712
PATENTS AND TRADEMARKS, net	48,748
GOODWILL	250,001
TOTAL ASSETS	$566,327

The accompanying notes are an integral part of these financials

NUTRASTAR INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31,2002 (restated)

LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable	$ 707,331
Accrued salaries and benefits	51,192
Deferred compensation	325,962
Accrued expenses	81,455
Customer deposits	44,316
Due to officer	16,457
Due to related party	40,526
Notes payable - related party	180,800
Note payable	50,000
Total current liabilities	1,498,039
PUT OPTION	130,000
Total liabilities	1,628,039
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	2,060,931
SHAREHOLDERS' DEFICIT	
Common stock, no par value 50,000,000 shares authorized 23,758,071 shares issued and outstanding	5,861,702
Committed common stock	571,674
Deferred compensation	(873,273)
Accumulated deficit	(8,682,746)
Total shareholders' deficit	(3,122,643)

TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 566,327

The accompanying notes are an integral part of these financials

NUTRASTAR INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31,2002 (restated)

	2002	2001
	(restated)	(restated)
REVENUES		
Net sales	$ 1,286,439	$ 1,292,554
Commission revenue	-	317,668
Total revenues	1,286,439	1,610,222
COST OF GOODS SOLD	800,255	945,633
GROSS PROFIT	486,184	664,589
OPERATING EXPENSES	3,592,337	3,356,904
LOSS FROM OPERATIONS	(3,106,153)	(2,692,315)
OTHER INCOME (EXPENSE)		
Interest income	637	1,443
Interest expense	(98,927)	(1,080,602)
Total other income (expense)	(98,290)	(1,079,159)
NET LOSS	(3,204,443)	(3,771,474)
CUMULATIVE PREFERRED DIVIDENDS	150,129	-
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(3,354,572)	$(3,771,474)
BASIC AND DILUTED LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE	$ (0.15)	$ (0.20)
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES USED TO COMPUTE BASIC AND DILUTED LOSS		

ATTRIBUTABLE TO COMMON SHAREHOLDERS PER SHARE	22,070,881	18,686,078
	============	============

The accompanying notes are an integral part of these financials

NUTRAS

	Convertible, Redeemable Series A Preferred Stock		Common Stock		Committed Common Stock	Defe Com sat
	Shares	Amount	Shares	Amount		
BALANCE, DECEMBER 31, 2000	-	$ -	15,943,906	$ 382,877	$ -	$
PREFERRED STOCK ISSUED						
for settlement of litigation for payment for accounts payable	100,000	100,000				
for conversion of notes	130,000	130,000				
payable and accrued interest	1,775,707	1,671,802				
for services rendered	13,000	13,000				
for deposits payable	56,000	56,000				
as interest expense	10,000	10,000				
COMMON STOCK ISSUED						
for cash			28,546	20,000		
for acquisition of registered trademark			21,409	21,409		
to extend note payable			356,824	356,824		
for services rendered			249,314	249,314		
for acquisition of NutraGlo			250,001	250,001		
for settlement of litigation			150,000	150,000		
for cash in conjunction with acquisition by Alliance			4,649,520	1,000,000		
COMMITTED STOCK FOR CONVERSION OF NOTES PAYABLE					399,174	
STOCK OPTIONS ISSUED						
for compensation			-	647,429		(449
for services rendered			-	1,273,861		(476
for settlement of litigation			-	107,047		

The accompanying notes are an integral part of these financials

NUTRAS

WARRANTS ISSUED WITH CONVERTIBLE DEBT			-	114,083		
PUT OPTION	-	(130,000)				
NET LOSS						
BALANCE, DECEMBER 31, 2001 (RESTATED)	2,084,707	1,850,802	21,649,520	4,572,845	399,174	(925
PREFERRED STOCK ISSUED for expense reimbursement	60,000	60,000				
PREFERRED STOCK DIVIDEND	-	150,129				
COMMON STOCK ISSUED						
for cash			1,908,551	395,000		
for services rendered			200,000	90,000		
ISSUANCE COSTS			-	(39,499)		
COMMITTED STOCK FOR SERVICES RENDERED					172,500	
STOCK OPTIONS ISSUED						
for compensation		-	193,750			(145
for services rendered		-	173,250			
as interest expense		-	5,600			
WARRANTS ISSUED FOR SERVICES RENDERED		-	850			
BENEFICIAL CONVERSION FEATURE FOR THE ISSUANCE OF CONVERTIBLE DEBT		-	66,000			

The accompanying notes are an integral part of these financials

COMMON STOCK ISSUED FOR CONSULTING FEES				403,906		
AMORTIZATION OF DEFERRED COMPENSATION						197
NET LOSS						
BALANCE, DECEMBER 31, 2002 (RESTATED)	2,144,707	$ 2,060,931	23,758,071	$5,861,702	$571,674	$(873

The accompanying notes are an integral part of these financials

NUTRASTAR INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
December 31,2002 (restated)

	2002 (restated)	2001 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(3,204,443)	$(3,771,474)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	126,460	94,397
Loss reserve for patents and trademarks	75,359	-
Non-cash issuances of preferred stock	60,000	468,511
Non-cash issuances of common stock	90,000	756,138
Non-cash issuances of committed stock	172,500	130,487
Non-cash issuances of stock options	425,202	1,102,462
Non-cash issuances of warrants	850	10,178
Non-cash payment of consulting fees	403,906	-
Beneficial conversion feature	66,000	-
(Increase) decrease in		
Accounts receivable	(5,680)	114,043
Inventory	51,191	421,886
Prepaid expenses	(18,392)	6,597
Deposits	181,071	(80,546)
Increase (decrease) in		
Accounts payable	325,214	(333,773)
Accrued salaries and benefits	(9,822)	36,079
Deferred compensation	325,962	-
Accrued expenses	24,475	157,670
Customer deposits	44,316	-
Due to officer	(5,435)	32,029
Net cash used in operating activities	(871,266)	(855,316)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(61,150)	(234,348)
Purchase of patents and trademarks	(24,669)	(30,199)
Net cash used in investing activities	(85,819)	(264,547)

The accompanying notes are an integral part of these financials

NUTRASTAR INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31,2002 (restated)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible notes payable	-	1,230,000

Principal payments on convertible notes payable	-	(490,000)
Proceeds from notes payable	334,800	-
Principal payments on notes payable	(104,000)	-
Refunds from deposits payable	-	(240,500)
Proceeds from the issuance of common stock, net	355,501	1,020,000
Net cash provided by financing activities	586,301	1,519,500
Net increase (decrease) in cash	(370,784)	399,637
CASH, BEGINNING OF YEAR	405,502	5,865
CASH, END OF YEAR	$ 34,718	$ 405,502

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

INTEREST PAID	$ -	$ -
INCOME TAXES PAID	$ -	$ -

The accompanying notes are an integral part of these financials

NUTRASTAR INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES
During the year ended December 31, 2002, the Company

- issued 200,000 shares of common stock for services rendered totaling $90,000.

- issued options to purchase 155,000 shares of common stock to an employee of the Company. In relation to these issuances, the Company recorded compensation expense totaling $193,750 and deferred compensation expense totaling $145,312.

- issued options to purchase 425,000 shares of common stock for services rendered. In relation to these issuances, the Company recorded consulting expense totaling $173,250.

- issued options to purchase 28,000 shares of common stock for debt issued. In relation to these issuances, the Company recorded interest expense totaling $5,600.

- issued warrants to purchase 2,500 shares of common stock for services rendered. In relation to these issuances, the Company recorded consulting expense totaling $850.

- committed to issue 1,060,000 shares of common stock for services rendered. In relation to these commitments, the Company recorded consulting expense

totaling $172,500.

- recorded interest expense totaling $66,000 related to the beneficial conversion feature for the issuance of convertible debt.

- issued 60,000 shares of preferred stock as payment for an expense reimbursement totaling $60,000.

- recorded 7% cumulative preferred stock dividends totaling $150,129

During the year ended December 31, 2001, the Company

- converted notes with a principal balance of $1,340,000 and accrued interest of $90,196 into 1,430,196 shares of the Company's Series A preferred stock. Related to these conversions, the Company issued an additional 345,511 shares of Series A preferred stock to certain of the note holders and recorded related interest charges of $345,511. The remaining notes with a principal balance of $250,000 and accrued interest of $18,687 had been converted into committed common stock. Related to the conversion, the Company recorded interest charges of $130,487 for additional shares that will be issued.

- issued 100,000 shares of Series A preferred stock as a settlement of certain litigation. Related to this transaction, the Company recorded expenses totaling $100,000

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES (CONTINUED)

- issued 130,000 shares of Series A preferred stock to a related party as payment of accounts payable totaling $130,000 and subsequently executed a put/call option with the related party (see Note 11).

- issued 13,000 shares of Series A preferred stock for services rendered valued at $13,000.

- issued 56,000 shares of Series A preferred stock for deposits payable totaling $56,000. In relation to one of these transactions, the Company issued 10,000 shares of preferred stock as interest expense totaling $10,000.

- issued 21,409 shares of common stock to acquire a registered trademark valued at $21,409.

- issued 356,824 shares of common stock to extend the term of a note payable and recorded interest expense totaling $356,824.

- issued 249,314 shares of common stock for services rendered valued at $249,314.

- issued 250,001 shares of common stock in exchange for the remaining 20% of the common stock of NutraGlo owned by a third party.

- issued 150,000 shares of common stock as a settlement for the cancellation of a consulting agreement and recorded consulting expense totaling $150,000.

- recorded committed common stock of $399,174 for the conversion of a note payable and accrued interest.

- issued options to purchase 935,564 shares of common stock to employees of the Company. In relation to these issuances, the Company recorded compensation expense totaling $197,914 and deferred compensation expense totaling $449,515.

- issued options to purchase 1,498,660 shares of common stock. In relation to these issuances, the Company recorded consulting expense totaling $797,501 and deferred compensation expense totaling $476,360.

- issued options to purchase 142,730 shares of common stock in settlement of certain disputes. In relation to these issuances, the Company recorded settlement expenses totaling $107,047.

NOTE 1 - ORGANIZATION AND LINE OF BUSINESS

General

NutraStar Incorporated ('NutraStar"), a California corporation, markets proprietary whole food dietary supplements derived from nutrient-dense stabilized rice bran (a nutraceutical) produced by an affiliated company, The RiceX Company ("RiceX"), a current shareholder and a publicly traded company. The Company (as defined in Note 4) has a license to distribute certain derivatives of RiceX's stabilized rice bran, as well as valued-added rice bran products in the United States of America.

On December 14, 2001, Alliance Consumer International, Inc. ("Alliance") acquired all of the outstanding common stock of NutraStar. For accounting purposes, the acquisition has been treated as a recapitalization of NutraStar with NutraStar as the acquirer (reverse acquisition).

Effective April 27, 2000, NutraStar became an 80% owner of NutraGlo Incorporated ("NutraGlo"), a Nevada corporation. NutraGlo was non-operative during 2000. During the year ended December 31, 2001, NutraGlo started marketing, manufacturing, and distributing NutraStar's stabilized rice bran and other nutraceuticals to the equine market. In connection with NutraStar's acquisition of Alliance, NutraStar issued 250,001 shares of common stock in exchange for the remaining 20% of the common stock of NutraGlo.

The transaction has been accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," which is required for all transactions occurring after June 30, 2001. In accordance with SFAS No. 141, the purchase price is to be allocated to assets acquired and liabilities assumed based on the estimated fair market value at the closing date of the acquisition, with the excess of the purchase price being allocated to goodwill. Since there were not any assets acquired and liabilities assumed in connection with this transaction, the value of the shares issued of $250,001 has been recorded as goodwill in the accompanying consolidated balance sheet. As NutraStar was the 80% owner of NutraGlo, the operations of NutraGlo have been consolidated with NutraStar.

Therefore, pro forma information is not required.

Lines of Business

The Company has four primary divisions through which it sells its products: (1) TheraFoods(R), which distributes consumer products including RiSolubles(R), RiceMucil(R), NutraFlex(TM), and StaBran(R), (2) NutraCea(R), which was created to compliment medical food products, (3) NutraBeauticals(R), which provides natural products to improve skin health, and (4) NutraGlo(R), which developed a derivative of the NutraFlex(TM) product for horses.

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

NOTE 2 - RESTATEMENT

DECEMBER 31, 2001

During the year ended December 31, 2001, the Company issued 130,000 shares of Series A preferred stock to a related party as payment of accounts payable totaling $130,000. Related to these issuances, on January 15, 2002, these holders executed a put/call agreement with the Company (see Note 11). The Company previously had not recorded the put option on its financial statements. The Company has also reclassified its convertible Series A preferred stock

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to convertible, redeemable Series A preferred stock to conform with the accounting requirements of the United States Securities and Exchange Commission.

This restatement does not have any effect on the Company's reported earnings. Its impact on the previously reported total liabilities and convertible, redeemable Series A preferred stock as of December 31, 2001 is as follows:

	As Previously Reported	Restatement	As Restated
Total liabilities	$ 562,529	$ 130,000	$ 692,529
Total convertible, redeemable Series A preferred stock	$ 1,980,802	$ (130,000)	$ 1,850,802

DECEMBER 31, 2002

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

to common shareholders and common stock by $403,906.

The following table presents the effects of the correction and restatement on a condensed basis.

	FOR THE YEAR ENDED DECEMBER 31, 2002		
	As previously reported	Restatement adjustments	As restated
Shareholder's deficit:			
Common stock	$ 5,457,796	403,906	$ 5,861,702
Accumulated deficit	$ (8,278,840)	(403,906)	$(8,682,746)
Operating expenses	$ 3,188,431	403,906	$ 3,592,337
Net loss attributable to common shareholders	$ (2,950,666)	(403,906)	$(3,354,572)
Basic and diluted loss attributable to common shareholders per common share	$ (1.34)	(0.18)	$ (1.52)

NOTE 3 - GOING CONCERN

The accompanying financial statements have been prepared in conformity with United States generally accepted accounting principles which contemplate continuation of the Company as a going concern. During the year ended December 31, 2002, the Company incurred a net loss of $3,204,443, and it had negative cash flows from operations of $871,266. In addition, the Company had an accumulated deficit of $8,682,746 at December 31, 2002. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Recovery of the Company's assets is dependent upon future events, the outcome of which is

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indeterminable. Successful transition of the Company to the attainment of profitable operations is dependent upon the Company achieving a level of sales adequate to support the Company's cost structure. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Management's plans to alleviate substantial concern about the Company's ability to continue as a going concern include the following:

- The Company anticipates that it will be able to raise additional equity that will be sufficient for it to continue to implement its current business strategy. It plans on registering all of its common stock with the Securities and Exchange Commission not previously registered as well as any future common stock issued. This should result in more market liquidity for the Company's common shareholders.

- The Company plans on implementing an aggressive marketing strategy

that will enhance consumer awareness of its products. The strategy includes establishing and/or expanding existing strategic relationships; using an Internet business-to-business and business-to-consumer Web site that will handle increased product demand if its marketing strategy is successful; creating a direct response marketing campaign; and advertising in targeted, industry specific magazines.

- The Company is reducing its fixed overhead expenses and plans to continue to control such items for the foreseeable future.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Revenue Recognition

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

Comprehensive Income

The Company utilizes SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on available-for-sale securities. Comprehensive income is not presented in the Company's financial statements since the Company did not have any changes in equity from non-owner sources.

Accounts Receivable

The Company provides for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. The Company writes off an account when it is considered to be uncollectible. As of December 31, 2002, an allowance for doubtful accounts was not deemed necessary.

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Inventory

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

Property and Equipment

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

Furniture and equipment	7 years
Software	3 years

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

Patents and Trademarks

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

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

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

Deferred Compensation

Deferred compensation at December 31, 2002 consisted of salaries payable to employees of the Company that have been earned, but not paid.

Fair Value of Financial Instruments

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

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for stock-based compensation. However, SFAS No. 123 allows an entity to continue to measure compensation cost related to stock and stock options issued to employees using the intrinsic method of accounting prescribed by Accounting Principles Board ("APB")

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Opinion No. 25, "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting method of APB No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value method of accounting defined in SFAS No. 123 had been applied. The Company has elected to account for its stock-based compensation to employees under APB No. 25.

Advertising Expense

The Company expenses all advertising costs, including direct response advertising, as they are incurred. Advertising expense for the years ended December 31, 2002 and 2001 was $57,264 and $24,369, respectively.

Income Taxes

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

Loss Per Share

The Company utilizes SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. As such, basic and diluted loss per share are the same.

Estimates

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

Concentrations of Credit Risk

The Company sells its services throughout the United States, extends credit to its customers, and performs ongoing credit evaluations of such customers. The Company evaluates its accounts receivable on a regular basis for collectability and provides for an allowance for potential credit losses as deemed necessary.

On May 1, 2001, the Company entered into a three-year, exclusive distribution agreement with a customer, in which the customer is required to purchase a minimum of 90,000 pounds of the Company's product on or before July 1, 2001, 120,000 pounds before September 1, 2002, 275,000 pounds between September 1, 2002 and August 31, 2003, and 350,000 pounds between September 1, 2003 and August 31, 2004. During the year ended December 31, 2002, sales to this customer totaled $516,596 (40% of total sales). During the year ended December 31, 2001, sales to this customer totaled $596,627 (46% of total sales).

In addition to the above, during the years ended December 31, 2002 and 2001, one customer

accounted for 10% and 19%, respectively, of the Company's sales.

Recently Issued Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Accounting Principles Board No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. This statement is not applicable to the Company.

Recently Issued Accounting Pronouncements (Continued)

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue 94-3, a liability for an exit cost, as defined, was recognized at the date of an entity's commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002 with earlier application encouraged. This statement is not applicable to the Company.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." SFAS No. 147 removes the requirement in SFAS No. 72 and Interpretation 9 thereto, to recognize and amortize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. This statement requires that those transactions be accounted for in accordance with SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." In addition, this statement amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include certain financial institution-related intangible assets. This statement is not applicable to the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," an amendment of SFAS No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. This statement is effective for financial statements for fiscal years ending after December 15, 2002. SFAS No.148 will not have any

impact on the Company's financial statements as management does not have any intention to change to the fair value method.

NOTE 5 - CASH

The Company maintains its cash balances at one bank located in California. The balances at the bank are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 2002, the Company did not have any uninsured cash.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2002 consisted of the following:

Furniture and equipment	$ 18,417
Software	347,773
	366,190
Less accumulated depreciation	210,478
TOTAL	$155,712

Depreciation expense was $116,393 and $89,026 for the years ended December 31, 2002 and 2001, respectively.

NOTE 7 - PATENTS AND TRADEMARKS

Patents and trademarks at December 31, 2002 consisted of the following:

Patents	$89,399
Trademarks	52,259
	141,658
Less loss reserve	75,359
Less accumulated amortization	17,551
TOTAL	$48,748

At December 31, 2002, $67,098 of the Company's patents and trademarks had been purchased from a related party.

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

Amortization expense was $10,067 and $5,371 for the years ended December 31, 2002 and 2001, respectively. Future estimated, aggregate amortization expense at December 31, 2002 was as follows:

Year Ending
December 31,

2003	$ 9,696
2004	9,696
2005	9,696
2006	9,696
2007	9,694
TOTAL	$48,478

NOTE 8 - GOODWILL

Goodwill represents the purchase price of the remaining 20% of NutraGlo. As of January 1, 2002, the Company adopted SFAS No. 142. SFAS No. 142 prohibits the amortization of goodwill, but requires that it be reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that could indicate that its value has diminished or been impaired. Recoverability of goodwill is measured by a comparison of its carrying value to the future net cash flows expected to be generated by it.

Cash flow projections are based on historical experience, management's view of growth within the industry, and the anticipated future economic environment. Since the Company purchased the remaining 20% of NutraGlo on December 12, 2001, amortization expense was not recorded as of December 31, 2001. As such, the transitional disclosure provisions of SFAS No. 142 do not apply.

NOTE 9 - NOTES PAYABLE - RELATED PARTIES

During the year ended December 31, 2002, the Company raised an aggregate of $234,800 through the issuance of short-term promissory notes. Notes payable - related parties at December 31, 2002 consisted of the following:

Notes payable to the Chief Executive Officer, bearing interest at 10% per annum, with $74,000 due prior to December 31, 2002, $1,800 due on January 26, 2003, and $100,000 due on March 3, 2003. At December 31, 2002, a total of $74,000 of these notes were delinquent. Subsequent to December 31, 2002, all of these notes were modified to be due on demand.	$ 175,800
Note payable to a related party, bearing interest at 10% per annum and due on December 20, 2002. At December 31, 2002, this note was delinquent. Subsequent to December 31, 2002, this note was modified to be due on demand.	5,000
TOTAL	$ 180,800

NOTE 10 - NOTE PAYABLE

Note payable at December 31, 2002 amounted to $50,000 to a third party, bearing interest at 2% per month, secured by 243,036 shares of common stock, and due on December 20, 2002. As of

December 31, 2002, the Company was in default on the note. Subsequent to December 31, 2002, the Company entered into an agreement with the third party to modify the collateral to 634,121 shares of preferred stock and extended the due date of the note to September 20, 2003.

NOTE 11 - PUT OPTION

During the year ended December 31, 2001, the Company issued 130,000 shares of Series A preferred stock to a related party as payment of accounts payable totaling $130,000. On January 15, 2002, these holders of the Series A preferred stock executed a put/call agreement. The put allows for the holder to sell to the Company all, but not less than all, of the 130,000 shares of the Company's Series A preferred stock, or common stock if any of the Series A preferred stock were converted, for $130,000, plus all accumulated, but unpaid dividends, at any time after six months from January 15, 2002. Related to the put option and the related conversion of debt, the Company has recorded a liability of $130,000.

In addition, the Company maintains the right to call the option and purchase back the shares of the Series A preferred stock for $130,000, plus any unpaid and accrued dividends at any time, subject to certain provisions.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Lease

The Company leases its office space under a non-cancelable operating lease with RiceX that expires in September 2006 and requires monthly payments of $5,358. Future minimum payments under this lease agreement at December 31, 2002 were as follows:

Year Ending December 31,	
2003	$64,298
2004	64,700
2005	65,906
2006	49,429
TOTAL	$244,333

Rent expense was $63,899 and $66,799 for the years ended December 31, 2002 and 2001, respectively.

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 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.

Agreements

The Company has entered into several employment agreements with key employees with terms ranging from three to 10 years. Minimum future payments under these agreements at December 31, 2002 were as follows:

Year Ending December 31,	
2003	$508,750
2004	380,000
2005	283,333
2006	250,000
2007	250,000
Thereafter	458,333
TOTAL	$2,130,416

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

On December 14, 2001, the Company entered into a 12-month consulting services agreement, whereby a $15,000 retainer fee is due every month for financial and accounting services. This agreement was canceled in March 2002. During the year ended December 31, 2002, total consulting expenses paid under this contract were $37,500.

On December 14, 2001, the Company entered into a 12-month consulting services agreement, whereby it agreed to pay a $5,000 retainer fee for financial and accounting services. In addition, upon the attainment by the consultant of certain capital transactions, such as any financing business combination, sale, or acquisition, a certain percentage, ranging from 2% to 6%, of the value of the capital transaction will be paid by the Company to the consultant in cash. As of December 31, 2002, consulting expenses paid under this contract were $35,000.

On February 26, 2002, the Company entered into a master services agreement for certain e-commerce services in the amount of $9,975.

On April 12, 2002, the Company entered into a two-year marketing agreement, whereby the Company is to pay a commission of 10% of gross receipts on sales from customers introduced to the Company by the consultant, subject to certain requirements. In relation to this agreement, the Company must grant to the consultants five-year options to purchase up to 150,000 shares of the Company's common stock upon the attainment of customers at an exercise price of $0.75 per share, vesting according to the achievement of certain levels of gross receipts. The agreement automatically renews after the initial two-year term. As of December 31, 2002, the consultant had not produced any sales. Therefore, options had not been issued. Options issued upon procurement of customers will be valued either at the fair market value of the services performed or the fair market value of the options, whichever is more readily available, with the expense amortized over the service period.

On May 6, 2002, the Company entered into a one-year finder's and advisory agreement, whereby the finder is to seek businesses that are consistent with the Company's business and strategic plans or to introduce the Company

to investors. The fees paid to the finder for finding investors to fund the Company are based upon certain percentages, ranging from 2% to 10%, plus unaccountable expenses, depending on the amount funded by the investors. In addition, 10% of the transaction value will be paid in cashless warrants. If the finder arranges a credit line or other types of debt placement, the fees paid to the finder will be 2% of the total debt placement.

If the finder introduces a business or entity and the Company engages in a merge-type transaction

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or other similar transactions, the fees paid to the finder are based upon certain percentages, ranging from 3% to 7%, depending on the transaction value. In addition, 10% of the transaction value will be paid in cashless warrants. This agreement is automatically renewed after the initial one-year term. As of December 31, 2002, amounts were not paid to the finder.

On June 10, 2002, the Company entered into a one-year finder's fee agreement, whereby the Company is to pay the finder 5% of the gross revenues generated from a commercial transaction other than financing, a merger, or some other form of business combination. For every $100,000 in gross revenues that are generated by the finder, the Company will issue warrants to the finder to purchase 5,000 shares of common stock, which will be exercisable immediately, at the then current market price on a cashless basis, subject to certain limitations.

In September 2002, the Company entered into a secured promissory note agreement for $50,000, which was paid off prior to the year ended December 31, 2002. The note was collateralized by 500,000 shares of the Company's common stock. As of December 31, 2002, these shares had not been returned to the Company by the loaner. The Company has reflected these shares as being issued and outstanding as of December 31, 2002.

In September 2002, the Company entered into a secured promissory note agreement for $50,000, due on December 20, 2002. The note was collateralized by 243,036 shares of the Company's common stock. As of December 31, 2002, the Company was in default on this agreement. Subsequent to December 31, 2002, the Company and the loaner agreed to modifications in the agreement, whereby the note will be secured by 634,121 shares of the Company's convertible, redeemable Series A preferred stock and will be due on demand.

In November 2002, the Company entered into a one-year consulting agreement with a third party in exchange for a fixed monthly fee. In addition, the Company must issue to the consultant $100,000 worth of common stock as a commencement bonus. The per share price of the Company's common stock was $0.10 on the date services were first provided by the consultant. Therefore, the Company is committed to issue 1,000,000 shares of common stock as of December 31, 2002. The expense related to the transaction has been recorded in operating expenses on the accompanying statement of operations. Furthermore, the contract calls for the issuance to the consultant options to purchase 1,200,000 shares of common stock. Subsequent to December 31, 2002, this agreement was terminated, and the options were canceled. These stock options are not included in the stock options outstanding at December 31, 2002.

On August 21, 2002, the Company entered into a one-year investment banking agreement, whereby the Company is to pay commission of $5,000 a month to the consultant upon the raising of $500,000 in capital. In addition, the

Company's CEO gave 290,000 of personal NutraStar common stock to the investment banker as compensation for the benefit of the Company. As of December 31, 2002, the consultant had not raised any funds. Therefore the Company was not liable for the 290,000 shares issued upon execution of the agreement. The investment banker acknowledges these shares will be returned, however, since they are involved in litigation with a third party who holds these shares, it is uncertain when these shares will be returned.

Litigation

On April 4, 2002, a complaint was filed against the Company by Millennium Integrated Services, Inc. ("MISI"). MISI provided Web site development services to the Company at a cost of $204,405. MISI is seeking 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

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worth $236,436, pending the resolution of the lawsuit. This Writ of Attachment was granted on April 10, 2002.

Certain of the Company's accounts receivable as of December 31, 2002 have been attached to secure an accounts payable balance to MISI of $188,882 as of December 31, 2002. The Company believes that the settlement of this case may have a material effect on the Company's cash flows.

On July 16, 2002, the Company was summoned to answer a complaint filed by Faraday Financial, Inc. ("Faraday"). Between December 2000 and March 2001, the Company issued convertible promissory notes totaling $450,000 and a promissory note totaling $50,000. On December 13, 2001, Faraday entered into a settlement agreement with the Company, whereby Faraday agreed to cancel the promissory notes in exchange for 735,730 shares of preferred stock. Faraday claims that the settlement agreement required that the Company effect a registration statement covering the preferred stock by June 30, 2002. In the event the Company failed to effect a registration statement by June 30, 2002, the Company was to immediately forfeit to Faraday 735,730 shares of common stock in the name of the Chief Executive Officer of the Company. As of December 31, 2002, the Company recorded $292,506 of non-cash compensation expense related to this transaction.

In addition, the Chief Executive Officer entered into an escrow agreement to ensure the automatic forfeiture of the common stock and entered into a guarantee to be personally responsible to Faraday for the original $500,000 loan amount, plus 12% interest per annum. Faraday has filed its fourth claim for relief for a judgment against the Company for $500,000, plus accrued, but unpaid interest, attorneys' fees and costs, and other such costs. As of September 30, 2002, management believes the maximum exposure for the Company is approximately $500,000, plus interest and fees.

The Company was involved in litigation with several potential investors. The plaintiffs requested a return of $750,000 in funds deposited with the Company, representing potential permanent investments. These matters have been resolved in connection with the acquisition of Alliance during December 2001. As of December 31, 2002, there were not any additional liabilities related to these matters.

There are various other claims that have been made against the Company by certain of its vendors. Management expects that the settlement of these claims will not have a significant effect on the Company's financial

position and results of operations.

From February through July 2000, a third party solicited funds on behalf of an undetermined public shell company, into which it was contemplated that the Company might merge. In this regard, the Company received approximately $320,000 in deposits to be used for such purpose. As a result of these solicitations, there may have been violations of federal and/or state securities laws by such third party. The Company never proceeded with the contemplated merger. Instead, the Company applied such funds to a subsequent private placement that the Company conducted, in which shares of the Company's common stock were issued for the $320,000 investment. The Company has offered full refunds to all people who provided monies to the Company. There are not any assurances that federal and/or state securities authorities will not investigate and possibly bring an action against the third party who solicited the funds and the Company.

NOTE 13 - SHAREHOLDERS' DEFICIT

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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.

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 December 31, 2002, cumulative dividends totaled $150,129.

During the year ended December 31, 2001, the Company issued 100,000 shares of Series A preferred stock as a settlement of certain litigation. Related to this transaction, the Company recorded expenses totaling $100,000 during the year ended December 31, 2001.

During the year ended December 31, 2001, the Company issued 130,000 shares of Series A preferred stock to a related party as payment of accounts payable totaling $130,000 and subsequently executed a put/call option with the related party (see Note 11).

During the year ended December 31, 2001, the Company issued 13,000 shares of Series A preferred stock for services rendered. In relation to this transaction, the Company recorded consulting expense totaling $13,000 as of December 31, 2001.

During the year ended December 31, 2001, the Company issued 56,000 shares of Series A preferred stock for deposits payable totaling $56,000. In relation to one of these transactions, the Company issued 10,000 shares of preferred stock as interest expense totaling $10,000 as of December 31, 2001.

Convertible, Redeemable Series A Preferred Stock (Continued)

During the year ended December 31, 2001, notes with a principal balance of $1,340,000 and accrued interest of $90,196 had been converted into 1,430,196 shares of the Company's Series A preferred stock. Related to these conversions, the Company issued an additional 345,511 shares of Series A preferred stock to certain of the note holders and recorded related interest charges of $345,511. The remaining notes with a principal balance of $250,000 and accrued interest of $18,687 had been converted into committed common stock. Related to the conversion, the Company recorded interest charges of $130,487 for additional shares that will be issued.

Common Stock

During the year ended December 31, 2002, The Company issued 180,000 shares of common stock to consultants at a price of $.20 per share for services received. In relations to this

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transaction, the Company recorded non-cash consulting expense totaling $36,000.

On March 4, 2002, the Company commenced a private placement of up to 6,666,667 units. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock. The units were offered at $0.65 per unit. The warrants have an exercise price of 120% of the current market value of the Company's common stock at the time of exercise.

In relation to this offering, on March 15, 2002, the Company issued 153,333 shares of common stock with a detachable purchase warrant to purchase 153,333 shares of common stock at an exercise price of $1.20 per share in exchange for $100,000.

Effective December 14, 2001, the Company was combined with Alliance, whereby the Company became a wholly owned subsidiary of Alliance. In connection with the acquisition, the Company issued an additional 249,770 shares of common stock for services rendered. Under the terms of the agreement, all of the issued and outstanding shares of the Company's common stock were exchanged for 17,000,000 shares of Alliance's common stock.

The transaction has been accounted for as a reverse acquisition, whereby NutraStar is considered the acquiring company and Alliance the acquired company. The equity section of NutraStar has been restated, similar to a recapitalization, to reflect the pro-rata shares it received in the acquisition. The ratio of shares issued in the share-exchange was approximately 1.43 shares of Alliance's common stock to every one share of NutraStar's outstanding common stock. All share and per share data prior to the acquisition have been restated to reflect this ratio.

Common Stock (Continued)

Outstanding unexercised options and warrants of the Company were also

converted into options and warrants to acquire shares of Alliance's common stock at a ratio of 1 to 1.43. Alliance also obtained $1,000,000 from the sale of its common stock in connection with the acquisition agreement. These shares of stock were issued for $1 per share. There were 3,649,520 shares outstanding as of the date of the acquisition. Prior to the acquisition, NutraStar changed its name to NutraStar Technologies Incorporated. Subsequent to the acquisition, Alliance changed its name to NutraStar Incorporated.

During the year ended December 31, 2001, the Company issued 28,546 shares of common stock for cash totaling $20,000.

During the year ended December 31, 2001, the Company issued 21,409 shares of common stock to acquire a registered trademark valued at $21,409.

During the year ended December 31, 2001, the Company issued 356,824 shares of common stock to extend the term of a note payable and recorded interest expense totaling $356,824.

During the year ended December 31, 2001, the Company issued 249,314 shares of common stock for services rendered. In relation to this transaction, the Company recorded consulting expense totaling $249,314 as of December 31, 2001.

During the year ended December 31, 2001, the Company issued 250,001 shares of common stock to a third party in exchange for the remaining 20% of the common stock of NutraGlo.

During the year ended December 31, 2001, the Company issued 150,000 shares of common stock as settlement for the cancellation of a consulting agreement and recorded consulting expense

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totaling $150,000.

Committed Common Stock

During the year ended December 31, 2001, the Company converted notes payable with a principal balance of $250,000 and accrued interest of $18,687 into committed common stock. Related to this conversion, the Company recorded interest charges of $130,487 for additional shares that will be issued.

During the year ended December 31, 2002, the Company committed to issue 1,060,000 shares of common stock for services rendered. In relation to these commitments, the Company recorded consulting expense totaling $172,500.

The following table reconciles total shares and amount recorded as common stock committed:

	Shares	Amount
Committed upon conversion of debt and accrued interest	399,174	$399,174
Committed for consulting services	1,060,000	172,500

TOTAL	1,459,174	$571,674
	=========	========

Common Stock Warrants

A summary of the Company's warrant activity is listed below:

Exercise Price	Stock Warrants Outstanding	Stock Warrants Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price of Warrants Outstanding	Weighted-Average Exercise Price of Warrants Exercisable
$ 1.00	300,000	300,000	5 years	$ 1.00	$ 1.00

Options

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

During the year ended December 31, 2001, the Company issued options to purchase 935,564 shares of common stock to employees of the Company. The exercise prices of the options issued ranged from $0.25 to $1. The fair market value of the common stock at the grant date was $1. The intrinsic values ranged from $0.73 to $0.75. The options are amortized over the vesting period, which ranges between two to five years, with the current year amortization recorded as compensation expense. In relation to these issuances, the Company recorded compensation expense totaling $197,914 and deferred compensation expense totaling $449,515 as of December 31, 2001.

During the year ended December 31, 2001, the Company issued options to purchase 1,498,660 shares of common stock. The exercise price of the options issued ranged from $0.25 to $1. The

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fair market value of the options at grant date ranged from $0.75 to $0.89. The fair market value of the common stock at the grant date was $1. These options are amortized over the period of service of the consultant, with the current year amortization recorded as consulting expense. In addition, certain of these options vest immediately, with others vesting upon the attainment of certain performance criteria. In relation to these issuances, the Company recorded consulting expense totaling $797,501 and deferred compensation expense totaling $476,360 as of December 31, 2001.

During the year ended December 31, 2001, the Company issued options to purchase 142,730 shares of common stock in settlement of certain disputes. The exercise price of the options issued was $1. The fair market value of the options at grant date was $0.75. The fair market value of the common stock at grant date was $1. In addition, these options vest immediately. In

relation to these issuances, the Company recorded settlement expenses totaling $107,047 as of December 31, 2001.

On January 7, 2002, the Company entered into a five-year employment agreement with an employee. In relation to this agreement, the Company issued options to purchase 155,000 shares of common stock. The options vest over four years in increments of 80,000, 25,000, 25,000, and 25,000, have an exercise price of $1 per share, and expire on January 7, 2012. The fair market value of the common stock at the grant date was $2.25. The intrinsic value was $1.25. The options are amortized over the vesting periods. As of December 31, 2002, the Company recorded compensation expense and deferred compensation totaling $48,438 and $145,312, respectively, in relation to this transaction.

On January 10, 2002, the Company entered into a six-month consulting services agreement for marketing services. In relation to this agreement, the Company issued options to purchase 25,000 shares of common stock valued at $47,250 at an exercise price of $1 per share. The options vest immediately and expire in 10 years. The fair market value of the options at grant date was $1.89. The fair market value of the common stock at grant date was $1. The Company recorded consulting expense of $47,250 in relation to this transaction.

On February 4, 2002, the Company entered into a three-month marketing services agreement for public relations and advertising services. In relation to this agreement, the Company paid a retainer of $35,000 upon execution of the agreement, issued 35,000 shares of restricted common stock valued at $47,250, and issued options to purchase 50,000 shares of the Company's common stock valued at $43,000 at an exercise price of $3 per share. The options vest immediately and expire in two years. The fair market value of the options at grant date was $0.86. The fair market value of the common stock at grant date was $1.35. The Company recorded consulting expense totaling $90,250 in relation to this transaction.

On February 21, 2002, the Company entered into a one-year financial advisory services agreement. In relation to this agreement, the Company paid a non-refundable retainer of $20,000, issued 200,000 restricted shares of common stock valued at $90,000, and issued options to purchase 100,000 restricted shares of common stock at $1 per share valued at $29,000, 100,000 at $2.50 per share valued at $22,000, and 100,000 at $4 per share valued at $18,000. The options vest immediately and expire in two years. The fair market value of the options at grant date ranged from $0.18 to $0.29. The fair market value of the common stock at grant date was $0.45. The Company recorded consulting expense totaling $159,000 in relation to this transaction.

On June 19, 2002, the Company issued options to purchase 50,000 shares of common stock at an

exercise price of $1 per share to a consultant for consulting expenses valued at $14,000. The options vest over two years and expire in 10 years. The fair market value of the options at grant date was $0.28. The fair market value of the common stock at grant date was $0.51.

On August 13, 2002, the Company issued options to purchase 28,000 shares of common stock at an exercise price of $0.25 per share to a debtor. The options vest immediately and expire in 10 years. The fair market value of the options at grant date was $0.20. The fair market value of the common stock at grant date was $0.21. In relation to this transaction, the Company

recorded interest expense of $5,600.

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

	Employee Options		Consultant Options	
	Stock Options Outstanding	Weighted-Average Exercise Price	Stock Options Outstanding	Weighted-Average Exercise Price
Outstanding, December 31, 2000	-	$ -	$ -	$ -
Granted	935,564	$ 0.31	1,641,390	$ 0.51
Outstanding, December 31, 2001	935,564	$ 0.31	1,641,390	$ 0.51
Granted	155,000	$ 1.00	455,500	$ 2.16
OUTSTANDING, DECEMBER 31, 2002	1,090,564	$ 0.41	2,096,890	$ 0.87
EXERCISABLE, DECEMBER 31, 2002	351,683	$ 0.44	1,433,198	$ 1.09

The weighted-average remaining contractual life of the options outstanding at December 31, 2002 was 7.97 years. The exercise prices of the options outstanding at December 31, 2002 ranged from $0 to $4, and information relating to these options is as follows:

Range of Exercise Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price of Options Outstanding	Weighted-Average Exercise Price of Options Exercisable
0.00 - 0.28	1,962,671	827,313	8.90 years	$ 0.25	$ 0.25
0.29 - 1.00	974,783	707,568	7.82 years	$ 1.00	$ 1.00
1.01 - 4.00	250,000	250,000	1.20 years	$ 3.20	$ 3.20
	3,187,454	1,784,881			

The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost other than that required to be recognized by APB 25 for the difference between the fair value of the Company's common stock at the grant date

and the exercise price of the options has been recognized. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net loss and loss per share for the years ended December 31, 2002 and 2001 would have been increased to the pro forma amounts indicated below:

	2002	2001
Net loss		
As reported	$(3,354,572)	$(3,771,474)
Pro forma	$(3,486,838)	$(4,099,194)
Basic loss per common share		
As reported	$ (0.15)	$ (0.20)
Pro forma	$ (0.16)	$ (0.22)

The fair value of these options was estimated at the date of grant using the minimum value method with the following weighted-average assumptions for the years ended December 31, 2002 and 2001: dividend yields of 0% and 0%, respectively; risk-free interest rates of 2.19% and 3.12%, respectively; and expected life of 2.79 and 2.85 years, respectively. The weighted-average exercise price was $0.71 at December 31, 2002.

The weighted-average fair value of the options issued during the year ended December 31, 2002 was $0.84.

Warrants

In connection with the issuance of certain promissory notes during the year ended December 31, 2001, the Company issued warrants to purchase 350,000 shares of the Company's common stock at an exercise price of $1 per share. The warrants expire on June 25, 2006 and are immediately exercisable. The Company recorded a discount related to the detachable warrants of $114,083, which represented the portion of the proceeds allocated to the warrants based on the relative fair values of the debt and warrants. At the date of conversion, $103,905 of the discount remained unamortized and has been debited to convertible Series A preferred stock as part of the conversion. In relation to these issuances, interest expense of $10,178 was recorded.

On June 10, 2002, the Company issued warrants to purchase 2,500 shares of common stock at $0.50 per share to a consultant for consulting expenses valued at $850.

NOTE 14 - INCOME TAXES

Significant components of the Company's deferred tax asset for income taxes consisted of the following at December 31, 2002:

Deferred tax asset		
Net operating loss carryforwards	$	3,241,401
Less valuation allowance		3,241,401
NET DEFERRED TAX ASSET	$	-

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A reconciliation of the expected income tax computed using the federal statutory income rate to the Company's effective rate for the years ended December 31, 2002 and 2001 was as follows:

	2002	2001
Income tax computed at federal statutory tax rate	34.0%	34.0%
State taxes, net of federal benefit	5.8	5.8
Change in valuation allowance	(39.8)	(39.8)
TOTAL	-%	-%

Realization of the future tax benefits related to the deferred assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes.

At December 31, 2002, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $8,129,000, which begin to expire in 2020. Certain of the net operating loss carryforwards are limited to each year in accordance with the Internal Revenue Code.

NOTE 15 - RELATED PARTY TRANSACTIONS

On December 12, 2001, the Company entered into a 15-year agreement with RiceX to be the exclusive distributor of rice solubles and rice bran fiber concentrate in the United States of America and to have the exclusive rights to various patents and trademarks owned by RiceX. Under the terms of this agreement, RiceX has agreed to cancel certain indebtedness by the Company in exchange for 130,000 shares of Series A preferred stock and payment of $41,335 in interest, has agreed to new minimum purchase requirements, and has agreed to extend the term of the agreement for five years, with two additional renewal periods of five years each.

The sales price to the Company will be the lower of RiceX's published standard price or the price negotiated by other customers for like quantities and products. In January 2002, the Company revised the 15-year agreement with RiceX.

To maintain rights under this revised agreement, the Company must purchase $250,000 of product from RiceX by April 2002, $500,000 by July 2002, $750,000 by October 2002, $1,250,000 by January 2003, $1,500,000 by July 2003, $2,250,000 by January 2004, $6,000,000 by January 2005, and increasing thereafter by 10% per annum through the remaining term of the agreement. During the year ended December 31, 2002, the Company received notice from RiceX, stating that the Company was in default under the terms of this distribution agreement with RiceX. On July 9, 2002, RiceX exercised its right to terminate the exclusive distribution agreement and the related license agreements with the Company due to the Company's default. However, RiceX has agreed that the Company has license to use the patents in its

business pursuits. Purchase of inventory from RiceX as of December 31, 2002 totaled $441,739. The Company has recorded a loss reserve for the license agreement totaling $75,359 as of December 31, 2002.

In connection with this agreement, the Company was granted exclusive patent and licensing rights by RiceX for which the Company will pay RiceX a royalty equal to 2% of gross receipts received by the Company from the sale of the Company's products that incorporate any of RiceX's products, less certain selling expenses. At December 31, 2002, the Company recorded patents and licenses in the amount of $12,132 related to these exclusive rights.

During the year ended December 31, 2001, the Company was unable to meet customer demands for inventory. Therefore, RiceX sold its inventory directly to the Company's customers. RiceX

remitted the gross profit for these sales to the Company, and the Company recorded commissions revenue totaling $317,668 from RiceX related to sales made by RiceX to customers of the Company.

During the year ended December 31, 2001, the Company issued 300,000 Series A preferred stock to the Chief Executive Officer in exchange to cancel $300,000 of convertible promissory notes.

During the year ended December 31, 2001, the Company entered into a non-interest-bearing loan agreement with the Chief Executive Officer of the Company. Related to this agreement, the Company recorded a Due to Officer in the amount of $16,457 at December 31, 2002.

During the year ended December 31, 2001, certain operating expenses of the Company totaling $111,313 were paid by RiceX. These expenses were reimbursed by the Company, and at December 31, 2002, there were not any amounts owed to RiceX.

NOTE 16 - 401(K) PROFIT SHARING PLAN

Effective April 2000, the Company adopted a 401(k) profit sharing plan (the "Plan") for the exclusive benefit of eligible employees and their beneficiaries. Substantially all employees are eligible to participate in the Plan. Matching contributions to the Plan are 3% of the employees' gross salary, not to exceed a certain percentage. For the years ended December 31, 2002 and 2001, the Company made matching contributions of $14,696 and $18,620, respectively.

NOTE 17 - LINES OF BUSINESS

For internal reporting purposes, management segregates the Company into two segments as follows for the years ended December 31, 2002 and 2001:

	2002			
	NutraStar	NutraGlo	Eliminations	Total
Total revenues	$ 683,097	$ 603,342	$ -	$ 1,286,439
Loss from operations	$(2,983,311)	$(122,842)	$ -	$(3,106,153)

Identifiable assets	$ 287,588	$ 433,909	$ (155,170)	$ 566,327
Capital expenditures	$ 61,150	$ -	$ -	$ 61,150
Depreciation and amortization	$ 126,460	$ -	$ -	$ 126,460

	2001			
	NutraStar	NutraGlo	Eliminations	Total
Total revenues	$ 1,018,688	$ 591,534	$ -	$ 1,610,222
Income (loss) fro operations	$(2,947,059)	$ 254,744	$ -	$(2,692,315)
Identifiable assets	$ 964,944	$ 537,277	$ (238,920)	$ 1,261,301
Capital expenditures	$ 234,348	$ -	$ -	$ 234,348
Depreciation and amortization	$ 94,397	$ -	$ -	$ 94,397

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NOTE 18 - SUBSEQUENT EVENTS (UNAUDITED)

Effective November 12, 2003 and pursuant to adoption of the Company's "Certificate of Amendment of Restated Articles of Incorporation" dated October 27, 2003, the Company effected a reverse split of all previously issued common stock on the basis of one-for-ten shares. Additionally, per the "Certificate of Amendment of Restated Articles of Incorporation", the number of authorized shares of common stock was increased from 50,000,000 to 100,000,000, and the number of authorized shares of preferred stock was increased from 10,000,000 to 20,000,000. All share amounts reflected in Note 18, "Subsequent Events" have been adjusted to account for the one-for-ten reverse split.

On February 23 and March 19, 2004, respectively, Eliot Drell, MD and Ernie Bodai, MD were appointed to serve on the Board of Directors until the next annual meeting and election.

Notes Payable-Related Parties

At December 31, 2002, NutraCea owed Ms. Patricia McPeak, Chief Executive Officer of NutraCea, $175,800 on a demand note payable bearing interest at 10%. NutraCea borrowed an additional $20,422, bearing interest at 10%, from her during 2003. All of this debt was repaid prior to December 31, 2003. NutraCea also borrowed $50,000 and $40,000 in June and September 2003, respectively, from a then greater than 5% shareholder. The notes were convertible at the option of the holder into shares of the Company's common stock at a conversion price of $.20 per share, bearing interest at 10% per annum and due in June and September 2004, respectively. Upon conversion of the notes 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. In November 2003 the holder exercised the conversion option and 451,517 shares of common stock were issued in full satisfaction of the debt. The relative fair value of the warrants was $30,939. The discount for the warrants created a beneficial conversion feature of $16,128, which was amortized until conversion and fully expensed upon conversion.

There was no outstanding debt due to related parties at December 31, 2003. Notes Payable

At December 31, 2002, NutraCea owed $50,000 to a third party, bearing interest

at 2% per month, secured by 243,036 shares of common stock, and due on December 20, 2002. As of December 31, 2002, NutraCea was in default on the note. Subsequent to December 31, 2002, NutraCea agreed to modify the collateral to 634,121 shares of preferred stock and extended the due date of the note to September 20, 2003. In addition, at December 31, 2002 NutraCea owed $5,000 to a third party, bearing interest at 10% per annum, and due on December 20, 2002. Both of these notes were retired in full by cash payments during 2003.

In March 2003, NutraCea executed two promissory notes totaling $45,000 to a third party investor. The $40,000 note was convertible at the option of the holder into shares of NutraCea's common stock at a conversion price of $.20 per share. The notes bear interest at 2% per month, are due on demand, and are collateralized by shares of NutraCea's common stock. NutraCea retired $5,000 of this debt in September, 2003. The balance of the note, $40,000, was converted into 203,320 shares of common stock of NutraCea prior to December 31, 2003. There was no beneficial conversion feature associated with this note payable.

During 2003, NutraCea borrowed $339,000 from various third party investors. The notes bear interest at 10% per annum, mature twelve months from the date of issue, and are convertible at the option of the holder into shares of NutraCea's common stock at a conversion price of $0.20 cents per share. Upon conversion of the notes payable, the holders 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. Prior to December 31, 2003, at the option of the holders, all of the notes were converted into 1,625,911 shares of common stock in full satisfaction of the debts. The

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relative fair value of the warrants was $111,225. The discount for the warrants created a beneficial conversion feature of $83,388, which was amortized until conversion and fully expensed upon conversion.

In June and July, 2003, NutraCea borrowed $160,000 from a third party investor. The notes were convertible at the option of the holder into shares of NutraCea'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 warrants will have an exercise price of $0.20 per share and will expire five years from the date of the issuance. Prior to December 31, 2003, at the option of the holder, these notes were converted into 805,547 shares of common stock in full satisfaction of the debt. The relative fair value of the warrants was $41,691. The discount for the warrants was amortized until conversion and fully expensed upon conversion. There was no beneficial conversion feature associated with this note payable.

Agreements

On March 5, 2003, the Company hired a consultant to assist with fundraising. 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 $5.00 per share on or before three years from the anniversary of any funding. Pursuant to this agreement, during the twelve months ended December 31, 2003, the Company issued warrants to purchase 8,955 shares of common stock at an exercise price of $0.01 per share and warrants to purchase 6,021 shares of common stock at an exercise price of $5.00 per share. Non-cash compensation expense of $20,662 was recorded as a result of these awards. As of December 31, 2003, all of the warrants had been exercised.

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% 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.

During July 2003, the Company entered into a settlement agreement with a consultant for $60,000 as payment on accounts payable. The Company executed a convertible promissory note for $60,000, bearing interest of 10%, due on July 21, 2004, and committed to execute an agreement for future consulting services for a total obligation of $25,000. 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 15,000 shares of common stock at an exercise price of $0.01 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. Non-cash compensation expense of $12,000 was recorded related to issue of these warrants. As of August 6, 2003, all of the warrants had been exercised.

During July 2003, the Company entered into a compensation agreement with a consultant, whereby the Company will pay a total of $17,000 of earned and unpaid compensation due to the consultant in monthly payments of $3,000, payable on the first of the month beginning September 1, 2003. Per the compensation agreement, the Company also issued warrants to purchase 32,900 shares of common stock at an exercise price of $0.01 per share, thereby retiring an additional $23,000 in earned and unpaid compensation. In addition, in September 2003, the Company issued warrants to purchase 50,000 shares of common stock at an exercise price of $0.01 per share to the consultant in exchange for a technology

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agreement relating to NutraCea/NutraStar product formulas. Non-cash compensation of $40,000 was recorded as a result of this award. As of December 31, 2003, all of the warrants had been exercised.

In July 2003, the Company hired a consultant to provide investor relations services. The consultant will be compensated by the issuance of 250,000 shares of restricted common stock, with the expectation that those shares will be registered or released from restriction within one year of issue. These shares were not issued to the consultant until the first quarter of 2004.

On July 30, 2003, the Company issued 100,000 shares of common stock previously recorded in committed stock, and entered into an additional agreement with a consultant as payment on accounts payable totaling $24,000. The consultant accepted a cash payment of $2,500 and a commitment to provide product valued at $2,500; a promissory note payable at $2,000 a month beginning November 1, 2003 was executed for the balance of $19,000.

During 2003 the Company issued 8,231 shares of common stock to a consultant for services valued at $9,795. In addition, under an agreement dated August 6, 2003, the Company was committed to issue 1,000 pre-reverse split 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.

On September 18, 2003, the Company entered into a Technology Agreement with a third party, whereby the initial term of a distribution agreement dated May 1, 2001 granting the exclusive worldwide distributorship of a food supplement formulation based on NutraCea's proprietary technology rights was extended to September 17, 2006. In addition, the Technology Agreement restates certain minimum purchase requirements under the distribution agreement and transfers all rights to the production and distribution of certain nutraceutical products created using NutraCea's technology. Under the terms of the agreement, NutraCea will receive the sum of $100,000, to initially be recorded as a deposit towards the minimum purchase requirement. Should the payor at a later date desire to obtain certain additional rights to the NutraCea technology, the payor will pay to NutraCea a lump sum option fee of $300,000. The aforementioned payment of $100,000 towards the minimum purchase requirement shall be deemed a deposit against the option fee to the degree it has not been used for product purchases.

In December 2003 the hired a consultant to provide marketing services. Under the terms of the agreement, the Company will issue 400,000 warrants to purchase shares of common stock at $0.50 per share. As of December 31, 2003, 120,000 of the warrants had been exercised.

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

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

On January 12, 2004, the Company entered into a one-year consulting agreement with a sales and marketing company. Under the terms of the agreement, compensation shall be warrants to purchase 4,000,000 shares of common stock as follows: 300,000 shares at $.50 per share on or before January 12, 2004; 400,000 shares at $.50 per share on or before February 17, 2004; and 3,300,000 shares at $.50 per

share on or before April 19, 2004. Non-cash compensation expense of $3,200,000 was recorded relating to this agreement. All of the warrants had been exercised at March 31, 2004.

On January 28, the Company entered into a one-year consulting agreement with a sales and marketing company. Under the terms of the agreement, compensation shall be warrants to purchase 90,000 shares of common stock at an exercise price of $.01 per share. Non-cash compensation expense of $136,800 was recorded relating to this agreement. As of March 31, 2004, these warrants had been exercised.

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

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

On March 1, 2004, the Company entered into a 90-day consulting agreement with an advertising and promotional services company. Compensation shall be the issuance of 100,000 shares of common stock per month.

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

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

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

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

On March 25, 2004, the Company entered into two, two-year consulting agreements with two medical advisors. Under the terms of the agreement, compensation shall be 100,000 shares of common stock each, payable in advance, and options to purchase 100,000 shares of common stock at a price of $.50 per share for the second year of service. The 200,000 shares of common stock are valued at $78,920.

On March 25, 2004, the Company entered into a three-year consulting agreement with a development and marketing company. Under the terms of the agreement, compensation shall be $1 per unit (a minimum 30-day supply of NutraCea product) for up to a total accumulated payment of $750,000, and $.50 per unit thereafter, payable quarterly within 45 days after the end of the quarter. In addition, the Company will issue 100,000 shares of common stock for each formulation the company markets, and options to purchase 300,000 shares of common stock at an exercise price of $1 per share with 100,000 options to be vested immediately and 50,000 shares per year thereafter. The vested options are valued at $39,840.

On April 2, 2004, the Company entered into a 180-day consulting agreement with a marketing and investor relations company. The term can be extended another 180 days by mutual agreement. Under the terms of the agreement, compensation shall be 400,000 shares of common stock, and $4,000 cash per month. Compensation shall also include an 8% cash commission on equity or debt financing introduced

to the Company, as well as a warrant, exercisable within 3 years, for common shares to equal 10% of the gross financing proceeds. The warrant is to be priced at 110% of the closing bid price for the preceding 30 business days of the day of closing, such warrant or shares to be issued at closing.

On April 29, 2004, the Company entered into a one-year consulting agreement (with options to extend for four successive terms of one year each) with two retired employees of the Company. Under the terms of the agreements, annual compensation of $75,000 each is payable on a monthly basis. In addition, each of the consultants received warrants to purchase 50,000 shares of common stock at $.20 a share. The 100,000 warrants are valued at $91,370 and expire in 5 years. Either party can cancel this agreement with 30-day written notice.

Litigation

A Complaint was filed against NTI by Millennium Integrated Services, Inc. ("MISI") in Superior Court, Sacramento County, on April 4, 2002 (Case No. 02A502006). A Settlement Agreement and Mutual Release was executed on May 27, 2003. In consideration, the NutraCea defendants agreed to pay MISI one hundred and forty-eight thousand dollars ($148,000). The settlement was fully paid on July 1, 2003 and the complaint was dismissed on August 28, 2003.

On July 16, 2002, the Company was summoned to answer a Complaint filed by Faraday Financial, Inc. ("Faraday") in District Court, County of Salt Lake, Utah (Case No. 020906477). A Settlement Agreement was executed on December 10, 2003. In consideration for the mutual releases, Faraday converted 735,730 preferred into 735,730 common shares and $90,127 of accrued preferred dividends into 1,201,692 common shares. Within the next year, if Faraday cannot realize $551,797 and approximately $9800 in legal expenses from the sale of the common shares, NutraCea will make up any deficiency. If stock sale exceeds $561,597, Faraday is entitled to keep any excess. Subsequent to December 31, 2003, the Company issued an additional 250,000 shares to Faraday. Concurrently, with the executed Settlement Agreement, a joint stipulated motion to stay all proceedings was filed with the Court. After all the above conditions are met, if Faraday has not lifted the stay within 18 months of December 10,2003, NutraCea shall deliver to Faraday an executed stipulation for dismissal with prejudice of the Complaint and Counterclaim.

Convertible, Redeemable Series A Preferred Stock

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

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

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

As of December 31, 2003, cumulative dividends totaled $274,540.

Common Stock

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

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

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

On August 18, 2003, NutraCea agreed to pay a consultant for unpaid fees in the amount of $9,236. NutraCea will pay $4,636 in monthly installments of $1,159, payable on the first of each month

beginning October 1, 2003. NutraCea also agreed to issue 2,421 shares of common stock, valued at $4,600, to the consultant as payment in full.

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

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

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

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

At December 31, 2002, the Company was committed to issue 145,917 shares of common stock representing $399,174 for conversion of debt and accrued interest and $172,500 for consulting services. These shares were issued in 2003, and no committed stock remains at December 31, 2003.

On March 25, 2004, the Company established the NutraCea Patent Incentive Plan, which grants 15,000 shares of common stock to each named inventor on each granted patent.

During the quarter ended March 31, 2004, the Company issued 544,965 shares of common stock to consultants for services rendered valued at $723,381. Subsequent to March 31, 2004, the Company issued an additional 660,797 shares of common stock to consultants for services rendered valued at $905,650.

During the quarter ended March 31, 2004, the Company issued 168,095 shares of common stock to vendors in payment of accounts payable totaling $120,789. Subsequent to March 31, 2004, the Company issued an additional 531 shares of common stock to a vendor in payment of accounts payable in the amount of $833.

During the quarter ended March 31, 2004, the Company issued 6,490,711 shares of common stock pursuant to the exercise of stock options and warrants for cash totaling $2,744,507. Of these issuances, 1,200,000 shares valued at $557,500 were issued pursuant to the 2003 Stock Compensation Plan. Subsequent to March

31, 2004, the Company issued an additional 309,445 shares of common stock pursuant to the exercise of stock options and warrants for cash totaling $10,344.

During the quarter ended March 31, 2004, the Company issued 280,000 shares of common stock to two consultants in settlement of contractual agreements valued at $477,816.

During the quarter ended March 31, 2004, the Company issued 5,500,000 shares of common stock, valued at $8,360,000, to the Company's Chief Executive Officer in exchange for execution of a non-compete agreement and transfer to the Company of all intellectual property owned by the Chief Executive Officer.

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

Stock Options and Warrants

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On October 31, 2003, the Board of Directors approved and adopted the 2003 Stock Compensation Plan and authorized the President of the Company to execute a registration statement under the Securities Act of 1933 for 10,000,000 shares of common stock.

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

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

In relation to this transaction, the Company recorded deferred compensation expense totaling $109,000. As of December 31, 2003, $34,750 of the deferred compensation remains unamortized. In addition, because this grant as modified due to the reverse split of November 21, 2003 must be accounted for as a variable award, an additional $303,750 was recorded relating to this award as of December 31, 2003.

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

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

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

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

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

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

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

During the quarter ended March 31, 2004, the Company issued 6,547,263 warrants with exercise prices between $.001 and $5.00 per share to consultants. The warrants expire at varying times between six months and five years. A total of $7,271,062 in non-cash compensation expenses was recorded relating to the issue of these warrants. Subsequent to March 31, 2004 the Company issued an additional 401,230

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warrants with exercise prices between $.001 and $5.00 to consultants. The warrants expire at varying times between four and five years. A total of $443,698 in non-cash compensation expense was recorded relating to the issue of these warrants.

Modification of Employee Awards Accounted for Under APB 25

NutraCea granted 1,000,000 options in 2003 to an employee where the option agreement contained a provision whereby the number of options nor the exercise price would be adjusted by reverse splits. Effective November 12, 2003, NutraCea authorized a 1 for 10 reverse split. This triggered variable accounting for this award. As of November 12, 2003, 500,000 options had been exercised and only 500,000 remained. Variable accounting requires any intrinsic value at the modification date in excess of the amount measured at the original measurement date shall be recognized as compensation cost over the remaining future service period if the award is unvested, or immediately if the award is vested, for any employee who could benefit from the modification. The award vests 75% in 2003 and 25% in 2004. The award will be marked to market each balance sheet date with the changes charged to compensation expense and additional paid in capital. As of December 31, 2003, the additional intrinsic value on the vested portion totaled $303,750.

Modification of Non-Employee Awards Accounted for Under FAS 123

NutraCea granted 5,725,000 warrants to outsiders in 2003 where the warrant agreements contained a provision whereby the number of warrants nor the exercise price would be adjusted by reverse splits. Effective November 12, 2003, NutraCea authorized a 1 for 10 reverse split. This triggered a modification for this

award. A modification of the terms of an award that makes it more valuable shall be treated as an exchange of the original award for a new award. In substance, the entity repurchases the original instrument by issuing a new instrument of greater value, incurring additional compensation cost for that incremental value. The incremental value shall be measured by the difference between (a) the fair value of the modified option determined in accordance with the provisions of this section and (b) the value of the old option immediately before its terms are modified, determined based on the shorter of (1) its remaining expected life or (2) the expected life of the modified option. As of December 31, 2003, the additional value totaled $9,811,002 which was recorded as non-cash compensation expense.

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ITEM 8A. CONTROLS AND PROCEDURES.

The Company has adopted and implemented internal disclosure controls and procedures designed to provide reasonable assurance that all reportable information will be recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. Under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and the Company's Controller and Principal Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of the end of the year covered by this report. Based on that evaluation, the President and Chief Executive Officer and the Controller and Principal Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in the Company's internal controls or in other factors during or since the end of the fiscal year covered by this report that have had a material affect or are reasonably likely to have a material affect on internal controls subsequent to the end of the year covered by this report.

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SIGNATURES

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

NUTRACEA

Date: July 20, 2004 By /s/ Patricia McPeak

Patricia McPeak
President and Chief Executive Officer

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

SIGNATURE	TITLE	DATE
/s/ Patricia McPeak Patricia McPeak	Director, Chairman of the Board and Chief Executive Officer	July 20, 2004

/s/John Howell --------------- John Howell	Director and President	July 20, 2004
/s/Eliot Drell --------------- Eliot Drell	Director	July 20, 2004
/s/Ernie Bodai --------------- Ernie Bodai	Director	July 20, 2004
/s/ Edward G. Newton ----------------------- Edward G. Newton	Secretary	July 20, 2004
/s/ Joanna Hoover ------------------- Joanna Hoover	Chief Financial Officer (Principal Financial and Accounting Officer)	July 20, 2004