

NUTRACEA  
Form 10-Q  
February 24, 2011

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

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FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2009

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

For the transition period from \_\_\_ to \_\_\_

Commission File Number 0-32565

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

California  
(State or other jurisdiction of incorporation or  
organization)

87-0673375  
(I.R.S. Employer Identification No.)

6720 North Scottsdale Road., Suite 390  
Scottsdale, AZ  
(Address of Principal Executive Offices)

85253  
(Zip Code)

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

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

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

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

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

As of January 31, 2011, 195,509,109 shares of the registrant's common stock were outstanding.

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## FORM 10-Q

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NUTRACEA  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|  | Three Months Ended June 30,<br>2008 |                | Six Months Ended June 30,<br>2008 |                 |
|--|-------------------------------------|----------------|-----------------------------------|-----------------|
|  | 2009                                | (Restated)     | 2009                              | (Restated)      |
| <b>Revenues</b>                                      |                                     |                |                                   |                 |
| Net product revenues                                 | \$9,572,000                         | \$11,016,000   | \$16,773,000                      | \$16,823,000    |
| Royalty, label and licensing fees                    | 10,000                              | -              | 21,000                            | 27,000          |
| Total revenues                                       | 9,582,000                           | 11,016,000     | 16,794,000                        | 16,850,000      |
| <b>Cost of goods sold</b>                            |                                     |                |                                   |                 |
| Cost of goods sold                                   | 7,605,000                           | 7,746,000      | 13,861,000                        | 13,007,000      |
| Gross profit   | 1,977,000                           | 3,270,000      | 2,933,000                         | 3,843,000       |
| <b>Operating expenses</b>                            |                                     |                |                                   |                 |
| Selling, general and administrative                  | 5,409,000                           | 5,769,000      | 11,092,000                        | 11,253,000      |
| Research and development                             | 155,000                             | 738,000        | 674,000                           | 1,002,000       |
| Bad debt expense (recovery)                          | -                                   | 110,000        | (64,000 )                         | 413,000         |
| Professional fees                                    | 819,000                             | 1,092,000      | 1,951,000                         | 2,761,000       |
| Loss, net of gains, on disposal of assets            | 354,000                             | 331,000        | 354,000                           | 331,000         |
| Total operating expenses                             | 6,737,000                           | 8,040,000      | 14,007,000                        | 15,760,000      |
| Loss from operations                                 | (4,760,000 )                        | (4,770,000 )   | (11,074,000 )                     | (11,917,000 )   |
| <b>Other income (expense)</b>                        |                                     |                |                                   |                 |
| Interest income                                      | 158,000                             | 161,000        | 257,000                           | 540,000         |
| Interest expense                                     | (862,000 )                          | (195,000 )     | (1,408,000 )                      | (145,000 )      |
| Loss on equity method investments                    | (48,000 )                           | (77,000 )      | (52,000 )                         | (94,000 )       |
| Foreign exchange Gain/(Loss)                         | 167,000                             | -              | (153,000 )                        | -               |
| Warrant liability (expense)/income                   | (123,000 )                          | -              | 1,571,000                         | -               |
| Other expense  | (142,000 )                          | (586,000 )     | (6,000 )                          | (341,000 )      |
| Loss before income taxes                             | (5,610,000 )                        | (5,467,000 )   | (10,865,000 )                     | (11,957,000 )   |
| Income tax benefit (expense)                         | 14,000                              | (281,000 )     | 200,000                           | (318,000 )      |
| Net loss   | (5,596,000 )                        | (5,748,000 )   | (10,665,000 )                     | (12,275,000 )   |
| Loss attributable to non-controlling interest        | 5,000                               | 70,000         | 81,000                            | 70,000          |
| Net loss attributable to NutraCea                    | \$(5,591,000 )                      | \$(5,678,000 ) | \$(10,584,000 )                   | \$(12,205,000 ) |
| <b>Loss per share attributable to NutraCea</b>       |                                     |                |                                   |                 |
| Basic  | \$(0.03 )                           | \$(0.04 )      | \$(0.06 )                         | \$(0.08 )       |
| Diluted  | \$(0.03 )                           | \$(0.04 )      | \$(0.06 )                         | \$(0.08 )       |
| <b>Weighted average number of shares outstanding</b> |                                     |                |                                   |                 |
| Basic  | 180,407,000                         | 151,867,000    | 174,917,000                       | 145,545,000     |

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|         |             |             |             |             |
|---------|-------------|-------------|-------------|-------------|
| Diluted | 180,407,000 | 151,867,000 | 174,917,000 | 145,545,000 |
|---------|-------------|-------------|-------------|-------------|

See Notes to Condensed Consolidated Financial Statements.

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NUTRACEA  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|  | June 30,<br>2009    | December 31,<br>2008 |
|--|---------------------|----------------------|
| <b>ASSETS</b>  |                     |                      |
| Current assets:  |                     |                      |
| Cash and cash equivalents  | \$57,000            | \$4,867,000          |
| Restricted cash  | 1,976,000           | 3,853,000            |
| Trade accounts receivables, net of allowance for doubtful accounts of \$306,000 and \$365,000 respectively                 | 3,724,000           | 2,978,000            |
| Inventories  | 3,333,000           | 3,883,000            |
| Notes receivable, current portion, net of allowance for doubtful notes receivable of \$550,000 and \$550,000, respectively | 86,000              | 308,000              |
| Deposits and other current assets  | 2,084,000           | 3,290,000            |
| Assets held for sale   | 639,000             | 822,000              |
| <b>Total current assets</b>  | <b>11,899,000</b>   | <b>20,001,000</b>    |
| Restricted cash  | 1,537,000           | 1,344,000            |
| Property, plant and equipment, net   | 53,911,000          | 56,983,000           |
| Equity method investment   | 2,715,000           | 2,768,000            |
| Investment in VLI Sr Notes and Preferred Stock   | 3,626,000           | 3,626,000            |
| Intangible assets, net   | 10,419,000          | 12,043,000           |
| Goodwill   | 5,067,000           | 5,579,000            |
| Other non-current assets   | 45,000              | 36,000               |
| <b>Total assets</b>  | <b>\$89,219,000</b> | <b>\$102,380,000</b> |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|  |                   |                   |
|--|-------------------|-------------------|
| Current liabilities:   |                   |                   |
| Accounts payable   | \$7,839,000       | \$3,415,000       |
| Accrued expenses   | 6,837,000         | 8,475,000         |
| Deferred rent incentive - current portion  | 168,000           | 168,000           |
| Notes payable, current portion   | 4,268,000         | 6,159,000         |
| Deferred revenue   | 270,000           | 137,000           |
| Convertible, series D preferred stock, no par value, \$1,000 stated value, 10,000 shares authorized, 5,000 shares, issued 893 and 4,945 shares outstanding, respectively | 893,000           | 4,945,000         |
| <b>Total current liabilities</b>   | <b>20,275,000</b> | <b>23,299,000</b> |
| Long-term liabilities:   |                   |                   |
| Deferred rent incentive - net of current portion   | 966,000           | 1,051,000         |
| Notes payable, net of current portion  | 5,681,000         | 4,717,000         |
| Deferred tax liability   | 4,700,000         | 4,187,000         |
| Warrant liabilities  | 2,342,000         | -                 |
| Other non-current liabilities  | 1,000,000         | 1,000,000         |
| <b>Total liabilities</b>   | <b>34,964,000</b> | <b>34,254,000</b> |
| Commitments and contingencies  |                   |                   |

|  |               |                |
|--|---------------|----------------|
| Shareholders' equity:  |               |                |
| Common stock, no par value, 350,000,000 shares authorized, 187,972,000 and 168,125,000 shares issued and outstanding | 203,965,000   | 199,485,000    |
| Accumulated deficit  | (147,632,000) | (133,136,000)  |
| Accumulated other comprehensive (loss)/income  | (1,949,000 )  | 1,857,000      |
| Total equity attributable to NutraCea  | 54,384,000    | 68,206,000     |
| Noncontrolling interest  | (129,000 )    | (80,000 )      |
| Total equity   | 54,255,000    | 68,126,000     |
| Total liabilities and equity   | \$ 89,219,000 | \$ 102,380,000 |

See Notes to Condensed Consolidated Financial Statements

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NUTRACEA  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|  | Six Months Ended<br>June 30, |                    |
|--|------------------------------|--------------------|
|  | 2009                         | 2008<br>(Restated) |
| Cash flow from operating activities:                                 |                              |                    |
| Net Loss   | \$(10,665,000)               | \$(12,205,000)     |
| Adjustments to reconcile loss to net cash from operating activities: |                              |                    |
| Depreciation and amortization  | 3,540,000                    | 1,784,000          |
| Provision for doubtful accounts and notes                            | (64,000 )                    | 413,000            |
| Loss/(Gain) on foreign exchange                                      | 153,000                      | -                  |
| Warrant liability income   | (1,571,000 )                 | -                  |
| Stock-based compensation   | 192,000                      | 1,454,000          |
| Stock-based interest expense   | 844,000                      | -                  |
| Loss on equity investments   | 52,000                       | 94,000             |
| Deferred tax benefit   | (210,000 )                   | -                  |
| Loss on disposal of assets   | 354,000                      | 331,000            |
| Changes in operating assets and liabilities:                         |                              |                    |
| Trade accounts receivable  | (254,000 )                   | (831,000 )         |
| Inventories  | 696,000                      | (2,745,000 )       |
| Other current assets   | 1,275,000                    | 131,000            |
| Accounts payable and accrued expenses                                | 2,413,000                    | 7,047,000          |
| Deferred rent incentive  | (10,000 )                    | (42,000 )          |
| Deferred revenue   | 134,000                      | (1,479,000 )       |
| Net cash used in operating activities                                | (3,121,000 )                 | (6,048,000 )       |
| Cash flows from investing activities:                                |                              |                    |
| Issuance of notes receivable   | -                            | (182,000 )         |
| Proceeds of payments from notes receivable                           | 222,000                      | 1,978,000          |
| Purchases of property and equipment                                  | (1,202,000 )                 | (17,698,000)       |
| Investment in Irgovel, net of cash acquired                          | -                            | (14,970,000)       |
| Investment in PIN  | -                            | (5,675,000 )       |
| Restricted cash  | 1,683,000                    | (1,606,000 )       |
| Purchases of other assets and intangibles                            | -                            | (355,000 )         |
| Net cash provided/(used) in investing activities                     | 703,000                      | (38,508,000)       |
| Cash flows from financing activities:                                |                              |                    |
| Payments on redemption of preferred stock                            | (556,000 )                   | -                  |
| Proceeds from noncontrolling interest                                | 32,000                       | -                  |
| Proceeds from equity financing, net of expenses                      | -                            | 18,775,000         |
| Principal proceeds/(payments) on notes payable                       | (1,881,000 )                 | 87,000             |
| Registration costs paid  | -                            | (104,000 )         |
| Proceeds from exercise of common stock options and warrants          | -                            | 685,000            |



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|  |              |              |
|--|--------------|--------------|
| Net cash provided/(used) by financing activities             | (2,405,000 ) | 19,443,000   |
| Effect of exchange rate changes on cash and cash equivalents | 13,000       | (6,000 )     |
| Net increase (decrease) in cash                              | (4,810,000 ) | (25,119,000) |
| Cash and cash equivalents, beginning of period               | 4,867,000    | 41,198,000   |
| Cash and cash equivalents, end of period                     | \$57,000     | \$16,079,000 |
| Non-cash investing activities:                               |              |              |
| Conversion of Series D Preferred Stock to common stock       | \$3,496,000  | \$-          |
| Supplemental disclosures:                                    |              |              |
| Cash paid for interest during the year                       | \$453,000    | \$382,000    |
| Cash paid for income taxes during the year                   | -            | 75,000       |

See Notes to Condensed Consolidated Financial Statements

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NUTRACEA  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

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

These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto in the Company’s Annual Report on Form 10-K, for the year ended December 31, 2008.

The interim results of operations and interim cash flows for the three months and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period and have been prepared assuming the Company will continue as a going concern based on the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced recurring losses and negative cash flows from operations. In the past the Company has turned to the equity markets for additional liquidity. This is not a likely source of funds at this time due to the Company’s financial position and the state of the equity markets.

The Company restated its consolidated balance sheet and its consolidated statements of operations, consolidated statements of stockholders’ equity, and consolidated statements of cash flows for its fiscal years ended December 31, 2006 (“fiscal 2006”) and December 31, 2007 (“fiscal 2007”). In addition, certain restatement adjustments affected interim financial information for all of the quarters of fiscal 2007 and the first three quarters of the fiscal year ended December 31, 2008 (“fiscal 2008”) previously filed on Form 10-Q. The Company did not amend its prior Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement adjustments. The financial statements and related interim financial information contained in such reports were superseded by the information in the 2008 Annual Report on Form 10K for 2008 filed on October 20, 2009.

Management evaluated all activity of the Company through February 24, 2011 (the issue date of the interim financial statements) and concluded that no subsequent events have occurred that would require recognition in the interim financial statements or disclosure in the notes to the interim financial statements, other than as discussed elsewhere in the Notes to Condensed Consolidated Financial Statements.

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Chapter 11 Reorganization - On November 10, 2009, NutraCea (the "Parent Company") filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code ("Bankruptcy Code") in the United States Bankruptcy Court for the District of Arizona (the "Bankruptcy Court"), in the proceeding entitled In re: NutraCea., Case No. 2:09-bk-28817-CGC (the "Chapter 11 Reorganization"). None of the Parent Company's subsidiaries, including its Brazilian rice bran oil operation, Irgovel, were included in the bankruptcy filing. The Company continued to manage its assets and operate its business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. None of the Parent Company's subsidiaries were included in the bankruptcy filing. Under the Bankruptcy Code, certain claims against the Company in existence prior to the filing of the bankruptcy petition were stayed during the pendency of the Chapter 11 Reorganization and amounted to \$7 million as of December 31, 2009 plus outstanding indebtedness. Additional claims arose subsequent to the filing date from the Company's business operations, its secured borrowing from Wells Fargo Bank, N.A., acting through its Business Credit operating division ("WFBC"), its employment of professionals, its disposition of certain non-core assets (as described below) and its treatment of certain executory contracts. The claim of WFBC, the primary secured creditor of the Company, was secured by perfected liens against the Company's real and personal property, including, without limitation, its plant and equipment, trade receivables and inventory. The WFBC loan was paid in full as of December 31, 2010.

On August 10, 2010, the Company and the Official Unsecured Creditors Committee filed with the Bankruptcy Court an amended plan of reorganization (the "Amended Plan") in accordance with the Bankruptcy Code. The Amended Plan calls for the payment in full of all allowed claims. Creditors voted overwhelmingly in favor of the Amended Plan and, on October 27, 2010, the Bankruptcy Court entered its order confirming the Amended Plan. The confirmation order became final on November 10, 2010 and the Amended Plan became effective on November 30, 2010. The Company's payment obligations under the Amended Plan are estimated to total \$7 million. It intends to discharge these obligations by selling non-core assets, collecting outstanding receivables, and borrowing on a secured basis. To secure a portion of these payment obligations, unsecured creditors were granted a lien in all of the Company's assets. The lien is administered and may be enforced by a Plan Agent, who was jointly selected by the Company and the Official Unsecured Creditors Committee. The Plan Agent may, among other things, sell specified assets of the Company if the payment benchmarks set forth in the Amended Plan are not met.

Under the Amended Plan, if the Company fails to meet certain payment benchmarks to our general unsecured creditors as described in the Amended Plan, the Plan Agent may direct and control the sale of (i) our Dillon, Montana facility, (ii) all of our loose equipment, and, if the third payment benchmark is not met, (iii) the sale of equipment located in our Lake Charles, Louisiana facility, and (iv) the sale of any other pledged assets. The general unsecured creditors may retain up to 100% of net proceeds from any such sale in satisfaction of their claims. Since we will not be able to control the sale of the above assets if we do not meet the payment benchmarks, we cannot guarantee that the assets will be sold at a value satisfactory to us.

## Liquidity and Management's Plans

The Company has experienced recurring losses and negative cash flows from operations. Due to defaults under its credit agreement with Wells Fargo, the Company's credit lines were reduced to approximately \$3,500,000 as of July 2009, which was the level of the current outstanding loans and obligations at that time. NutraCea also entered into a forbearance agreement with Wells Fargo pursuant to which Wells Fargo agreed to forebear from exercising its rights and remedies with respect to the existing defaults. NutraCea was behind on its payments to vendors and had defaulted on several agreements due to non-payment resulting in declaring bankruptcy as described in the preceding paragraph. These factors raise substantial doubt about the Company's ability to continue as a going concern.



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

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

- growing sales in existing markets, including bulk SRB and rice bran oil; and
- aligning with strategic partners who can provide channels for additional sales of our products including rice-bran oil extraction.

In the past the Company has turned to the equity markets for additional liquidity. This is not a likely source of funds at this time due to the Company's financial position, the state of the equity markets and the bankruptcy filing. Combined with expense reduction efforts and growth of sales, Company management intends to provide the necessary cash to continue operations through the monetization of certain assets and is expected to include some or all of the following:

- sale or a sale- lease back of certain of the Company's facilities;
- sale of a non-controlling interest in one or more of the Company's subsidiaries;
- sale of certain trademarks to strategic buyers that could become long-term buyers of bulk SRB; or
  - sale of surplus equipment

We have already taken steps to pursue several of these potential sources of cash. Successful monetization of one or more of the assets identified above could yield sufficient cash to enable the Company to remain a going concern. Some of these sales could result in additional non-cash write downs of asset values. Although management believes that they will be able to obtain the funds necessary to continue as a going concern there can be no assurances that the means for maintaining this objective will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 2. General Business

NutraCea and its consolidated subsidiaries (the "Company") is a food ingredient and health company focused on the development and distribution of products based upon the use of stabilized rice bran ("SRB") and proprietary rice bran formulations. Rice bran is the outer layer of brown rice which is typically a waste by-product of the commercial rice industry. These products include food supplements and medical food which provide health benefits for humans and animals (known as "Nutraceuticals") based on SRB, rice bran derivatives and rice bran oil.

On October 4, 2005, the Company consummated the acquisition of RiceX Company ("RiceX") pursuant to the terms of an Agreement and Plan of Merger, dated April 4, 2005. RiceX survived the merger as a wholly-owned subsidiary of NutraCea. RiceX shareholders received 0.76799 of NutraCea common stock for each share of RiceX common stock. RiceX shareholders received 28,272,064 shares of NutraCea common stock, valued at \$29,120,000 and NutraCea assumed the outstanding RiceX options and warrants to purchase 11,810,496 shares of NutraCea common stock valued at \$11,422,000.



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Due to the acquisition of RiceX, the subsequent reorganization of the Company, and the acquisition of Irgovel - Industria Riograndens De Oleos Vegetais Ltda. (“Irgovel”), the Company now operates in two segments, NutraCea and Irgovel.

Note 3. Summary of Significant Accounting Policies

Revenue Recognition - The Company recognizes revenue for product sales when title and risk of loss pass to its customers generally upon shipment for domestic customers and upon receipt for international customers and when provisions for estimates, including discounts, and price adjustments are reasonably determinable. Provisions for routine sales discounts, volume allowances, and adjustments are made in the same period the sales are recorded. No revisions were made to the methodology used in determining these provisions during the quarter ended June 30, 2009. Deposits are deferred until either the product has been shipped or conditions relating to the sale have been substantially performed.

Revenue from direct customers is recognized when shipment of goods occur. Each transaction is individually evaluated to determine if all of the following four criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. If any of the above criteria cannot be satisfied then such a transaction is not recorded as revenue, or is recorded as deferred revenue and recognized only when the sales cycle is complete and payment is either received or becomes reasonably assured. There are no refund rights on sales. Changes in judgments and estimates regarding the application of the above mentioned four criteria might result in a change in the timing or amount of revenue recognized by such transactions.

The Company also sells certain products such as infant cereal through a network of resellers and distributors. Revenue is recognized from these customers upon shipment of products. Each transaction is evaluated to determine if all of the following criteria's have been met: 1) persuasive evidence of an arrangement exists, 2) delivery has occurred; 3) the selling price is fixed and determinable; and 4) collectability is reasonably assured. If collectability is not reasonably assured, then revenue is recognized on a cash basis. The Company generally does not allow right of return.

Occasionally, the Company will grant exclusive use of labels to customers in specific territories in exchange for a nonrefundable fee. Each label licensing provision is considered to be a separate unit of accounting. Revenue from such transactions is recognized over the licensing period.

Warrants – The Company accounts for its anti-dilutive warrants in accordance with the provisions of ASC 815 Derivatives and Hedging (previously EITF 07-5, Determining Whether an instrument (or an Embedded Feature) is indexed to an Entity's Own Stock). These warrants are valued using the Lattice model each reporting period and the resultant change in fair value is recorded in the Statements of Operations as other income and expense.

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## Note 4. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — A Replacement of FASB Statement No. 162 (as codified in the FASB Accounting Standards Codification (“ASC” or “Codification”) topic 105, Generally Accepted Accounting Principles (“ASC 105”)). ASC 105 establishes the Codification as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. ASC 105 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification has become non-authoritative. Following this update to ASC 105, the FASB will not issue new standards in the form of Statements, FASB Staff Positions (“FSP”), or Emerging Issues Task Force (“EITF”) Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the basis for conclusions on the change(s) in the Codification. The Company adopted the requirements of this standard for the quarter ended September 30, 2009. The adoption of this update to ASC 105 did not have a material impact on the Company’s Consolidated Financial Statements. All accounting references have been updated, and therefore SFAS references have been augmented with ASC references. In future filings all accounting references will refer to the Codification only.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R),” codified into ASC 810. The revised guidance requires an enterprise to perform a qualitative analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity’s economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise’s involvement in a variable interest entity. This update to ASC 810 becomes effective for the Company on January 1, 2010. The adoption of the requirements under this update to ASC 810 will not have a material impact on the Condensed Consolidated Financial Statements.

On June 30, 2009, the Company adopted FASB Staff Position (“FSP”) No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” (“ASC 820”). The update to this ASC 820 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased and includes guidance for identifying circumstances that indicate a transaction is not orderly. This guidance is necessary to maintain the overall objective of fair value measurements, which is that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The adoption of this update to ASC 820 did not have an impact on the Condensed Consolidated Financial Statements.



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In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (codified into ASC 825, Financial Instruments (“ASC 825”). This update to ASC 825 requires companies to disclose in interim financial statements the fair value of financial instruments within the scope of ASC 825. However, companies are not required to provide in interim periods the disclosures about the concentration of credit risk of all financial instruments that are currently required in annual financial statements. The fair-value information disclosed in the footnotes must be presented together with the related carrying amount, making it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the balance sheet. This update to ASC 825 also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period. The Company adopted the requirements of this standard as of June 30, 2009. Other than the required disclosures, the adoption of this update to ASC 825 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (as codified in ASC topic 320, Investments — Debt and Equity Securities (“ASC 320”). This update to ASC 320 amends SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, SFAS 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and EITF Issue 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets (all of which are codified in ASC 320), to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This standard replaces the existing requirement that the entity’s management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. The Company adopted the requirements of this standard as of June 30, 2009. The adoption of this update to ASC 320 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Effective January 1, 2009, the Company adopted FSP No. FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,” (“ASC 805”), which was issued on April 1, 2009. This update to ASC 805 applies to all assets acquired and liabilities assumed in a business combination that arise from certain contingencies as defined in this FSP and requires (i) an acquirer to recognize at fair value, at the acquisition date, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period otherwise the asset or liability should be recognized at the acquisition date if certain defined criteria are met; (ii) contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be recognized initially at fair value; (iii) subsequent measurements of assets and liabilities arising from contingencies be based on a systematic and rational method depending on their nature and contingent consideration arrangements be measured subsequently in accordance with the provisions of ASC 805; and (iv) disclosures of the amounts and measurement basis of such assets and liabilities and the nature of the contingencies. The adoption of the requirements under this update to ASC 805 did not have an impact on the Condensed Consolidated Financial Statements.

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On January 1, 2009, the Company adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB 51 (“ASC 810”). This update to ASC 810 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements (which is codified in ASC 810), to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. This update to ASC 810 requires, among other items, that a noncontrolling interest be included in the consolidated balance sheet within equity separate from the parent’s equity; consolidated net income to be reported at amounts inclusive of both the parent’s and noncontrolling interest’s shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The result of the adoption of the requirements under this update to ASC 810 is included in these Condensed Consolidated Financial Statements and did not have a material impact.

In June 2008, the FASB issued FASB Staff Position (“FSP”) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (“ASC 260”). This update to ASC 260 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company adopted the requirements of this standard as of January 1, 2009. The adoption to this update to ASC 260 did not have an impact on the Company’s Condensed Consolidated Financial Statements.

In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) (“ASC 470”). Under the new rules for convertible debt instruments that may be settled entirely or partially in cash upon conversion, an entity should separately account for the liability and equity components of the instrument in a manner that reflects the issuer’s economic interest cost. The effect of the new rules for the convertible debt is that the equity component would be included in the paid-in-capital section of stockholders’ equity on the consolidated balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the convertible debt instruments. The Company adopted the requirements of this standard as of January 1, 2009. The adoption of this update to ASC 470 did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (“ASC 350”). This update to ASC 350 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350, Goodwill and Other Intangible Assets in order to improve the consistency between the useful life of a recognized intangible asset under ASC 142 and the period of expected cash flows used to measure the fair value of the asset under ASC 805 Business Combinations (“ASC 805”), and other GAAP. The Company adopted the requirements of this standard as of January 1, 2009. The adoption of this update to ASC 350 did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

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In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133 (“ASC 815”). This update to ASC 815 requires enhanced disclosures about an entity’s derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for and (iii) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. The Company adopted the requirements of this standard as of January 1, 2009. The adoption of this update to ASC 815 did not have an impact on the Company’s Condensed Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (“ASC 805”). This update to ASC 805 replaces SFAS No. 141, Business Combinations, and retains the fundamental requirements in SFAS No. 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. This update to ASC 805 requires an acquirer in a business combination, including business combinations achieved in stages (step acquisition), to recognize the assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values at that date, with limited exceptions. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. The Company adopted the requirements of this standard as of January 1, 2009. The adoption of this update to ASC 320 did not have an impact on the Company’s Condensed Consolidated Financial Statements as it has not yet completed a business acquisition since that date.

Note 5. Stock-Based Compensation

The Company accounts for its stock based compensation in accordance with ASC 718 Stock Compensation (ASC 718) The Company uses the Black-Scholes-Merton option pricing model to estimate fair value. The Black-Scholes-Merton option pricing model requires the Company to estimate key assumptions such as expected life, volatility, risk-free interest rates and dividend yield to determine the fair value of share-based awards, based on both historical information and management’s judgment regarding market factors and trends. The Company recognizes the share-based compensation expense over the period that the awards are expected to vest, net of estimated forfeiture rates. If the actual forfeitures differ from management estimates, additional adjustments to compensation expense are recorded.

The Company accounts for stock-based compensation awards granted to non-employees and consultants by determining the fair value of the awards and warrants granted at either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is a more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or (2) the date at which the counterparty's performance is complete. The expected term of the awards granted to non-employees is equal to the contractual term of the awards as required.

Stock-based compensation expenses consisted of following:

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|                               | Three Months Ended June |             | Six Months Ended June |             |
|-------------------------------|-------------------------|-------------|-----------------------|-------------|
|                               | 2009                    | 30,<br>2008 | 2009                  | 30,<br>2008 |
| Consultants                   | \$34,000                | \$12,000    | \$112,000             | \$409,000   |
| Directors                     | 17,000                  | 197,000     | 35,000                | 394,000     |
| Executive Officer & Employees | 11,000                  | 195,000     | 45,000                | 651,000     |
| Total stock-based expense     | \$62,000                | \$404,000   | \$192,000             | \$1,454,000 |

The following weighted average assumptions used in valuing options and granted for the six months ended June 30

|  | 2009   |   | 2008   |   |
|--|--------|---|--------|---|
| Expected volatility                            | 93.33  | % | 81.95  | % |
| Risk-free interest rate                        | 1.26   | % | 2.82   | % |
| Expected life (in years)                       | 3.14   |   | 2.90   |   |
| Weighted average fair value of options granted | \$0.30 |   | \$1.39 |   |
| Expected dividends                             | -      |   | -      |   |
| Forfeitures                                    | 5-10   | % | 5-10   | % |

The following is a summary of stock option activity for the six months ended June 30, 2009:

|  | Number of<br>Shares<br>Under<br>Option | Weighted<br>Average<br>Exercise<br>Price per<br>Share |
|--|--|---|
| Outstanding at December 31, 2008         | 25,193,000                             | \$0.80  |
| Options granted                          | 400,000                                | 0.30  |
| Options exercised                        | -                                      | -   |
| Options cancelled/forfeited              | (2,868,000 )                           | 1.01  |
| Outstanding at June 30, 2009             | 22,725,000                             | \$0.77  |
| Vested in the period ended June 30, 2009 | 526,000                                | \$1.39  |
| Options exercisable at June 30, 2009     | 21,633,000                             | \$0.75  |

As of June 30, 2009, the Company had \$100,000 in total unrecognized compensation expense, related to stock options that will be recognized over the remaining weighted average period of .5 year.

As of June 30, 2009, options and to purchase approximately 22,725,000 shares of the Company's common stock were outstanding. Of these, 320,000 were "in the money" at June 30, 2009.

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## Note 6. Inventory

Inventory is stated at the lower of cost or market, with the cost determined by the first-in, first-out method. We employ a full absorption procedure using standard cost techniques. The standards are customarily reviewed and adjusted annually so that they are materially consistent with actual purchase cost. Provision for potentially obsolete or slow moving inventory are made based on our analysis of inventory levels, historical obsolescence and future sales forecast.

Inventories composed of the following:

|                    | June 30,<br>2009 | December<br>31, 2008 |
|--------------------|------------------|----------------------|
| Finished goods     | \$ 1,820,000     | \$ 2,320,000         |
| Work in process    | 166,000          | 167,000              |
| Raw materials      | 1,280,000        | 849,000              |
| Packaging supplies | 66,000           | 547,000              |
| Total inventories  | \$ 3,333,000     | \$ 3,883,000         |

## Note 7. Property, Plant and Equipment

Property, plant and equipment consists of the following:

|                               | June 30,<br>2009 | December<br>31, 2008 |
|-------------------------------|------------------|----------------------|
| Land                          | \$ 3,128,000     | \$ 3,128,000         |
| Furniture and fixtures        | 3,143,000        | 3,068,000            |
| Plant                         | 25,673,000       | 15,556,000           |
| Computer and Software         | 1,177,000        | 724,000              |
| Vehicles                      | 338,000          | 338,000              |
| Leasehold improvements        | 3,801,000        | 3,727,000            |
| Machinery and Equipment       | 22,801,000       | 21,705,000           |
| Construction in progress      | 3,609,000        | 15,958,000           |
| Subtotal                      | 63,670,000       | 64,204,000           |
| Less accumulated depreciation | 9,759,000        | 7,221,000            |
| Total                         | \$ 53,911,000    | \$ 56,983,000        |

Depreciation expense for the three months ended June 30, 2009 and 2008 was \$1,280,000 and \$815,000, respectively.

Depreciation expense for the six months ended June 30, 2009 and 2008 was \$2,475,000 and \$1,357,000, respectively.

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## Oil Equipment

During fourth quarter of 2008 management implemented a plan to sell certain equipment located at its Lake Charles, Louisiana facility. The equipment is classified in current assets as held-for-sale with a carrying value of \$639,000 as of June 30, 2009.

## Note 8. Intangible Assets and Goodwill

Intangible assets consist of the following at:

|                              | Original<br>Cost | Accumulated<br>Amortization | Net Book<br>Value |
|------------------------------|------------------|-----------------------------|-------------------|
| June 30, 2009                |                  |                             |                   |
| Amortized intangible assets: |                  |                             |                   |
| Patents                      | \$2,653,000      | \$ 711,000                  | \$1,942,000       |
| Trademarks                   | 6,592,000        | 1,345,000                   | 5,247,000         |
| Customer lists               | 4,007,000        | 777,000                     | 3,230,000         |
| Non-Compete                  | 650,000          | 650,000                     | -                 |
|                              | \$13,902,000     | \$ 3,483,000                | \$10,419,000      |
| December 31, 2008            |                  |                             |                   |
| Amortized intangible assets: |                  |                             |                   |
| Patents                      | \$2,524,000      | \$617,000                   | \$1,907,000       |
| Trademarks                   | 6,984,000        | 1,018,000                   | 5,966,000         |
| Customer lists               | 4,309,000        | 247,000                     | 4,062,000         |
| Non-Compete                  | 650,000          | 542,000                     | 108,000           |
|                              | \$14,467,000     | \$2,424,000                 | \$12,043,000      |

Amortization expense for the three months ended June 30, 2009 and 2008 was \$514,000 and \$136,000, respectively.

Amortization expense for the six months ended June 30, 2009 and 2008 was \$1,065,000 and \$427,000, and is expected to be \$975,000 for the remainder of 2009 and \$1,848,000, \$1,764,000, \$894,000, 894,000 and \$893,000 for the years ended December 31, 2010 through 2014, respectively.

During December 2008 management decided to cease all marketing efforts under the Dr. Vetz trademark acquired in September 2007. The demand for these products declined significantly and products held in inventory only had a shelf-life of three months, causing the Company to destroy the entire remaining inventory. The Company recorded a loss on the disposal of this product line of \$598,000 in 2008 consisting of inventory of \$339,000 and the trademark valued at \$259,000 (net of \$37,000 accumulated amortization).

In August 2008 CURA Pharmaceutical Co. ("CURA") reached a settlement agreement on a lawsuit which had been filed against it as a result of the products which were being distributed by NutraCea/Cura LLC ("NCC"), a limited liability company formed between NutraCea and CURA. Pursuant to the terms of the agreement, CURA received a settlement of \$340,000 which was assigned to NutraCea, and NCC returned its remaining inventory of approximately \$135,000 to a third party. The Company recorded a loss on disposal of assets of approximately \$131,000 in 2008 for the unamortized portion of the intangible asset. The overall effect of the transaction resulted in a net gain on settlement of the assets of NCC of approximately \$75,000.



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|                       | Acquisition<br>Date | Acquisition<br>Value | Accumulated<br>Amortization | Loss on<br>Disposal of<br>Asset |
|-----------------------|---------------------|----------------------|-----------------------------|---------------------------------|
| Dr. Vetz trademark    | 8/28/2007           | \$ 296,000           | \$ 37,000                   | \$ 259,000                      |
| Cura Supply agreement | 9/1/2007            | 220,000              | 89,000                      | 131,000                         |
|                       |                     | \$ 516,000           | \$ 126,000                  | \$ 390,000                      |

Changes in the carrying amounts of goodwill is summarized as follows:

|                                       | Total       |
|---------------------------------------|-------------|
| Goodwill balance at December 31, 2008 | \$5,579,000 |
| Foreign currency translation          | (512,000 )  |
| Goodwill balance at June 30, 2009     | \$5,067,000 |

## Note 9. Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during all periods presented. Options and warrants are excluded from the basic loss per share calculation and are considered in calculating the diluted (loss) earnings per share.

Diluted (loss) income per share is computed by dividing net loss by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been outstanding if the impact is dilutive. The dilutive effect of outstanding options and warrants is calculated using the if converted method.

Basic and diluted loss per common share for the three months and six months ended June 30, is as follows:

|   | Three Months Ended<br>2008 |                | Six Months Ended<br>2008 |                 |
|---|----------------------------|----------------|--------------------------|-----------------|
|   | 2009                       | (Restated)     | 2009                     | (Restated)      |
| Net loss attributable to NutraCea                   | \$(5,591,000 )             | \$(5,678,000 ) | \$(10,584,000 )          | \$(12,205,000 ) |
| Weighted average outstanding Shares of common stock | 180,407,000                | 151,867,000    | 174,917,000              | 145,545,000     |
| Total diluted shares                                | 180,407,000                | 151,867,000    | 174,917,000              | 145,545,000     |
| Loss per share:                                     |                            |                |                          |                 |
| Basic   | \$(0.03 )                  | \$(0.04 )      | \$(0.06 )                | \$(0.08 )       |
| Diluted   | \$(0.03 )                  | \$(0.04 )      | \$(0.06 )                | \$(0.08 )       |

Potential dilutive securities such as anti-dilutive warrants and options, were not included in the computation of earnings per share because the effect was anti dilutive.





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## Note 10. Comprehensive Loss

Comprehensive loss consists of the following:

|  | Three Months Ended June<br>30,<br>2008<br>(Restated) |               | Six Months Ended June 30,<br>2008<br>(Restated) |                |
|--|--|---------------|---|----------------|
|  | 2009   | 2008          | 2009  | 2008           |
| Net loss   | \$(5,596,000)  | \$(5,748,000) | \$(10,665,000)                                  | \$(12,275,000) |
| Other comprehensive earnings (loss)                            |  |               |   |                |
| Foreign currency translation                                   | 2,001,000  | (609,000 )    | (3,806,000 )                                    | (498,000 )     |
| Comprehensive loss, net of tax                                 | (3,595,000)  | (6,357,000)   | (14,471,000)                                    | (12,773,000)   |
| Comprehensive loss attributable to the noncontrolling interest | 5,000  | 70,000        | 81,000  | 70,000         |
| Total Comprehensive loss attributable to NutraCea              | \$(3,590,000)  | \$(6,287,000) | \$(14,390,000)                                  | \$(12,703,000) |

Accumulated other comprehensive loss, as reflected on the Condensed Consolidated Balance Sheets, is comprised of the following:

|   | June 30,<br>2009 | December<br>31, 2008 |
|---|------------------|----------------------|
| Foreign currency translation adjustment       | \$(1,949,000)    | \$1,857,000          |
| Accumulated other comprehensive (loss) income | \$(1,949,000)    | \$1,857,000          |

## Note 11. Acquisition and Joint Ventures

## Irgovel

On January 31, 2008, NutraCea, through its wholly owned subsidiary Nutra SA, LLC entered into a Quotas (share) Purchase and Sale Agreement (“Purchase Agreement”) with the Quota Holders (“Sellers”) of Irgovel - Industria Riograndens De Oleos Vegetais Ltda. (“Irgovel”), a limited liability company organized under the laws of the Federative Republic of Brazil. Irgovel owns and operates a rice bran oil processing facility in Pelotas, Brazil.

In February 2008, the Company purchased 100% of Irgovel \$14,237,000. The Company used the purchase method of accounting to record this transaction. Under the purchase method of accounting, the assets acquired and liabilities assumed from Irgovel were recorded at the date of acquisition, at the preliminary estimate of their respective fair values. The purchase price plus acquisition costs exceeded the preliminary estimate of fair values of acquired assets and assumed liabilities. This resulted in the recognition of goodwill in the amount of \$5,579,000.

The total consideration of \$14,237,000 included approximately \$354,000 in legal fees which were capitalized as part of the purchase price. Additionally, the Company agreed to fund as necessary up to \$5,300,000 to pay deferred taxes due to the Brazilian government. These deferred taxes are included in notes payable in the liabilities on Irgovel’s financial statements and are payable over periods through November 2024. Under the terms of the acquisition, the

Company has escrowed approximately \$2,023,000 to fund potential pre-acquisition litigation cost of Irgovel. This amount is recorded as restricted cash within the consolidated assets as of June 30, 2009 and will be released upon resolution of certain pre-acquisition litigation. The balance remaining in the escrow account is \$1,914,000 and \$1,913,000 as of June 30, 2009 and December 31, 2008, respectively.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

|                               |            |
|-------------------------------|------------|
| Cash                          | \$79,000   |
| Accounts receivable           | 1,243,000  |
| Inventory                     | 837,000    |
| Other current assets          | 602,000    |
| Property, plant and equipment | 15,047,000 |
| Intangibles                   | 5,452,000  |
| Other non-current assets      | 18,000     |
| Goodwill                      | 5,579,000  |
| Total assets acquired         | 28,857,000 |
| Current liabilities           | 2,791,000  |
| Other non-current liabilities | 5,785,000  |
| Deferred tax liability        | 6,044,000  |
| Total liabilities assumed     | 14,620,000 |

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Nutra SA, LLC Membership Interest Purchase Agreement

On December 29, 2010, NutraCea entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with Nutra SA, LLC, NutraCea’s wholly-owned subsidiary (“Nutra SA”), Irgovel, Nutra SA’s wholly-owned subsidiary, and AF Bran Holdings-NL LLC and AF Bran Holdings LLC (collectively, the “Investor”). The transaction was consummated and closed on January 18, 2011.

Pursuant to the Purchase Agreement, the Investor agreed to purchase from NutraCea or Nutra SA, as applicable, an aggregate of 3,862,500 units in Nutra SA for an aggregate purchase price of \$7,725,000 of which NutraCea will receive \$4,000,000 of the proceeds. Following the consummation of the foregoing transactions, NutraCea will own 7,000,000 units, or a 64.4% interest, in Nutra SA and the Investor will own 3,862,500, or a 35.6% interest, in Nutra SA. The remaining amount of \$3,725,000, less \$500,000 retained by Nutra SA for administrative expenses, was invested in Irgovel to be used for capital improvements and working capital needs.

In addition, upon the occurrence of certain events and conditions as described in the Purchase Agreement, the Investor may be required to purchase from NutraCea or Nutra SA, as applicable, or may elect to purchase from NutraCea, a number of units of Nutra SA, at \$2.00 per unit, resulting in the Investor holding up to a 49% interest in Nutra SA.

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NutraCea agreed to use \$2,200,000 of the funds it received from the transaction to repay amounts owed to its general unsecured creditors in accordance with its Amended Plan of Reorganization. The remaining \$1,800,000 was used for general corporate purposes and administrative expenses associated with the Chapter 11 Reorganization.

NutraCea will be restricted from competing with Nutra SA and Irgovel in Brazil as further described in the Purchase Agreement. Management is assessing the accounting impact of this transaction.

Presented below are unaudited pro forma results of operations presented as though the acquisition had occurred on January 1, 2008:

|   | Six Months<br>Ended June<br>30, 2008<br>(Unaudited) |
|---|---|
| Total revenues                            | \$ 19,838,000                                       |
| Net loss available to common shareholders | \$(12,185,000 )                                     |
| Earnings per share                        |   |
| Basic                                     | \$(0.08 )   |
| Diluted                                   | \$(0.08 )   |
| Weighted average shares :                 |   |
| Basic                                     | 145,545,000   |
| Diluted                                   | 145,545,000   |

## Medan, LLC.

On January 24, 2008, NutraCea, through its newly formed wholly-owned subsidiary, Medan, LLC, a Delaware limited liability company, entered into a stock purchase agreement (“Purchase Agreement”) with Fortune Finance Overseas Ltd., a British Virgin Islands company (“FFOL”). Pursuant to the Purchase Agreement, on March 28, 2008, Medan purchased 9,700 outstanding shares of capital stock of PT Panganmas Inti Nusantara, an Indonesian Company (“PIN”) from FFOL for \$8,175,000 (“First Purchase”). In June 2008, Medan purchased an additional 3,050 shares of PIN’s capital stock directly from PIN for \$2,500,000. Of the 3,050 shares, 2,550 were voting shares and 500 were non-voting shares. The total consideration paid by NutraCea for both purchases through Medan was \$10,675,000. After the completion of these two transactions, NutraCea owned 51% and FFOL owned 49% of the capital stock of PIN. The Company’s investment agreement provides for 50% voting rights for NutraCea and FFOL. Accordingly, our interest is non-controlling and therefore our investment is accounted for under the equity method.

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The Company made this acquisition in order to construct and operate a wheat mill incorporating the Company's stabilization technology. PIN owns land and obtained the permits necessary to construct a wheat facility in Kuala Tnajung, Medan, and North Sumatra, Indonesia. Medan and FFOL entered into a voting agreement wherein each party will vote all of its shares in a manner so that PIN's Board of Directors and Board of Commissioners shall consist of an even number of persons designated each by Medan and FFOL. The Purchase Agreement required the Company to pay Theorem Capital Partners a \$500,000 commission upon the completion of the transaction. This commission was paid in equal installments in June and July, 2008. Additionally, upon completion of the transaction the Company granted to Theorem an option to purchase 500,000 shares of the Company's common stock at an exercise price per share of \$1.50, which expires in five years. The fair value of this option is approximately \$128,000 and was charged to professional fees in the Company's results of operations during the third quarter of 2008.

Concurrently with the Purchase Agreement, NutraCea entered into a Wheat Bran Stabilization Equipment Lease ("Lease") with PIN. Pursuant to the Lease, NutraCea would lease to PIN wheat stabilization equipment developed by NutraCea for the use at PIN's facility. The term of the lease was fifteen years with an automatic extension of five years if the PIN stabilized wheat bran facility was fully operational and the equipment leased from NutraCea was still located in and being used at the facility. The amount of the rent for the leased equipment would be equal to NutraCea's actual cost of purchasing, manufacturing, and installing the equipment, and would be due and payable, in one single payment, thirty days following the installation of the equipment at the facility. At December 31, 2008, minimal spending had occurred towards capital or operational expenses.

Prior to the Company's initial acquisition of its shares, PIN was engaged in a flour trading operation. PIN divested itself of its trading operations in the first quarter of 2008 before the Company made the First Purchase. After the date of our initial investment, PIN has had no sales and its operational expenses were only those related to the preparation of the wheat mill project.

In March 2008, PAHL paid to the Company \$5 million for its License Fees for an exclusive license and distribution rights for the production and sale of SRB and SRB derivative products in certain countries in Southeast Asia. A principal shareholder of FFOL was also a principal shareholder of PAHL, and the Company's receipt of payment for the License Fee was made at the same time the Company decided to make the First Purchase of the PIN shares. Based in part upon the related ownership of FFOL and PAHL, the timing of the payments, the sub-license of PAHL's rights under the License to Grain Enhancement and the Company's current determination of the value of the PIN shares, the Company now believes the First Purchase of the PIN shares and the payment of the License Fee should be viewed as a combined event with related parties, causing the Company to value the First Purchase of the PIN shares at \$3.175 million instead of \$8.175 million.

On July 23, 2009, Medan entered into a Stock Purchase Agreement with FFOL to sell its 12,750 shares of capital stock of PIN to FFOL, which shares represent 51% of the currently issued and outstanding capital stock of PIN ("Agreement"). Pursuant to the Agreement, FFOL agreed to pay \$1,675,000 to Medan, thus completely liquidating NutraCea's ownership in PIN. Based upon the liquidation of the Company's ownership in PIN, the Company recorded as of December 31, 2008 an impairment charge of \$3,996,000 to reduce the PIN investment at December 31, 2008 to \$1,675,000. As of August 31, 2009 the Company had received \$1,591,000 with the remaining amount of \$84,000 representing taxes withheld by the Indonesian Government. The Company has written-off the taxes withheld amount as of December 31, 2009.

The Company's share of the net loss of PIN for the six months ended June 30, 2009 and 2008 was approximately \$29,000 and \$27,000 respectively.



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NutraCea/Cura LLC

In August 2007, the Company formed NutraCea/Cura, LLC (“NCC”) with CURA Pharmaceuticals (“CURA”) and the Company acquired a 60% interest in NCC. NCC was established to jointly develop, produce, market, and sell nutraceutical and pharmaceutical products. In December 2007 we acquired from CURA 75% of their 40% interest in NCC which increased our interest to 90%. Accordingly, the Company has consolidated NCC in our financial statements. The Company recorded an intangible asset of \$220,000 which the Company was amortizing on a straight-line basis over a period of five years.

NCC also acquired the rights to a supply agreement for materials with minimum purchase requirements of approximately \$1,150,000 for the first year with an increase to the then current minimum of 5% per year over the term of the agreement. The initial term was for three years, and would automatically renew for a one year period unless either party terminates the agreement in accordance with the provisions of the supply agreement. If the minimum purchase commitments were not met in any year the co-packer of the products may terminate the supply agreement.

In August 2008, CURA reached a settlement agreement on a lawsuit which had been filed against it as a result of the products which were being distributed by NCC. Pursuant to the terms of the agreement, CURA received a settlement of \$340,000 which was assigned to NutraCea, and NCC returned the remaining inventory of approximately \$135,000 to a third party. The Company recorded a loss on disposal of assets of approximately \$131,000 for the unamortized portion of the intangible asset. The overall effect of the transaction resulted in a net gain on settlement of the assets of NCC of approximately \$75,000 in 2008.

In September 2008, the Company entered into a promissory note with CURA for \$211,000. CURA had arranged for the sale of various products for the Company, but failed to deliver the collected funds to the Company. The note carried equal monthly payments over a twelve month period beginning October 2008. The Company received a security interest in CURA’s rights and interest in NCC. The Company has received the scheduled payments through April 2009 totaling \$125,000. The Company has not received any payments since April 2009 and established a reserve of \$86,000 during 2009 for the principal amount still outstanding.

Grainnovation, Inc.

In April 2007, the Company acquired 100% of the outstanding stock of Grainnovation, Inc. (“GI”) a privately held company in Freeport, Texas which manufactures SRB pellets and other SRB products for equine customers for a total of \$2,150,000.

In May 2009, this facility was closed due to lack of demand and reduction in company wide capacity needs. At the time this location employed five people who were terminated as a result of the closure. No termination benefits were paid as a result of the closure. All of the goodwill associated with the purchase was impaired as of December 31, 2008. All of the property, plant and equipment and intangibles were fully depreciated and amortized as of the date of the closure.



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## Grain Enhancements LLC

In June 2007, NutraCea, PAHL, and two other entities (Theorem and Ho'okipa Capital Partners) entered into a limited liability company agreement ("GE Agreement") to establish Grain Enhancement ("GE"), a Delaware limited liability company. The equity position in GE of the four entities was: 47.5% for NutraCea, 47.5% for PAHL, and 3.333% and 1.6667% for the other two entities. The equity interests of NutraCea and PAHL are designated as Class A members, and the other two entities are designated as Class B members. Only Class A members are allowed to participate on the GE Finance Committee, and are the only members required to make capital contributions to GE. The purposes of GE were: (i) to sublicense or otherwise acquire from PAHL all of the rights granted to PAHL under the License Agreement; (ii) within the Territory, to establish, construct, and operate one or more rice bran stabilization facilities utilizing the proprietary technologies licensed in the License Agreement; (iii) to manufacture, distribute, sell, advertise, promote, market and otherwise commercialize SRB products throughout the Territory; and (iv) to engage in any and all other activities reasonably related to the foregoing. One of the minority partners was paid \$750,000 and \$500,000 by NutraCea and GE, respectively, for services related to the formation of GE.

Both NutraCea and PAHL agreed to make \$5,000,000 (for a total maximum of \$10,000,000) cash contributions to GE based upon the following schedule: \$1,500,000 each on or before June 30, 2007, \$2,000,000 each on or before October 30, 2007, and \$1,500,000 each on or before August 31, 2008. The initial payments of \$1,500,000 due on or before June 30, 2007 were made by both NutraCea and PAHL. The GE Agreement along with other related agreements also required NutraCea to; (i) grant PAHL a warrant to purchase 1,500,000 shares of common stock of NutraCea at an exercise price of \$5.25 per share; (ii) enter into a Rice Bran Supply Agreement with GE; and (iii) enter into a Rice Bran Stabilization Equipment lease. The warrant was to vest and become exercisable as to 375,000 shares of Common Stock on July 1, 2007, and shall vest and become exercisable as to 375,000 shares of Common Stock on each of October 1, 2007, February 1, 2008 and May 1, 2008; provided however, that the warrant shall not vest and Holder may not exercise the warrant, or any portion thereof, until GE had entered into one or more binding contracts with one or more rice millers to supply to GE at least 20,000 tons of usable raw rice bran per year. As of December 31, 2007, performance was not completed to earn the initial warrant to purchase 1,500,000 shares of NutraCea common stock, therefore no vesting had occurred and it appeared improbable that the performance would be met by June 2008 the expiration date. The original award was going to be forfeited because the construction of the rice mill facility had not begun nor were plans in place to begin the construction of the rice mill facility. The \$2,000,000 contribution due to GE on or before October 30, 2007 was not contributed by either NutraCea or PAHL, and on January 24, 2008, certain terms of the GE Agreement were amended by NutraCea and PAHL. The amendment suspended the contribution of the remaining \$7,000,000 (\$3,500,000 by each party) to a date when GE's finance committee determines that all or any portion of the remaining cash contributions are necessary for the successful operation of the business. In addition, PAHL would not longer receive a monthly management fee.

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Concurrently with the January 24, 2008 amendment, NutraCea agreed to issue to PAHL a new warrant (“Warrant”) for the purchase of 1,000,000 shares of NutraCea common stock at an exercise price of \$2.50 per share, and PAHL agreed to cancel the existing warrant for the purchase of 1,500,000 shares at an exercise price of \$5.25. The Warrant shall vest and become exercisable in full upon GE entering into one or more letters of intent with one or more rice millers to supply to GE an initial 4,000 tons of usable raw rice bran per year. The performance conditions for the Warrant were satisfied on March 24, 2008 with a Letter of Intent between GE and Gentraco, Vietnam which was signed on March 26, 2008 for 10,000 tons of fresh rice bran. In this case the fair value of the equity instruments is more reliably measurable than the fair value of the goods or services received. The Company estimated the fair value of the Warrant at the respective date using the Black-Scholes Merton option valuation model, based on the estimated market value of the underlying stock at the valuation measurement date, the contractual term of the Warrant, risk-free interest rates, expected dividends, and expected volatility of the price of the underlying stock. The intrinsic value of the Warrant was estimated at \$132,000 using the Black Scholes Merton model. Pursuant to Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock ("EITF 00-19"), the Warrant issued to PAHL was recorded as a liability because the Warrant contains a provision where it is required to be settled for cash if certain events occur. The warrants do not contain any down-round or anti-dilutive features and expired on January 24, 2010.

The Company accounts for its investment in GE under the equity method of accounting as we do not maintain control over GE. For the six months ended June 30, 2009 and 2008, the Company's share of GE's net loss was \$23,000 and \$52,000, respectively. At June 30, 2009 the value of our investment was \$1,070,000. In October 2009, NutraCea withdrew \$950,000 in available cash from the joint venture to facilitate cash requirements.

## Vital Living, Inc.

In April 2007, the Company acquired the outstanding shares of Series D Convertible Preferred Stock (“Preferred Stock”) and Secured Convertible Notes (“Notes”) of Vital Living, Inc. (“VLI”), a publicly traded company. VLI distributed nutritional supplements. VLI had a set of products that were complementary to our products and an established marketing channel that would enable NutraCea to market its own products without the expense of building the marketing base. In addition, some of VLI's products were suitable for modification to include NutraCea's SRB as a key ingredient, which the Company believed would further enhance and develop the NutraCea brand. The Company paid \$1,000,000 for the 1,000,000 shares of Preferred Stock and \$4,226,000 for the outstanding Notes. The Preferred Stock had a liquidation preference of \$1.00 per share senior to the liquidation preferences of VLI Series B Preferred Stock and Senior C Preferred Stock. The Notes bear interest at 12% per annum, payable June 15 and December 15, mature in December 2008 and were secured by substantially all of VLI's assets. Originally, the Notes were convertible into VLI common stock and VLI had the option of paying the interest on the Notes in shares of VLI common stock. At the time of the acquisition of the Preferred Stock and Notes, the Company's Chief Executive Officer and President, Mr. Edson, was the former CEO and President of VLI from May 2001 to January 2004, and the President of the predecessor company of VLI from April 1999 to May 2001. Mr. Edson is no longer the Company's CEO and President.

The Company purchased the Notes and Preferred Stock of VLI, Inc. as a means of affecting a subsequent acquisition of the productive assets of VLI, either through a merger or asset purchase. The Company's purchase of the Preferred Stock allowed the Company to control an outstanding class of capital stock, and the purchase of the Notes allowed the Company to obtain a senior secured position with respect to VLI's assets.

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On September 11, 2007, NutraCea and VLI entered into a letter of agreement to eliminate the conversion rights of the Notes. In addition, the parties agreed that until such time, if any, as NutraCea gives 30 days prior written notice to VLI, VLI may not pay accrued interest under the Notes in shares of VLI Common Stock without NutraCea's consent, and that during such time VLI would not be deemed to be in default under the Notes as a result of not paying accrued interest in such shares.

On September 28, 2007, the Company entered into an Asset Purchase Agreement ("Asset Purchase Agreement") with VLI. The Asset Purchase Agreement provided that the Company would purchase substantially all of VLI's intellectual property and other assets used by VLI and certain subsidiaries in its business, including rights to nutritional supplements and nutraceutical products that are marketed for distribution to healthcare practitioners. As part of the transaction, VLI would assign to NutraCea its rights under various distribution and other agreements relating to the products being acquired. The Company would not acquire the inventory, raw materials, cash, or accounts receivable of VLI.

The purchase price consisted of (i) \$1,500,000 to be paid by NutraCea at closing, (ii) cancellation of outstanding indebtednesses of VLI, its subsidiaries and certain of its related entities to NutraCea, including all of the Notes, and (iii) cancellation of all of the shares of Preferred Stock of VLI held by NutraCea. Completion of the transaction was subject to a variety of customary closing conditions, including, among other things, the approval of the transaction by the stockholders of VLI at a special meeting and the absence of a material adverse effect on the assets between the date of the agreement and the closing date.

In October 2008 the Company terminated the agreement pursuant to the terms under the termination section of the Asset Purchase Agreement, which required VLI's shareholders to approve such transactions. The approval of the VLI shareholders never transpired.

VLI qualified as a VIE and the Company was determined to be the primary beneficiary. The Company accounted for the purchase of these securities of VLI by consolidating VLI into its financial statements from the date of acquisition through September 30, 2008.

In the fourth quarter of 2008, the Company determined that it no longer had a controlling interest and deconsolidated VLI as of October 1, 2008. The effect of the deconsolidation on the Company's consolidated balance sheet at December 31, 2008 was a reduction in total assets of \$2,859,000 (after inter-company eliminations), a reduction in total liabilities of \$1,799,000 (after inter-company eliminations), and a reduction in shareholder equity of \$1,060,000 (after inter-company eliminations). The standalone effect of VLI on the Company's consolidated results of operations, net of inter-company eliminations, for the twelve months ended December 31, 2008 was an increase in revenues of \$1,718,000, an increase in cost of goods sold of \$1,142,000, an increase in operating expenses of \$496,000, an increase in other expenses of 245,000, and a decrease in profit of \$165,000.

As part of the deconsolidation of VLI, the Company recorded an impairment charge of \$1,600,000 representing the difference between the carrying amount of the Notes and Preferred Stock of VLI and the consideration paid by Ceautamed. The Company also recorded a gain on deconsolidation of \$2,799,000. This resulted in a net gain on deconsolidation of \$1,199,000 as of December 31, 2008.

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On June 17, 2009, NutraCea entered into a binding letter of intent (“LOI”) with Ceautamed Worldwide, LLC (“Ceautamed”), with respect to the acquisition by Ceautamed of the following: (1) senior secured convertible promissory notes that VLI issued to various investors in December 2003 in the principal amount of approximately \$4,226,446 and which NutraCea purchased for an aggregate purchase price of \$4,226,446; (ii) 1,000,000 shares of VLI’s Series D Preferred Stock, which NutraCea purchased for \$1,000,000; (iii) all of the rights of NutraCea in the action entitled NutraCea, Inc. v. Vital Living, Inc. in the Superior Court of Arizona, Maricopa County; and (iv) all of the rights of NutraCea under the security agreements granting a senior security interest in all existing and later acquired assets of VLI.

In consideration for the above, Ceautamed agreed to pay to NutraCea \$3,600,000 plus a contingent amount based on Ceautamed’s gross earnings and revenues. The purchase price is payable as follows: \$200,000 deposit that was paid to NutraCea on July 29, 2009 and the issuance by Ceautamed of a promissory note in the principal amount of \$3,400,000 which shall be paid in 34 consecutive principal monthly installments of \$100,000 beginning on August 15, 2009 with the interest to be paid in equal payments over two months following the final principal payment. The interest rate for the note will be equal to the prime lending rate plus 1% but at no time will the rate be less than 2.5% or greater than 6%. Following the three year anniversary of the closing of the definitive agreement and for a total term of 120 months, Ceautamed agreed to pay to NutraCea monthly payments equal to 10% of the gross earnings and revenues of Ceautamed (“Earn out”). Each monthly payment under the promissory note and Earn Out shall be paid directly from a lockbox account that Ceautamed agreed to establish. The promissory note and the Earn Out shall be secured by a first priority security interest in all of the assets in Ceautamed and the assets owned by VLI. Upon the closing of the definitive agreement, Ceautamed executed a stipulated judgment which provides for immediate and final foreclosure of all the collateral in favor of NutraCea and obligate immediate repayment of any deficiencies in the payment of amounts due under the promissory note or Earn Out and will be filed in the event of Ceautamed’s default under the agreement.

On August 1, 2009, Ceautamed entered into a strict foreclosure agreement with VLI pursuant to which Ceautamed agreed to give substantially all of the assets and business operations of VLI and its subsidiaries to Ceautamed. Upon execution and delivery of the bill of sale under the strict foreclosure agreement, Ceautamed executed and filed on September 29, 2009 with the Court the Stipulation to Dismiss the Lawsuit. As of January 31, 2011 Ceautamed’s payments and contractual commitments to NutraCea pursuant to this agreement are current.

Rice Science LLC

In December 2007 the Company formed Rice Science, LLC (“RS”), a Delaware LLC with Herbal Science Singapore PTe. Ltd. (“HS”), a Singapore corporation. The Company formed RS to acquire from HS certain isolates license rights and to commercialize and sell SRB isolates. NutraCea and HS have an 80% and 20% interest in the operating results, respectively.

The Company made an initial capital contribution to RS in December 2007 of \$1,200,000 as specified in the agreement. HS contributed certain Licenses as their capital contribution with a deemed value of \$440,000. HS has no interest in the initial capital contribution made by NutraCea. There are no further capital contributions required of either member.

NutraCea holds an 80% interest in RS and therefore accounts for the investment as a fully consolidated subsidiary. In 2008, RS made payments totaling \$400,000 to Herbal Science for on-going research programs to commercialize SRB isolates. These amounts are included in the consolidated statement of operations under Research and Development expenses.



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In April 2009 the Company withdrew \$850,000 from Rice Science in available cash to facilitate cash requirements.

Rice RX LLC

In December 2007 The Company formed Rice Rx LLC (“RRX”), a Delaware LLC, with Herbal Science Singapore PTe. Ltd. (“HS”), a Singapore corporation. The Company formed RRX to obtain all of the rights granted to HS with regard to the patentable pharmaceuticals under the license agreement with the Company and HS and to develop, patent, own, market, distribute, and otherwise commercialize the patentable pharmaceuticals throughout the territory (entire world). NutraCea and HS each have a 50% interest in RRX.

Commencing in July 2008, if and to the extent the members determine that capital contributions are necessary, each member agreed to contribute capital of up to \$150,000.

In conjunction with the formation of RRX, NutraCea sold to HS, for \$300,000 an exclusive license to develop, manufacture and sell certain SRB isolates and identify and commercialize certain patentable pharmaceuticals. Payment for this license was made in the form of \$150,000 cash and the execution of a promissory note payable to NutraCea for \$150,000 at the prime rate of interest and due within one year.

Investment in RRX is accounted for under the equity method of accounting. As of December 31, 2008 no capital contributions had been made. For the six months ended June 30, 2009 and 2008, the Company’s share of RRX’s net loss was \$0 and \$0, respectively.

Settlement with Herbal Science

On March 31, 2010, HS filed a proof of claim in the amount of \$1,503,000 in the Chapter 11 Reorganization for damages related to breach of the RS and RRX limited liability company agreements. On November 30, 2010, the Company entered into a stipulated settlement agreement with HS and certain affiliates, which was subsequently approved by the Bankruptcy Court. The stipulation provides that, by no later than January 31, 2011, the Company will pay HS \$880,983. Upon HS’s receipt of the payment:

- a. The limited liability company agreements, together with a related supply agreement and license agreement, will be assumed by NutraCea and the proof of claim will be deemed satisfied.
- b. HS will assign to the Company all of its interests in the limited liability companies;
- c. HS and the affiliates will assign to the Company any interest they have in the patentable pharmaceuticals, SRB isolates and related intellectual property;
- d. HS will assign to the Company the supply agreement, the license agreement and certain related research and development agreements;
- e. HS and the affiliates will agree not to engage in any research, development, sale, distribution, commercialization, and/or manufacturing activities concerning the patentable pharmaceuticals, SRB isolates and related intellectual property;

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f. HS and the affiliates will agree to cooperate with the Company in specified ways to protect, preserve and perfect the patentable pharmaceuticals, SRB isolates and related intellectual property; and,

g. The parties will waive and release all claims against each other in regard to the limited liability companies, the supply agreement, the license agreement and the research and development agreements.

Subsequently, in January 2011, the Company, HS and the affiliates renegotiated the stipulated settlement agreement to provide that the payment of \$881,000 would be increased to \$897,000 and deferred until the Company receives the balance of the purchase price for the sale of up to a 49% interest in its Nutra SA, subsidiary or until funds otherwise become available earlier. Until the payment obligations is satisfied by the Company, HS has an allowed claim for \$897,000, and will receive distributions as a general unsecured creditor without priority.

Note 12. Fair Value Measurement

As defined in ASC No. 820, Fair Value Measurements (“ASC 820”), fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain assets and liabilities are presented on the Company’s financial statements at fair value. Assets and liabilities measured at fair value on a recurring basis on the Company’s balance sheet include warrant liabilities. Assets and liabilities measured at fair value on a non-recurring basis include held-for-sale fixed assets.

The Company assesses the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market:

- Level 1 – inputs include quoted prices for identical instruments and are the most observable.
- Level 2 – inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates and yield curves.
- Level 3: inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

For instruments measured using Level 3 inputs, a reconciliation of the beginning and ending balances is disclosed.

Input Hierarchy of Items Measured at Fair Value on a Recurring Basis

The following table summarizes the fair values by input hierarchy of items measured at fair value on a recurring basis on our balance sheet as of June 30:

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|                                 | 2009    |         |             | Total       | 2008<br>Total |
|---------------------------------|---------|---------|-------------|-------------|---------------|
|                                 | Level 1 | Level 2 | Level 3     |             |               |
| Warrant liabilities (1)         | \$-     | \$-     | \$2,342,000 | \$2,342,000 | \$-           |
| Total liabilities at fair value | \$-     | \$-     | \$2,342,000 | \$2,342,000 | \$-           |

(1) Represents fair value of warrant liabilities established as a result of adoption of FASB ASC 815, "Derivatives and Hedging" (FASB ASC 815) (previously EITF 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock"). Fair value of the warrant liabilities was determined using the Lattice Model. Refer to Note 18 to the Condensed Consolidated Financial Statements included herein.

## Reconciliation of Changes in Level 3 Balances

The following table summarizes the changes in level 3 items measured at fair value on a recurring basis on the Company's balance sheet as of June 30:

|                             | 2009   |   |  |                                       |                                       |  |   |
|-----------------------------|--|---|--|---------------------------------------|---------------------------------------|--|---|
|                             | Adoption<br>of ASC<br>815-40-15<br>as<br>of January<br>1, 2009 | Total Realized<br>/ Unrealized<br>(Gains)<br>/ Losses (1) | Record<br>Series D<br>Warrants at<br>fair value<br>as of<br>January 1,<br>2009 (see<br>Note 22)(1) | Issuance of<br>new<br>Warrants<br>(1) | Net Transfers<br>/(Out<br>of) Level 3 | Into Fair value<br>at June 30,<br>2009 | Change in<br>Unrealized<br>(Gains)<br>/Losses on<br>Instruments<br>Still Held |
| Warrant liabilities         | \$3,913,000  | \$ (3,503,000 )   | \$1,156,000  | \$776,000                             | \$ -                                  | \$2,342,000                            | \$(3,503,000)   |
| Total Level 3<br>fair value | \$3,913,000  | \$ (3,503,000 )   | \$1,156,000  | \$776,000                             | \$ -                                  | \$2,342,000                            | \$(3,503,000)   |

(1) Included in "Warranty Liability Income" in the Company's Condensed Consolidated Statements of Operations.

## Input Hierarchy of Items Measured at Fair Value on a Non-Recurring Basis

The following table summarizes the fair values by input hierarchy of items measured at fair value on our balance sheet on a non-recurring basis as of June 30:

|                            | 2009    |         |           | Total     |
|----------------------------|---------|---------|-----------|-----------|
|                            | Level 1 | Level 2 | Level 3   |           |
| Lake Charles equipment (1) | \$-     | \$-     | \$639,000 | \$639,000 |
| Total assets at fair value | \$-     | \$-     | \$639,000 | \$639,000 |



(1) Represents oil pressing equipment at our Lake Charles, Louisiana held for sale as of June 30, 2009. The fair value was measured based on management's intention to contribute the equipment at cost to the Grain Enhancement joint venture in Indonesia.

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|   | 2008    |         |             | Total       |
|---|---------|---------|-------------|-------------|
|   | Level 1 | Level 2 | Level 3     |             |
| Investment in VLI Sr. Notes and Preferred Stock (1) | \$-     | \$-     | \$3,626,000 | \$3,626,000 |
| Total assets at fair value                          | \$-     | \$-     | \$3,626,000 | \$3,626,000 |

(1)The Company's evaluation of VLI's Sr. Notes and Preferred Stock included assessments of the underlying collateral supported by the subsequent sale of the investment to Ceautamed, and discounted cash flow of VLI product business. Refer to Note 11 to the Consolidated Financial Statements included herein.

## Note 13. Notes Payable and Long-Term Debt

The following table summarizes the Company's current and long-term portions of notes payable and long-term debt:

|   | June 30,<br>2009 | December<br>31, 2008 |
|---|------------------|----------------------|
| Current Portion                                 |                  |                      |
| NutraCea  |                  |                      |
| West Sacramento lease                           | \$27,000         | \$24,000             |
| Customer list purchase                          | 298,000          | 581,000              |
| Wells Fargo - Real estate loan                  | 3,291,000        | 5,000,000            |
| NutraCea total current portion                  | 3,616,000        | 5,605,000            |
| Irgoval   |                  |                      |
| Equipment financing                             | 15,000           | 155,000              |
| Special tax program                             | 637,000          | 399,000              |
| Irgoval total current portion                   | 652,000          | 554,000              |
| Total current portion                           | \$4,268,000      | \$6,159,000          |
| Long-term portion, net of current portion       |                  |                      |
| NutraCea  |                  |                      |
| West Sacramento lease                           | \$38,000         | \$52,000             |
| Customer list purchase                          | 1,366,000        | 1,280,000            |
| NutraCea total notes payable                    | 1,404,000        | 1,332,000            |
| Irgoval   |                  |                      |
| Equipment financing                             | 25,000           | 92,000               |
| Special tax program                             | 4,252,000        | 3,293,000            |
| Irgoval total notes payable                     | 4,277,000        | 3,385,000            |
| Total long-term portion, net of current portion | \$5,681,000      | \$4,717,000          |
| Total notes payable and long-term debt          | \$9,949,000      | \$10,876,000         |

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West Sacramento Lease Note

In October 2007, the Company executed a promissory note with the lessor of the West Sacramento warehouse. The value of the note was \$105,000 at 8% interest payable monthly over four years for the build-out of tenant improvements.

Wells Fargo Credit Facility

In December 2008, the Company entered into the Credit and Security Agreement (the "Agreement") with Wells Fargo Bank, NA. ("Wells Fargo") The credit arrangement consists of three separate credit facilities as follows:

A revolving \$2,500,000 for working capital which bears interest at prime plus 2.5% and matures on November 30, 2011.

A real estate loan of \$5,000,000 for general business purposes which bears interest at prime plus 3.0% and matures on December 31, 2018.

A term loan of \$2,500,000 for general business purposes which bears interest at prime plus 3.0% and matures on November 30, 2011. The Company may draw on this loan on or before June 30, 2010 on the condition that NutraCea has a positive cash flow for three consecutive quarters and is current with its trade vendors.

The above credit facilities are secured by the Phoenix, Arizona manufacturing building and all personal property of NutraCea other than NutraCea's intellectual property. NutraCea may terminate any of the above facilities at any time upon 90 days notice, subject to payment of fees and repayment of the outstanding credits. NutraCea may terminate the above facilities at any time less than 90 days notice, subject to a payment of a penalty, payment of fees and repayment of the outstanding credits. Wells Fargo may terminate the facilities at any time upon an event of default as defined in the agreement. In the event of a default the interest rate will increase to 3.0% above the applicable interest rate for each facility.

On July 9, 2009, NutraCea received a letter from Wells Fargo stating that NutraCea (i) had failed to provide audited annual and quarterly financial statements and (ii) allowed a non-permitted lien to be placed on the Monterosa Property (as defined below). These events constitute an "Event of Default" under the Agreement. Based on these "Events of Default", Wells Fargo accelerated the entire principal balance due under the three separate credit facilities listed above. At the time of the notice of default, NutraCea owed approximately \$3.3 million under the credit facilities, which included principal and interest. Due to the "Event of Default", the interest rate increased to 3.0% above the applicable interest rate for each credit facility. The credit facilities were secured against property owned by NutraCea located at 4502 W. Monterosa Street, Phoenix, Arizona ("Monterosa Property").

On July 31, 2009, NutraCea and NutraPhoenix, LLC, a wholly-owned subsidiary of NutraCea, entered into a Forbearance Agreement and Amendment to Credit and Security Agreement ("Forbearance Agreement") with Wells Fargo. The Forbearance Agreement related to the credit facilities under the Agreement.

The Forbearance Agreement identified certain existing defaults under the Agreement and provided that Wells Fargo would forbear from exercising its rights and remedies under the Agreement on the terms and conditions set forth in the Forbearance Agreement, until the earlier of January 31, 2010 or until the date that any new default occurs under the Agreement. In addition, by October 31, 2009, NutraCea must obtain a cash infusion of at least \$1,250,000 in the form of equity, subordinated debt or asset sale to be used as working capital.



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The Forbearance Agreement increased the interest rates applicable to each credit facility to the default rates under the Credit Agreement, which is 3.0% above the applicable interest rate for each credit facility. In addition, the Forbearance Agreement amended the Agreement by (i) decreasing the maximum amount advanced under the line of credit to \$1,500,000 from \$2,500,000, (ii) terminating the term loan, and (iii) terminating any obligations Wells Fargo had to make any further advances to NutraCea in connection with the real estate loan. Pursuant to the Forbearance Agreement, NutraCea agreed to deliver to Wells Fargo a first priority lien on certain real property located in Dillon, Montana. As a result of signing the forbearance agreement the Company's default was cured through January 31, 2010. The Company has classified the entire loan balance as a current liability as of June 30, 2009.

On November 10, 2009, NutraCea filed for a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Arizona (the "Chapter 11 Case"). In connection with the Chapter 11 Case, the Company, Nutra Phoenix LLC and Wells Fargo entered into a Senior Secured Super-Priority Debtor-In-Possession Credit and Security Agreement ("DIP Credit Agreement"). The DIP Credit Agreement provided for (i) up to a \$2.5 million revolving loan and letter of credit facility (the "Revolver Facility"), and (ii) up to a \$4.25 million term loan ("Term Loan") with both financing facilities subject to specific borrowing bases. The proceeds of the loans and other financial accommodations incurred under the DIP Credit Agreement were used to satisfy the outstanding obligations under the Forbearance Agreement, pay certain transactional expenses and fees, and support the Company's working capital needs.

Advances under the Revolver Facility and the Term Loan would bear interest at 9.5% and 10.0% per annum, respectively. In addition, the DIP Credit Agreement obligates the Company to pay certain fees as described in the DIP Credit Agreement. The Company's obligations under the DIP Credit Agreement were secured by (i) a lien on its facilities in Phoenix, Arizona, Dillon, Montana, and Mermentau, Louisiana and on all of its personal property assets (including a pledge of all of the equity interests of each of the Company's subsidiaries) other than certain intellectual property assets, and (ii) a super priority administrative claim in the Chapter 11 Case. The DIP Credit Agreement would mature on the earlier of (i) May 7, 2010 or (ii) the date that all loans under the DIP Credit Agreement would become due and payable in full under the DIP Credit Agreement or (iii) the date of termination of the relevant commitments pursuant to the terms of the DIP Credit Agreement. As of December 31, 2009, the outstanding amount on the revolving loan was \$460,000 and the outstanding amount on the term loan was \$3,589,000.

Effective May 11, 2010, NutraCea, NutraPhoenix, LLC and Wells Fargo entered into the First Amendment To Senior Secured Super-Priority Debtor-In-Possession Credit and Security Agreement (the "First Amendment") which made certain modifications to the DIP Credit Agreement. Under the First Amendment, the maturity date of the revolving loan and letter of credit facility was extended to the earlier of (i) December 31, 2010, (ii) the date Company terminates the line of credit, or (iii) the date Wells Fargo terminates the line of credit following an Event of Default. The maturity date for the term loan was extended to November 5, 2010 under the terms of the First Amendment.

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The First Amendment also outlined the use of proceeds generated from the sale of the collateral assets. Using the proceeds from the Kerry transaction and the sale of the Phoenix manufacturing facility, the outstanding amounts on the revolver loan and the term loan were \$0 as of September 30, 2010. As of December 31, 2010 the DIP credit facility was paid in full and terminated.

Customer List Purchase Obligations

In December 2008, the Company entered into a purchase agreement to acquire a customer list (“Customer List Purchase Agreement”) from Farmers Rice Co-op based in California, for \$3,100,000. The company paid \$1,000,000 at the time of purchase and the remaining principal amount of \$2,100,000 accrued interest at a rate of 8% per annum and was due in twelve quarterly payments of \$175,000 beginning March 1, 2009. The imputed interest on the remaining balance was 8%.

On May 14, 2009 the Company amended the Customer List Purchase Agreement due to NutraCea’s failure to comply with the payment terms of the original agreement. The Customer List Purchase Agreement was amended to allow NutraCea to continue to take orders from the customers on the list. The payment schedule was amended to require the Company to pay \$90,000 by June 1, 2009 and to have all cash receipts from customers on the list be deposited into a bank account controlled by the seller of the list. Any profits (amount in excess of the cost of goods sold) generated from the cash receipts will be applied towards the outstanding principal amount. The quarterly minimum amount required under this amendment is \$90,000 beginning June 1, 2009. The Company is required to fund any shortfall to the minimum quarterly amount. The principal balance due as of June 30, 2009 and December 31, 2008 was \$1,664,000 and \$1,861,000, respectively.

Irgovel

Irgovel has notes payable for Brazilian federal and social security taxes under a special Brazilian government tax program, equipment purchases, and working capital. These notes are payable over periods through November 2024 and bear interest at rates from 6.0% to 21.4%.

Equipment financing – Irgovel has financed certain equipment that bears interest rates that range from 14.4% to 16.6% and is payable over a period of 36 months.

Working capital loans – Irgovel has working capital lines of credit secured by its accounts receivables. The interest rates range from 16.6% to 26.4%.

Special tax program - The amounts due under the special tax program are part of an amnesty program relative to unpaid taxes that existed prior to the Company’s acquisition of Irgovel in 2008. Principal and interest payments are due monthly through 2024 and bear an interest rate of 9.7%.

The following table summarizes the Company’s required minimum payments of notes payable and long-term debt as of June 30, 2009:

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|            |             |
|------------|-------------|
| 2009       | \$4,268,000 |
| 2010       | 1,036,000   |
| 2011       | 757,000     |
| 2012       | 771,000     |
| 2013       | 797,000     |
| Thereafter | 2,320,000   |
| Total      | \$9,949,000 |

## Note 14. Deferred Rent Incentive

In April 2007, the Company began leasing the office space at its old corporate headquarters in Phoenix, Arizona. As part of the lease arrangement, the landlord provided certain moving and rental incentives to the Company. The rental incentives provided funds which the Company used for leasehold improvements of the corporate office space. The Company classified these incentives as deferred rent incentives in its Condensed Consolidated Financial Statements and was amortizing such incentives over the life of the rental lease. Amortization expense was recorded as an offset against rent expense in the statement of operations. In December 2009, the Company rejected the lease agreement for its old corporate headquarters as part of the Chapter 11 Reorganization. As a result, all of the associated deferred rent incentive liability was released into earnings against the loss on disposal of leasehold improvements.

## Note 15. Other Non-Current Liabilities

The Company, in the second quarter of 2007 closed on a sale of its Dr. Vetz PetFlex brand product with respect to which the applicable criteria for revenue recognition were not met. The \$1.0 million deposit received by the Company in that transaction was provided to the purchaser through a loan from a person who at the time was a consultant to and a former officer of NutraCea. The deposit is recorded as other non-current liability in the Condensed Consolidated Financial Statements. This liability will be extinguished upon the resolution of certain legal matters.

## Note 16. Litigation

## Irgovel Stockholders Lawsuit

On August 28, 2008, former Irgovel stockholder David Resyng filed an indemnification suit against Irgovel, Osmar Brito and the remaining Irgovel stockholders (“Sellers”), requesting: (i) the freezing of the escrow account maintained in connection with the transfer of Irgovel’s corporate control to the Company and the presentation of all documentation related to the transaction, and (ii) damages in the amount of the difference between (a) the sum received by David Resyng in connection with the judicial settlement agreement executed in the action for the partial dissolution of the limited liability company filed by David Resyng against Irgovel and the Sellers and (b) the amount received by the Sellers in connection with the sale of Irgovel’s corporate control to the Company, in addition to moral damages as determined in the court’s discretion. The amount of damage claimed by Mr. Resyng is approximately \$3 million.

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The Company believes that the filing of the above lawsuit is a fundamental default of the obligations undertaken by the Sellers under the Quotas Purchase Agreement for the transfer of Irgovel's corporate control, executed by and among the Sellers and the Company on January 31, 2008 ("Purchase Agreement"). Consequently, the Company believes that the responsibility for any indemnity, costs and expenses incurred or that may come to be incurred by Irgovel and/or the Company in connection with the above lawsuit is the sole responsibility of the Sellers.

On February 6, 2009, the Sellers filed a collection lawsuit against the Company seeking payment of the second installment of the purchase price under the Purchase Agreement, which the Sellers allege is approximately \$936,000. The Company has withheld payment of the second installment pending resolution of the Resyng lawsuit noted above. The Company has not been served with any formal notices in regard to this matter so far. To date, only Irgovel has received formal legal notice. In addition, the Purchase Agreement requires that all disputes between the Company and the Sellers be adjudicated through arbitration. As part of the Purchase Agreement \$2,023,000 was deposited into an escrow account to cover contingencies with the net remaining funds payable to the Sellers upon resolution of all contingencies. The Company believes any payout due to the lawsuit will be made out of the escrow account. As of December 31, 2010 and 2009 the balance in the escrow account was \$1,917,000 and \$1,915,000, respectively. The Company believes that there is no additional material exposure as any amounts determined to be owed as a result of the above noted litigation and contingencies will be covered by the escrow account.

### Shareholder Class Action

On February 27, 2009 and on April 27, 2009 securities class action lawsuits were filed in the District Court for the District of Arizona against the Company and certain of its current and former officers and directors. On May 29, 2009 the cases were consolidated into a single action (the "Federal Action") and lead plaintiff was appointed. On July 1, 2009, lead plaintiff filed a consolidated class action complaint on behalf of all persons who purchased NutraCea common stock between April 2, 2007 and February 23, 2009. The complaint alleged that the Company filed material misstatements in publically disseminated press releases and SEC filings misstating the Company's financial condition and certain transactions during the period in question. An amended consolidated complaint was filed on September 25, 2009.

The case has been settled in its entirety with the settlement to be funded by the Company's directors and officers' insurance carrier. On October 1, 2010, the District Court of Arizona issued an Order approving the Settlement, certifying the class and entering Judgment dismissing the matter. On October 27, 2010, the Bankruptcy Court for the District of Arizona also entered an Order approving the settlement.

### Shareholder Derivative Action

In addition to the shareholder class actions, on March 30, 2009 and May 8, 2009, two shareholder derivative lawsuits were filed in Maricopa County Superior Court by persons identifying themselves as shareholders of the Company and purporting to act on its behalf, naming the Company as a nominal defendant and naming its former Chief Executive Officer and its then current Board of Directors as defendants.



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In these actions, the plaintiffs asserted claims against the individual defendants for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment based on the alleged wrongful conduct complained of in the Federal Action described above. All of these claims were purportedly asserted derivatively on the Company's behalf and the plaintiffs sought no monetary recovery against the Company. Instead they sought, among other relief, disgorgement of all profits, benefits, and compensation received by the individual defendants together with their attorneys' fees and costs.

By an order entered on June 3, 2009, the superior court consolidated these two cases into one action captioned In re: NutraCea Derivative Litigation, Case No. CV2009-051495. Following the filing of the Chapter 11 Reorganization, the defendants filed a motion to dismiss the action for lack of standing. On February 10, 2010, in response to that motion, plaintiffs filed a voluntary dismissal without prejudice of both actions and the Court entered the dismissals.

SEC Enforcement Investigation

The Company received a letter from the SEC in January 2009 indicating that it had opened an informal inquiry, and the Company subsequently received an informal request for the production of documents in February 2009 relating to a number of 2007 transactions. In March 2009, the Company received a Formal Order of Private Investigation from the SEC. In June 2009, the Company received a subpoena for the production of documents that largely tracked the SEC's earlier requests. The Company responded to these requests for documents and based on findings related to the internal review and the SEC's requests, the Company restated its financial statements for 2006, 2007 and the first three quarters of 2008.

On January 13, 2011, the SEC filed a complaint in the United States District Court for the District of Arizona alleging that the Company violated Section 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a), Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, and 240.13a-13 (the "SEC Action"). The Company has settled these allegations with the SEC, without admitting or denying them, and has consented to the entry of a Final Judgment of Permanent Injunction (the "Consent Judgment"), which, among other things, permanently restrains and enjoins NutraCea from violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, and 240.13a-13. The final Consent Judgment was entered in the SEC Action on February 14, 2011. No financial penalty was assessed by the SEC against the Company.

W.D. Manor Mechanical Contractors, Inc. and Related Matters

On April 30, 2009, W.D. Manor Mechanical Contractors, Inc. ("W.D.") filed a complaint against NutraPhoenix, LLC, the Company and other unrelated defendants in Superior Court of Arizona, Maricopa County (CV2009-013957) arising out of the construction of a facility in Phoenix, Arizona that was owned by NutraPhoenix, LLC and at which the Company was the tenant. Various other sub-contractors joined in the lawsuit and asserted lien claims. These claims have been accrued and expensed in our Consolidated Financial Statements as of December 31, 2009. With the sale of the Phoenix facility in September 2010, all claims held by W. D. Manor and the other subcontractors who joined in the lawsuit, totaling \$699,000, were paid in full from the proceeds of the sale and the lawsuit was dismissed.

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Halpern

On January 21, 2009, Halpern Capital Inc, filed a complaint against NutraCea in the Circuit Court of the Eleventh Judicial Circuit in Miami-Dade County, Florida (Case No: 09-04688CA06) arising out of a financial advisory and investment banking relationship. The two parties reached a confidential settlement agreement that included cash payment and warrants. The total value of the settlement was accrued in our Consolidated Financial Statements as of December 31, 2008 and the lawsuit was dismissed.

Farmers' Rice Milling

Farmers' Rice Milling ("FRM") contended that the Company defaulted by failing to pay rentals due under two leases between the parties: (i) the March 15, 2007 ground lease, as amended on November 1, 2008 and (ii) the April 15, 2007 Warehouse lease (collectively the "Leases"). FRM filed suit against the Company to terminate the Leases and recover damages thereunder. This suit was filed in the 14th Judicial District Court on June 24, 2009 and was timely removed to the United States District Court, Western District of Louisiana, Lake Charles division. The Company filed an Answer and Counterclaim and deposited into the registry of the court the sum of \$60,425 constituting the rental due under both the Leases, a late fee due under the Warehouse lease plus accrued interest. Following the filing of the Chapter 11 Reorganization both leases were assumed under Section 365 of the Bankruptcy Code, the arrearages were paid and the lawsuit was dismissed. FRM also asserted a claim for monetary damages for breach of a supply agreement, but that claim was dismissed from the lawsuit and allowed as a general unsecured claim in the Chapter 11 Reorganization.

In addition to the litigation matters discussed above, from time to time the Company is involved in litigation incidental to the conduct of the Company's business. While the outcome of lawsuits and other proceedings against the Company cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on the Company's financial position or results of operations.

Note 17. Segment Information

The Company has two reportable segments; NutraCea, which manufactures and distributes ingredients primarily derived from SRB, and Irgovel, our rice-bran oil manufacturing subsidiary in Brazil. The table below presents segment information for the periods identified and provides a reconciliation of segment information to total consolidated information.

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|  | Three Months Ended June 30, 2008 |               |              |               |
|--|----------------------------------|---------------|--------------|---------------|
|  | Corporate<br>(1)                 | NutraCea      | Irgovel      | Consolidated  |
| Net revenue                              | \$-                              | \$4,637,000   | \$6,379,000  | \$11,016,000  |
| Cost of goods sold                       | -                                | 3,638,000     | 4,108,000    | 7,746,000     |
| Gross profit                             | -                                | 999,000       | 2,271,000    | 3,270,000     |
| Depreciation and amortization            | 257,000                          | 606,000       | -            | 863,000       |
| Other operating expenses                 | 4,300,000                        | 2,049,000     | 828,000      | 7,177,000     |
| Gain (loss) from operations              | (4,557,000)                      | (1,656,000)   | 1,443,000    | (4,770,000)   |
| Interest expense                         | 68,000                           | -             | (263,000)    | (195,000)     |
| Other Income/(Expense)                   | (338,000)                        | -             | (164,000)    | (502,000)     |
| Net income (loss) before taxes           | (4,827,000)                      | (1,656,000)   | 1,016,000    | (5,467,000)   |
| Income tax expense                       |                                  | (18,000)      | (263,000)    | (281,000)     |
| Minority interests                       |                                  | 70,000        |              | 70,000        |
| Net (loss) income to common shareholders | \$(4,827,000)                    | \$(1,604,000) | \$753,000    | \$(5,678,000) |
| Long lived assets                        | \$2,673,000                      | \$52,636,000  | \$20,653,000 | \$75,962,000  |
| Additional capital expenditures          | \$1,553,000                      | \$23,506,000  | \$314,000    | \$25,373,000  |

|  | Six Months Ended June 30, 2008 |               |              |                |
|--|--------------------------------|---------------|--------------|----------------|
|  | Corporate<br>(1)               | NutraCea      | Irgovel      | Consolidated   |
| Net Revenue                              | \$-                            | \$8,234,000   | \$8,616,000  | \$16,850,000   |
| Cost of Goods Sold                       | -                              | 7,300,000     | 5,707,000    | 13,007,000     |
| Gross Profit                             | -                              | 934,000       | 2,909,000    | 3,843,000      |
| Depreciation & Amortization              | 487,000                        | 465,000       | -            | 952,000        |
| Other operating expenses                 | 9,335,000                      | 4,122,000     | 1,351,000    | 14,808,000     |
| Gain/(Loss) from Operations              | (9,822,000)                    | (3,653,000)   | 1,558,000    | (11,917,000)   |
| Interest Expense                         | 237,000                        | -             | (382,000)    | (145,000)      |
| Other Income/(Expense)                   | 264,000                        | -             | (159,000)    | 105,000        |
| Net Income/(Loss) before taxes           | (9,321,000)                    | (3,653,000)   | 1,017,000    | (11,957,000)   |
| Income tax expense                       | -                              | (36,000)      | (282,000)    | (318,000)      |
| Non-controlling interest                 | -                              | 70,000        | -            | 70,000         |
| Net (loss) income to common shareholders | \$(9,321,000)                  | \$(3,619,000) | \$735,000    | \$(12,205,000) |
| Long lived assets                        | \$2,673,000                    | \$52,636,000  | \$20,653,000 | \$75,962,000   |
| Additional capital expenditures          | \$1,553,000                    | \$23,506,000  | \$314,000    | \$25,373,000   |

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|  | Three Months Ended June 30, 2008 |               |              |               |
|--|----------------------------------|---------------|--------------|---------------|
|  | Corporate<br>(1)                 | NutraCea      | Irgovel      | Consolidated  |
| Net revenue                              | \$-                              | \$4,637,000   | \$6,379,000  | \$11,016,000  |
| Cost of goods sold                       | -                                | 3,638,000     | 4,108,000    | 7,746,000     |
| Gross profit                             | -                                | 999,000       | 2,271,000    | 3,270,000     |
| Depreciation and amortization            | 257,000                          | 606,000       | -            | 863,000       |
| Other operating expenses                 | 4,300,000                        | 2,049,000     | 828,000      | 7,177,000     |
| Gain/(Loss) from operations              | (4,557,000)                      | (1,656,000)   | 1,443,000    | (4,770,000)   |
| Interest expense                         | 68,000                           | -             | (263,000)    | (195,000)     |
| Other Expense                            | (338,000)                        | -             | (164,000)    | (502,000)     |
| Net income/(loss) before taxes           | (4,827,000)                      | (1,656,000)   | 1,016,000    | (5,467,000)   |
| Income tax expense                       |                                  | (18,000)      | (263,000)    | (281,000)     |
| Non-controlling interest                 |                                  | 70,000        |              | 70,000        |
| Net (loss) income to common shareholders | \$(4,827,000)                    | \$(1,604,000) | \$753,000    | \$(5,678,000) |
| Long lived assets                        | \$2,673,000                      | \$52,636,000  | \$20,653,000 | \$75,962,000  |
| Capital expenditures                     | \$1,553,000                      | \$23,506,000  | \$314,000    | \$25,373,000  |

|  | Six Months Ended June 30, 2008 |               |              |                |
|--|--------------------------------|---------------|--------------|----------------|
|  | Corporate<br>(1)               | NutraCea      | Irgovel      | Consolidated   |
| Net revenue                              | \$-                            | \$8,234,000   | \$8,616,000  | \$16,850,000   |
| Cost of goods sold                       | -                              | 7,300,000     | 5,707,000    | 13,007,000     |
| Gross profit                             | -                              | 934,000       | 2,909,000    | 3,843,000      |
| Depreciation and amortization            | 487,000                        | 465,000       | -            | 952,000        |
| Other operating expenses                 | 9,335,000                      | 4,122,000     | 1,351,000    | 14,808,000     |
| Gain/(Loss) from operations              | (9,822,000)                    | (3,653,000)   | 1,558,000    | (11,917,000)   |
| Interest expense                         | 237,000                        | -             | (382,000)    | (145,000)      |
| Other income/(expense)                   | 264,000                        | -             | (159,000)    | 105,000        |
| Net Income/(Loss) before taxes           | (9,321,000)                    | (3,653,000)   | 1,017,000    | (11,957,000)   |
| Income tax expense                       | -                              | (36,000)      | (282,000)    | (318,000)      |
| Non-controlling interest                 | -                              | 70,000        | -            | 70,000         |
| Net (loss) income to common shareholders | \$(9,321,000)                  | \$(3,619,000) | \$735,000    | \$(12,205,000) |
| Long Lived Assets                        | \$2,673,000                    | \$52,636,000  | \$20,653,000 | \$75,962,000   |
| Capital Expenditures                     | \$1,553,000                    | \$23,506,000  | \$314,000    | \$25,373,000   |

(1) Includes corporate general and administrative expenses, litigation settlements, amortization of intangible assets, and other expenses not directly attributable to segments.

The following table presents net revenues and property, plant and equipment by geographic area:



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|                                    | Three Months Ended June<br>30, |              |
|------------------------------------|--------------------------------|--------------|
|                                    | 2009                           | 2008         |
| Net revenue from customers:        |                                |              |
| United States                      | \$3,222,000                    | \$4,369,000  |
| Brazil                             | 5,280,000                      | 5,282,000    |
| Other International                | 1,080,000                      | 1,365,000    |
|                                    | \$9,582,000                    | \$11,016,000 |
| Property, plant and equipment, net |                                |              |
| United States                      | \$41,201,000                   | \$40,349,000 |
| Brazil                             | 12,710,000                     | 7,814,000    |
|                                    | \$53,911,000                   | \$48,163,000 |
|                                    |                                |              |
|                                    | Six Months Ended June 30,      |              |
|                                    | 2009                           | 2008         |
| Net revenue from customers:        |                                |              |
| United States                      | \$6,494,000                    | \$7,647,000  |
| Brazil                             | 8,500,000                      | 7,519,000    |
| Other International                | 1,800,000                      | 1,684,000    |
|                                    | \$16,794,000                   | \$16,850,000 |
| Property, plant and equipment, net |                                |              |
| United States                      | \$41,201,000                   | \$40,349,000 |
| Brazil                             | 12,710,000                     | 7,814,000    |
|                                    | \$53,911,000                   | \$48,163,000 |

## Note 18. Warrants

## Anti-dilutive warrants

The Company has certain outstanding warrants that contain anti-dilutive clauses in their agreements. Under these clauses, based on future issuances of the Company's common stock, awards of options to employees, additional issuance of warrants, or other convertible instruments below a certain exercise price, the Company may be required to lower the exercise price on these existing warrants and issue additional warrants.

Effective January 1, 2009, the Company adopted the provisions of FASB ASC 815, "Derivatives and Hedging" (FASB ASC 815) (previously EITF 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock").

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As a result of adopting this guidance, warrants to purchase 28,723,000 of our common stock previously treated as equity were no longer afforded equity treatment. The Company determined that the anti-dilution provision built into these outstanding warrants should be considered for derivative accounting. The new guidance requires freestanding contracts that are settled in a company's own stock to be designated as an equity instrument, asset or liability. Under the provisions of the new guidance, a contract designated as an asset or liability must be initially recorded and carried at fair value until the contract meets the requirements for classification as equity, until the contract is exercised or until the contract expires. The Company determined that, because of the anti-dilution provision associated with the outstanding warrants, they no longer met the criteria for equity accounting through the revised criteria. The new guidance provides for transition implementation which requires the cumulative effect of the change in accounting principle be recognized as an adjustment to retained earnings and other impacted balance sheet items as of January 1, 2009. The cumulative-effect adjustment is the difference between the amounts recognized prior to adoption and amounts recognized at adoption assuming this guidance had been applied from the issuance date of the warrants.

Accordingly, at January 1, 2009, the Company determined that the warrants should be accounted for as derivative liabilities. The warrants were valued using the Lattice model. The impact of adoption was an increase in accumulated deficit of \$3,913,000 and an increase in warrant liabilities of \$3,913,000.

Warrant liability was \$1,695,000 as of June 30, 2009 resulting in warrant liability income of \$2,218,000 or earnings per share impact of \$0.01 included in other income for the year ended June 30, 2009.

Series D Warrants

The Company issued 4,545,000 Series D warrants under an effective registration statement in October 2008. The warrants were silent as to any penalties should the Company be unable to maintain the effectiveness of the registration and accordingly, the warrants should have been recorded as a liability as of their issuance date and December 31, 2008. The Company had not previously accounted for these warrants as separate instruments. The Company recorded the fair value of its 4,545,000 Series D warrants totaling \$1,156,000 as warrant liability and the corresponding expense as of January 1, 2009. In May 2009 the Series D Warrants were exchanged for the same number of Series E Warrants. The fair value related to the Series E Warrants was \$647,000 as of June 30, 2009. The Series D Warrants and Series E Warrants were valued using the Lattice Model. The net warrant liability expense associated with the Series D Warrants and the Series E warrants is \$647,000 for the period ended June 30, 2009, namely the \$1,156,000 of initial expense recorded on January 1, 2009 offset by income of \$509,000 representing the change in the warrant liability value from January 1, 2009 to June 30, 2009. The Company's management determined that recording the \$1,156,000 warrant expense in the first quarter of 2009 instead of recording that expense in the fourth quarter of 2008 does not materially misstate the financial statements of any periods affected.

Exchange of Series D Warrants for Series E Warrants in May 2009, resulted in a triggering event that required issuance of additional anti-dilutive warrants. The Company issued 2,566,000 of additional warrants at a weighted average exercise price of \$1.82 to the existing holders.

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The following table is a summary of activity for warrants subject to liability treatment:

|   | Outstanding<br>Warrants | Weighted<br>Average<br>Exercise<br>Price |
|---|-------------------------|--|
| January 1, 2009   |                         |  |
| Series D warrants   | 4,545,000               | \$ 0.55                                  |
| Adoption of ASC 815-40-15 anti-dilutive warrants                                      | 28,723,000              | \$ 1.77                                  |
| Exchange of Warrants:   |                         |  |
| Series D warrants Cancelled   | (4,545,000 )            | \$ 0.55                                  |
| Series E warrants issued  | 4,545,000               | \$ 0.30                                  |
| Additional warrants issued in connection with anti-dilutive warrant triggering events | 2,566,000               | \$ 1.82                                  |
| Total anti dilutive and Series E warrants outstanding at June 30, 2009                | 35,834,000              | \$ 1.46                                  |

The Lattice Model requires management to assess the probability of future issuance of equity instruments at a price lower than the current exercise price of the warrants. As of January 1, 2009, management estimated two future equity instruments issuances and assessed probability between 10%-50%. As of June 30, 2009, management estimated one future equity instrument issuance and assessed a probability of 10%. Additional assumptions that were used to calculate fair value are as follows.

|                         | January 1, 2009 | June 30, 2009 |
|-------------------------|-----------------|---------------|
| Risk-free interest rate | 0.66% - 1.50%   | 0.70% - 2.47% |
| Expected volatility     | 93%             | 113%          |
| Expected life (years)   | 1.75 - 4.80     | 1.26 - 4.85   |
| Annual dividend yield   | \$0             | \$0           |

## Other Warrants

The Company has issued to investors certain warrants that do not contain anti-dilutive features and hence, qualify as equity warrants. The Company valued these warrants using the Black-Scholes-Merton model upon issuance. As of June 30, 2009, there were 1,546,000 of other warrants outstanding and exercisable with a weighted average exercise price of \$1.86 and expected life of 1.17 years.



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## Note 19. Restatement

The Company restated its Consolidated Financial Statements for the years ended December 31, 2006 and 2007 and quarterly information for the first three quarterly periods of fiscal 2008 to correct errors of the type identified in the course of an Audit Committee-led accounting review and other accounting errors identified by the Company in the course of the restatement process and more fully described in the Company's Annual Report on form 10-K for the year ended December 31, 2008.

The following describes the transactions that resulted in the restatements. The Company's Condensed Consolidated Financial Statements as of June 30, 2008 have been restated to reflect the corrections.

- The Company recognized revenue in the second quarter of 2007 on a \$2.6 million sale of its Dr. Vetz PetFlex brand product with respect to which the applicable criteria for revenue recognition were not met. Based upon the facts discovered during the Audit Committee investigation, the Company has now concluded that a \$1.0 million deposit received by the Company in that transaction was provided to the purchaser through a loan from a person who at the time was a consultant to and a former officer of NutraCea, and that the evidence originally relied upon to determine and support the purchaser's ability to pay the remaining \$1.6 million receivable balance was subsequently determined to be inaccurate. The Company reversed this sale which resulted in a reduction of revenue of \$2.6 million, a reduction of cost of goods sold of \$0.6 million, and a reduction of net income of \$2.0 million. The deposit is recorded as a other non-current liability in the Condensed Consolidated Financial Statements as of June 30, 2009 and 2008. This liability will be extinguished upon the resolution of certain legal matters.
- The Company determined that a \$2.0 million sale of its RiceNShine product in December 2007 did not meet accounting requirements for revenue recognition in a bill and hold transaction. Accordingly, the transaction should not have been recognized as revenue in the Company's 2007 results. The Company reversed this sale which resulted in a reduction of revenue of \$2.0 million, a reduction of cost of goods sold of \$1.3 million, and a reduction of net income of \$0.7 million. The revenues, costs of goods sold, and net income from this sale were ultimately recognized in the four quarters of 2008 and the first quarter of 2009 as follows (in millions):

|               | Q1-2008 | Q2-2008 | Q3-2008 | Q4-2008 | Q1-2009 |
|---------------|---------|---------|---------|---------|---------|
| Revenues      | \$0.7   | \$0.7   | \$0.4   | \$0.1   | \$0.1   |
| Cost of Goods | 0.5     | 0.5     | 0.3     | 0.0     | 0.0     |
| Net Income    | \$0.2   | \$0.2   | \$0.1   | \$0.1   | \$0.1   |

- The Company recorded revenue of \$1.6 million in the fourth quarter of 2006 from a sale of Dr. Vetz Pet Flex product to an infomercial customer. The Company recorded an \$800,000 reserve for this receivable in the second quarter of 2007. In the third quarter of 2007 the customer returned the product and the Company recorded a sales return of \$1.6 million and reversed the reserve it had recorded in the second quarter of 2007. The Company has now determined that it will reverse this sale in 2006 instead of in 2007 because (i) the Company does not have adequate evidence to conclude that the receivable relating to this sale was collectable in the quarter it was recognized and (ii) the Company did not have sufficient experience in the infomercial market to adequately understand the distribution channel, the fluctuating nature of sales into this channel or to estimate the potential for product return. The effect of the reversal will be to (1) reduce total revenue by \$1.6 million in 2006, (2) reduce cost of sales by \$268,000 in 2006, (3) reduce net income by \$1.4 million in 2006 and (4) increase net income by \$1.4 million in 2007.

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• In June 2007 the Company granted to Pacific Holdings Advisors Limited (“PAHL”) a perpetual and exclusive license and distribution rights (“License”) for the production and sale of SRB and SRB derivative products in certain countries in Southeast Asia. PAHL agreed to pay the Company a \$5 million one-time license fee (“License Fee”), which was due and payable on the fifth anniversary of the commencement of SRB production at a facility established by PAHL or a joint venture of PAHL and the Company. The Company recorded this \$5 million License Fee in the second quarter of 2007. Contemporaneous with the grant of the License, the Company and PAHL jointly formed Grain Enhancements, LLC (“GE”). Pursuant to GE’s limited liability company agreement, PAHL sublicensed its rights under the License to GE.

Upon further analysis of these transactions, the Company has concluded that the License Fee did not qualify as revenue to the Company under generally accepted accounting principles. Through our review of the transactions, including the License and other agreements that the Company entered into in connection with the formation of GE, we determined that the transactions should have been considered as one arrangement with multiple deliverables instead of stand-alone transactions. The various obligations under this one arrangement would have precluded immediate revenue recognition of the License Fee. Accordingly, this transaction was reversed, which decreased the Company’s license fee revenue in 2007 by \$5 million and increased the Company’s net loss in 2007 by \$5 million.

In March 2008, Medan, LLC (“Medan”), a wholly-owned subsidiary of the Company, purchased (“First Purchase”) from Fortune Finance Overseas LTD (“FFOL”) for \$8.175 million 9,700 outstanding shares of capital stock of PT Panganmas Int Nusantara (“PIN”), an Indonesian company. In June 2008, Medan purchased directly from PIN 3,050 additional shares of PIN capital stock for \$2.5 million. Following these purchases, Medan and FFOL own 51% and 49%, respectively of PIN’s outstanding capital stock. The capital contributions that the Company made to Medan funded the purchase of the PIN shares.

The determination of the purchase price of the PIN shares was agreed to by management based upon an economic feasibility study of the PIN project that the Company obtained from a third party valuation firm. Based upon this study, the Company recorded the value of the PIN shares on its balance sheet at \$10.675 million, which was the price the Company paid for the PIN shares. Upon further review, the Company has determined that there was not sufficient evidence at the time of their acquisition to support the \$10.675 million valuation of the PIN shares. Accordingly, the Company has decided to restate its consolidated balance sheet to reduce the value of the PIN shares by \$5 million to \$5.675 million as outlined below.

In March 2008, PAHL paid to the Company \$5 million for its License Fee described above. A principal shareholder of FFOL is also a principal shareholder of PAHL, and the Company’s receipt of payment for the License Fee was made at the same time the Company decided to make the First Purchase of the PIN shares. Based in part upon the related ownership of FFOL and PAHL, the timing of the payments, the sub-license of PAHL’s rights under the License to GE and the Company’s current determination of the value of the PIN shares, the Company now believes the First Purchase of the PIN shares and the payment of the License Fee should be viewed as a combined event with related parties, causing the Company to account for the First Purchase of the PIN shares as a payment of \$3.175 million instead of \$8.175 million.

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In accounting for the PIN and GE transactions described above, the Company used the equity method. The planned business of PIN was the construction and operation of a wheat flour mill in Indonesia including the production of stabilized wheat co-products. Constructing and operating wheat flour mills does not fit the strategic direction we have defined for NutraCea. On July 23, 2009, we sold to FFOL the Company's entire balance of 12,750 shares of capital stock of PIN, which shares represented 51% of the currently issued and outstanding capital stock of PIN. FFOL agreed to pay \$1,675,000 to Medan to purchase these shares thus purchasing all of our interest in PIN. The sale of our shares of capital stock of PIN resulted in a \$3,996,000 impairment charge representing the difference between the carrying value of our investment and the cash to be received from FFOL. This impairment change was recorded as of December 31, 2008.

- In April 2007, the Company began leasing the office space that it currently occupies as its corporate headquarters in Phoenix, Arizona. As part of the lease arrangement, the landlord provided certain moving and rental incentives to the Company. The rental incentives provided funds which the Company used for leasehold improvements of the office space. The Company did not properly account for the incentives provided by the landlord. The Company accounted properly for these transactions as part of its restatement of the Consolidated Financial Statements for fiscal 2007, the second, third, and fourth quarters of fiscal 2007, and the first three quarters of fiscal 2008. The restatement increased rent expense by \$139,000 for the second quarter of 2007 and decreased rent expense by \$42,000 for the third and fourth quarters of 2007 and for each of the first three quarters of 2008.
- In the second quarter of 2007, the Company recognized revenue on an approximately \$2.1 million sale to a nutraceutical distributor. The customer made payments during the third and fourth quarters of 2007, and a balance of approximately \$1.4 million remained at the end of 2007. The Company established a reserve for doubtful accounts for the remaining amount as of December 31, 2007. Based upon facts discovered in the Additional Findings, the Company concluded that the sale did not meet the criteria for revenue recognition, and therefore restated the transaction. The restatement resulted in a reduction to the 2007 revenue of approximately \$1.4 million and a reduction to the 2007 bad debt expense of approximately \$1.4 million.

The following presents the restated Condensed Consolidated Financial Statements as of and for the period ended June 30, 2008:

IndexCondensed Consolidated Balance Sheet  
(Unaudited)

|   | As of June 30, 2008       |                |                |
|---|---------------------------|----------------|----------------|
|   | As Previously<br>Reported | Adjustments    | As Restated    |
| <b>ASSETS</b>   |                           |                |                |
| Current assets:   |                           |                |                |
| Cash and cash equivalents   | \$ 16,067,000             | \$ 12,000      | \$ 16,079,000  |
| Restricted cash   | 906,000                   | -              | 906,000        |
| Trade accounts receivables, net of allowance for<br>doubtful accounts of \$3,177,000                    | 4,270,000                 | (26,000 )      | 4,244,000      |
| Inventories   | 4,947,000                 | 347,000        | 5,294,000      |
| Notes receivable, current portion, net of allowance for<br>doubtful notes receivable of \$543,000       | 858,000                   | -              | 858,000        |
| Deposits and other current assets   | 2,828,000                 | 769,000        | 3,597,000      |
| Assets held for sale  | -                         | -              | -              |
| Total current assets  | 29,876,000                | 1,102,000      | 30,978,000     |
| Restricted cash   | 3,248,000                 | -              | 3,248,000      |
| Property, plant and equipment, net  | 43,317,000                | 538,000        | 43,855,000     |
| Equity method investment  | 11,786,000                | (5,014,000)    | 6,772,000      |
| Intangible assets, net  | 5,349,000                 | -              | 5,349,000      |
| Goodwill  | 52,668,000                | 322,000        | 52,990,000     |
| Other non-current assets  | 132,000                   | -              | 132,000        |
| Total assets  | \$ 146,376,000            | \$ (3,052,000) | \$ 143,324,000 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                           |                |                |
| Current liabilities:  |                           |                |                |
| Accounts payable and accrued expenses   | \$ 14,863,000             | \$ 694,000     | \$ 15,557,000  |
| Deferred rent incentive - current portion   | -                         | 168,000        | 168,000        |
| Notes payable, current portion  | 23,000                    | 147,000        | 170,000        |
| Deferred revenue  | 12,000                    | 519,000        | 531,000        |
| Total current liabilities   | 14,898,000                | 1,528,000      | 16,426,000     |
| Long-term liabilities:  |                           |                |                |
| Deferred rent incentive - net of current portion  | -                         | 1,176,000      | 1,176,000      |
| Notes payable, net of current portion   | 64,000                    | (47,000 )      | 17,000         |
| Other non-current liabilities   | 7,350,000                 | 999,000        | 8,349,000      |
| Total liabilities   | 22,312,000                | 3,656,000      | 25,968,000     |
| Commitments and contingencies   |                           |                |                |
| Minority interests  | -                         | -              | -              |
| Shareholder's equity:   |                           |                |                |
| Common stock, no par value, 350,000,000 shares<br>authorized, 167,994,000 shares issued and outstanding | 198,623,000               | -              | 198,623,000    |

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|  |                |                |                |
|--|----------------|----------------|----------------|
| Accumulated deficit                        | (74,061,000 )  | (6,708,000)    | (80,769,000 )  |
| Investment from Parent                     |                |                | -              |
| Accumulated other comprehensive income     | (498,000 )     | -              | (498,000 )     |
| Total shareholders' equity                 | 124,064,000    | (6,708,000)    | 117,356,000    |
| Total liabilities and shareholders' equity | \$ 146,376,000 | \$ (3,052,000) | \$ 143,324,000 |

IndexCondensed Consolidated Statement of Operations  
(Unaudited)

|  | Three Months Ended June 30, 2008 |                   |                        |
|--|----------------------------------|-------------------|------------------------|
|  | As Previously<br>Reported        | Adjustments       | As Restated            |
| <b>Revenues</b>  |                                  |                   |                        |
| Net product revenue  | \$ 10,314,000                    | \$ 702,000        | \$ 11,016,000          |
| <b>Total revenue</b>   | <b>10,314,000</b>                | <b>702,000</b>    | <b>11,016,000</b>      |
| Cost of goods sold   | 7,277,000                        | 469,000           | 7,746,000              |
| <b>Gross profit</b>  | <b>3,037,000</b>                 | <b>233,000</b>    | <b>3,270,000</b>       |
| <b>Operating expenses</b>                                    |                                  |                   |                        |
| Selling, general and administrative                          | 5,871,000                        | (102,000 )        | 5,769,000              |
| Research and development                                     | 738,000                          | -                 | 738,000                |
| Bad debt expense   | -                                | 110,000           | 110,000                |
| Professional fees  | 1,125,000                        | (33,000 )         | 1,092,000              |
| Loss, net of gains, on retirement of assets                  | 331,000                          | -                 | 331,000                |
| <b>Total operating expenses</b>                              | <b>8,065,000</b>                 | <b>(25,000 )</b>  | <b>8,040,000</b>       |
| <b>Loss from operations</b>                                  | <b>(5,028,000 )</b>              | <b>258,000</b>    | <b>(4,770,000 )</b>    |
| <b>Other income (expense)</b>                                |                                  |                   |                        |
| Interest income  | 161,000                          | -                 | 161,000                |
| Interest expense   | (365,000 )                       | 170,000           | (195,000 )             |
| Loss on equity method investments                            | (63,000 )                        | (14,000 )         | (77,000 )              |
| Other income (expense)                                       | (586,000 )                       | -                 | (586,000 )             |
| <b>Total loss before income taxes and minority interests</b> | <b>(5,881,000 )</b>              | <b>414,000</b>    | <b>(5,467,000 )</b>    |
| Income tax expense   | (282,000 )                       | 1,000             | (281,000 )             |
| Minority interests   | 70,000                           | -                 | 70,000                 |
| <b>Net loss available to common shareholders</b>             | <b>\$ (6,093,000 )</b>           | <b>\$ 415,000</b> | <b>\$ (5,678,000 )</b> |
| <b>Net loss per share</b>                                    |                                  |                   |                        |
| Basic  | \$ (0.04 )                       | \$ 0.00           | \$ (0.04 )             |
| Diluted  | \$ (0.04 )                       | \$ 0.00           | \$ (0.04 )             |
| <b>Weighted average number of shares outstanding</b>         |                                  |                   |                        |
| Basic  | 151,867,000                      | 151,867,000       | 151,867,000            |
| Diluted  | 151,867,000                      | 151,867,000       | 151,867,000            |

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Condensed Consolidated Statement of Operations  
(Unaudited)

|  | Six Months Ended June 30, 2008 |                   |                         |
|--|--------------------------------|-------------------|-------------------------|
|  | As Previously<br>Reported      | Adjustments       | As Restated             |
| <b>Revenues</b>  |                                |                   |                         |
| Net product revenue  | \$ 15,425,000                  | \$ 1,425,000      | \$ 16,850,000           |
| <b>Total revenue</b>   | <b>15,425,000</b>              | <b>1,425,000</b>  | <b>16,850,000</b>       |
| Cost of goods sold   | 12,071,000                     | 936,000           | 13,007,000              |
| <b>Gross profit</b>  | <b>3,354,000</b>               | <b>489,000</b>    | <b>3,843,000</b>        |
| <b>Operating expenses</b>                                    |                                |                   |                         |
| Selling, general and administrative                          | 11,049,000                     | 204,000           | 11,253,000              |
| Research and development                                     | 1,002,000                      | -                 | 1,002,000               |
| Bad debt expense   | -                              | 413,000           | 413,000                 |
| Professional fees  | 3,083,000                      | (322,000 )        | 2,761,000               |
| Loss, net of gains, on retirement of assets                  | 331,000                        | -                 | 331,000                 |
| <b>Total operating expenses</b>                              | <b>15,465,000</b>              | <b>295,000</b>    | <b>15,760,000</b>       |
| <b>Loss from operations</b>                                  | <b>(12,111,000 )</b>           | <b>194,000</b>    | <b>(11,917,000 )</b>    |
| <b>Other income (expense)</b>                                |                                |                   |                         |
| Interest income  | 421,000                        | 119,000           | 540,000                 |
| Interest expense   | (485,000 )                     | 340,000           | (145,000 )              |
| Loss on equity method investments                            | (80,000 )                      | (14,000 )         | (94,000 )               |
| Other income (expense)                                       | (341,000 )                     | -                 | (341,000 )              |
| <b>Total loss before income taxes and minority interests</b> | <b>(12,596,000 )</b>           | <b>639,000</b>    | <b>(11,957,000 )</b>    |
| Income tax expense   | (319,000 )                     | 1,000             | (318,000 )              |
| Minority interests   | 70,000                         | -                 | 70,000                  |
| <b>Net loss available to common shareholders</b>             | <b>\$ (12,845,000 )</b>        | <b>\$ 640,000</b> | <b>\$ (12,205,000 )</b> |
| <b>Net loss per share</b>                                    |                                |                   |                         |
| Basic  | \$ (0.09 )                     | \$ 0.00           | \$ (0.08 )              |
| Diluted  | \$ (0.09 )                     | \$ 0.00           | \$ (0.08 )              |
| <b>Weighted average number of shares outstanding</b>         |                                |                   |                         |
| Basic  | 145,545,000                    | 145,545,000       | 145,545,000             |
| Diluted  | 145,545,000                    | 145,545,000       | 145,545,000             |

IndexCondensed Consolidated Statements of Cash Flows  
(Unaudited)

|  | Six Months Ended June 30, 2008 |              |                |
|--|--------------------------------|--------------|----------------|
|  | Previously<br>Reported         | Adjustments  | As Restated    |
| Cash flow from operating activities:                                     |                                |              |                |
| Net loss   | \$(12,845,000)                 | \$ 640,000   | \$(12,205,000) |
| Adjustments to reconcile net loss to net cash from operating activities: |                                |              |                |
| Depreciation and amortization  | 1,738,000                      | 46,000       | 1,784,000      |
| Provision for doubtful accounts and notes                                | 407,000                        | 6,000        | 413,000        |
| Stock-based compensation   | 1,454,000                      | -            | 1,454,000      |
| Loss on equity method investments  | 80,000                         | 14,000       | 94,000         |
| Loss on sale of assets   | 331,000                        | -            | 331,000        |
| Changes in operating assets and liabilities:                             |                                |              |                |
| Trade accounts receivable  | (765,000 )                     | (66,000 )    | (831,000 )     |
| Inventories  | (2,489,000 )                   | (256,000 )   | (2,745,000 )   |
| Other current assets   | 241,000                        | (110,000 )   | 131,000        |
| Accounts payable and accrued expenses                                    | 5,544,000                      | 1,503,000    | 7,047,000      |
| Deferred rent incentive  | -                              | (42,000 )    | (42,000 )      |
| Deferred revenue   | (78,000 )                      | (1,401,000 ) | (1,479,000 )   |
| Net cash used in operating activities                                    | (6,382,000 )                   | 334,000      | (6,048,000 )   |
| Cash flows from investing activities:                                    |                                |              |                |
| Issuance of notes receivable   | (182,000 )                     | -            | (182,000 )     |
| Proceeds of payments from notes receivable                               | 6,978,000                      | (5,000,000 ) | 1,978,000      |
| Purchases of property and equipment                                      | (17,698,000)                   | -            | (17,698,000)   |
| Investment in Irgovel, net of cash acquired                              | (14,970,000)                   | -            | (14,970,000)   |
| Investment in PIN  | (10,675,000)                   | 5,000,000    | (5,675,000 )   |
| Restricted cash  | (1,606,000 )                   | -            | (1,606,000 )   |
| Purchases of other assets, intangibles and goodwill                      | (33,000 )                      | (322,000 )   | (355,000 )     |
| Net cash used in investing activities                                    | (38,186,000)                   | (322,000 )   | (38,508,000)   |
| Cash flows from financing activities:                                    |                                |              |                |
| Proceeds from equity financing, net of expenses                          | 18,775,000                     | -            | 18,775,000     |
| Principal proceeds on notes payable, net of discount                     | (13,000 )                      | 100,000      | 87,000         |
| Registration costs   | (104,000 )                     | -            | (104,000 )     |
| Proceeds from exercise of common stock options and warrants              | 685,000                        | -            | 685,000        |
| Net cash provided by financing activities                                | 19,343,000                     | 100,000      | 19,443,000     |
| Effect of exchange rate changes on cash and cash equivalents             | (6,000 )                       | -            | (6,000 )       |
| Net decrease in cash   | (25,231,000)                   | 112,000      | (25,119,000)   |



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|                                      |            |         |            |
|--------------------------------------|------------|---------|------------|
| Cash, beginning of period (Restated) | 41,198,000 | -       | 41,198,000 |
| Cash, end of period                  | 15,967,000 | 112,000 | 16,079,000 |

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Note 19. Subsequent Events

Sale of Assets

On March 9, 2010, NutraCea completed the Asset Purchase Agreement (the "Purchase Agreement") with Kerry Inc. ("Kerry") whereby Kerry purchased certain assets and assumed certain sales orders of NutraCea related to NutraCea's existing cereal products. Kerry paid an aggregate purchase price equal to \$3,900,000 plus \$272,000 for NutraCea's inventory related to the cereal business. NutraCea paid a finder's fee equal to \$200,000 in connection with the transaction.

Furthermore, NutraCea agreed that it will not process or sell certain cereal products for a period of five (5) years from the closing of the Purchase Agreement. The sale of the Business allows NutraCea to concentrate on its core businesses of stabilized rice bran, rice bran oil and derivative products.

In addition, on March 9, 2010, NutraCea and Kerry entered into a Toll Processing Agreement which provides that until the earlier of (1) the date Kerry begins production of cereal products using the assets purchased under the Purchase Agreement or (2) October, 31, 2010, NutraCea will produce for Kerry cereal products at NutraCea's Dillon, Montana plant. The tolling arrangement has continued on an order by order basis since October 31, 2010.

On March 16, 2010 NutraCea entered into an asset purchase agreement with Manna Pro Products, LLC ("Manna Pro") whereby Manna Pro agreed to purchase from NutraCea (i) the Natural Glo, Satin Finish and Max-E-Glow trademarks and related goodwill and intellectual property for \$650,000 and (ii) certain bags, packaging materials and bagged inventory (collectively, "Purchased Assets"). On April 16, 2010, the asset sale closed and NutraCea was paid \$753,000 as consideration for the Purchased Assets. As a condition to the sale of the Purchased Assets, NutraCea and Manna Pro entered into a Supply Agreement pursuant to which NutraCea will supply Manna Pro with stabilized rice bran as required by Manna Pro to operate the product lines associated with the Purchased Assets. All products sold by Manna Pro under the trademarks being purchased will be co-branded with a NutraCea SRB logo. NutraCea recorded in the third and fourth quarter of 2009 approximately \$1.5 million and \$0.1 million respectively, in non-cash charges of impairment related to the Purchased Assets.

On September 15, 2010, NutraPhoenix, LLC, a wholly owned subsidiary of NutraCea, sold its real property with all improvements thereon located at 4502 W. Monterosa Street in Phoenix, Arizona for \$4,500,000. NutraCea used the proceeds from the sale to (1) pay in full all amounts owed under the Senior Secured Super-Priority Debtor-In Possession Credit and Security Agreement with Wells Fargo Bank, N.A. totaling approximately \$1.8 million, (2) pay in full the amounts owed for all mechanic's liens secured by the property, closing costs and property taxes totaling approximately \$1.4 million, and (3) provide funding for NutraCea's exit from bankruptcy and reduce unsecured creditor obligations collectively totaling approximately \$1.3 million. The Company recorded in the third quarter of 2009 approximately \$6.5 million in non-cash charges for impairment relating to the property.

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Employment related

On July 2, 2010, NutraCea entered into an amendment to an employment agreement with Mr. John Short, amending his employment agreement dated July 6, 2009, as previously amended on July 7, 2009 and November 6, 2009 to automatically extend the term of his employment.

The amendment increases Mr. Short's base salary on NutraCea's plan of re-organization effective date of November 30, 2010 ("Plan Effective Date") to \$375,000 from \$350,000. In addition, NutraCea agreed to pay Mr. Short, within ten days of the Plan Effective Date, (i) an initial bonus of \$100,000 (as previously provided for in the initial employment agreement but not paid, and (ii) a bonus in an amount up to \$300,000 subject, among other things, to certain restrictions imposed by the Amended Plan.

On July 7, 2010, NutraCea granted Mr. Short an option to purchase 5,000,000 shares of the Company's common stock at an exercise price of \$0.20 per share. On July 7, 2010, 1,000,000 of the options vested, and 1,000,000 options also vested on the Plan Effective Date. The remaining 3,000,000 options vest over a 48 month period commencing on the Plan Effective Date.

On February 25, 2010, Leo G. Gingras was appointed President of NutraCea. Mr. Gingras, has served as NutraCea's Chief Operating Officer since April 11, 2007 and will continue to serve in such capacity.

On July 2, 2010, NutraCea entered into an amendment to employment agreement with Mr. Gingras, amending Mr. Gingras' employment agreement dated July 28, 2009 to automatically extend the term of his employment.

The amendment increases Mr. Gingras' base salary on the Plan Effective Date to \$300,000 from \$275,000. In addition, NutraCea agreed to pay Mr. Gingras, within ten days of the Plan Effective Date, (i) an initial bonus of \$100,000 (as previously provided for in the initial employment agreement but unpaid), and (ii) a bonus in an amount up to \$300,000 subject, among other things, to certain restrictions imposed by the Amended Plan.

On July 7, 2010, NutraCea granted Mr. Gingras an option to purchase, 4,500,000 shares of common stock at an exercise price of \$0.20 per share. On July 7, 2010, 900,000 of the options vested, and 900,000 options also vested on the Plan Effective Date. The remaining 2,700,000 options vest over a 48 month period commencing on the Plan Effective Date.

On June 7, 2010, Jerry Dale Belt was appointed Chief Financial Officer, Chief Accounting Officer and Executive Vice President of NutraCea effective as June 15, 2010. Mr. Belt has been a financial advisor for NutraCea since November 2009. Pursuant to the employment agreement, NutraCea agreed to pay Mr. Belt an annual salary of \$230,000 which increased to \$255,000 on January 1, 2011. Mr. Belt may be eligible to earn an annual bonus each year up to 50% of his annual salary and a discretionary bonus each year as determined by NutraCea's Board of Directors or Compensation Committee.

Mr. Belt was granted employee stock options to purchase 2,500,000 shares of common stock at a price of \$0.20 per option. Such options shall vest as follows: (i) 500,000 options vested on June 15, 2010, (ii) 500,000 options vested upon the Plan Effective Date, and (iii) 31,250 options shall vest over a 48 months period commencing with the Plan Effective Date.

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## Other

In November 2009, the U.S. Bankruptcy Court for the District of Arizona approved a motion filed by the Company to reject its then current headquarter lease and to enter into a new less expensive headquarters lease. The Company relocated its headquarters in December 2009. As a result in December 2009, the Company recorded a \$4,039,000 loss on disposal of the leasehold improvements and furniture and fixtures associated with the old corporate office. The loss on disposal was partially off-set by i) a \$1,064,000 tenant improvement and moving allowance deferred credit related to the prior lease and ii) \$179,000 of net proceeds from an auction of the furniture and fixtures. Since the old corporate lease was rejected under the bankruptcy procedures, the resulting charge has been included within the Reorganization Items in the statements of operation. In addition, approximately \$220,000 of non-cash charge was recorded related to furniture and fixture relocated to the new corporate office.

On March 2, 2010, NutraCea received a “Wells Notice” from the Securities and Exchange Commission (the “SEC”) in connection with a previously disclosed ongoing investigation by the staff of the SEC’s Division of Enforcement (the “Staff”). The Wells Notice informed the Company that the Staff has made a preliminary determination to recommend that the SEC bring a civil injunctive action against NutraCea for possible violations of Section 17(a) of the Securities Act of 1933 and Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, and Rules 10b-5, 12b-20, 13a-1 and 13a-13 there under. In connection with the contemplated civil injunctive action, the Staff may seek a permanent injunction and civil penalty against NutraCea. NutraCea has been cooperating with the SEC with respect to the investigation.

On January 13, 2011, the SEC filed a complaint in the United States District Court for the District of Arizona alleging that the Company violated Section 17(a) of the Securities Act of 1933, 15 U.S.C. § 77q(a), Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act of 1934, 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, and 240.13a-13 (the “SEC Action”). The Company has settled these allegations with the SEC, without admitting or denying them, and has consented to the entry of the Final Judgment of Permanent Injunction, which, among other things, permanently restrains and enjoins NutraCea from violations of Section 17(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. § 77q(a), Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, and 240.13a-13. The Consent was filed in the SEC Action on January 14, 2011. No financial penalty was assessed by the SEC against the Company.

Effective April 9, 2010 John J. Quinn was appointed to the Board of Directors of NutraCea and Chairman of NutraCea’s Audit Committee. Pursuant to the compensation package for all of NutraCea’s independent directors, Mr. Quinn will receive an annual retainer of \$40,000 and up to \$2,000 per meeting attended for acting as director. In addition, Mr. Quinn will receive an annual retainer of \$10,000 for serving as Chairman of the Audit Committee. NutraCea issues annually to each independent director an option to purchase 250,000 shares of common stock at a price per share equal to the market price of our common stock on the date of grant. Each option vests monthly over 12 months.

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Effective as of July 7, 2010, the board of directors of NutraCea repriced all outstanding compensatory options to purchase Common Stock held by employees, including executive officers, with exercise prices in excess of \$0.20 per share (the "Options"). As a result, the exercise price of all Options was lowered to \$0.20 per share. No other terms of the Options were changed.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis addresses material changes in the results of operations and financial condition of NutraCea and subsidiaries (the "Company," "NutraCea" or "we") for the periods presented. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the related Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Results of Operations and Financial Condition included in the Company's Annual Report on Form 10-K, for the year ended December 31, 2008, the unaudited interim Condensed Consolidated Financial Statements and related Notes included in Part I — Item 1 of this Quarterly Report on Form 10-Q ("Form 10-Q") and the Company's other Securities and Exchange Commission ("SEC") filings and public disclosures.

This Form 10-Q may contain "forward-looking statements." These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include, without limitation, statements about the Company's market opportunities, strategies, competition and expected activities and expenditures, and at times may be identified by the use of words such as "may", "will", "could", "should", "would", "project", "believe", "anticipate", "expect", "plan", "estimate", "forecast", "potential", "intend", "continue" and various other words or comparable words. Forward-looking statements inherently involve risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to; the risks described below under "Risk Factors" in Part II, Item 1A. The Company undertakes no obligation to update any forward-looking statements for revisions or changes after the filing date of this Form 10-Q.

NutraCea ("we", "us", "our", or the "Company"), a California corporation, is a food ingredient and health company focused on the acquisition, processing and refinement of rice bran and derivative products. The Company has proprietary intellectual property that allows us to process and convert rice bran, one of the world's most underutilized food resources, into a highly nutritious ingredient, stabilized rice bran ("SRB") that has applications in various food products. Our target markets are food manufacturers, nutraceuticals and animal nutrition. It is also used as a stand-alone product that can be sold through non-related entities with distribution into the market place, both domestically and internationally. These products include food supplements and medical foods, or "Nutraceuticals," which provide health benefits for humans and animals based on SRB and SRB derivatives. The Company believes that SRB products can deliver beneficial physiological effects. The Company is continuing to pursue ongoing clinical trials and third party analyses in order to further support the uses for and effectiveness of our products.

In February 2008, the Company acquired 100% ownership of Industria Riograndens De Oleos Vegetais Ltda. ("Irgovel"), a limited liability company organized under the laws of the Federative Republic of Brazil, which operates a rice-bran oil manufacturing facility in Pelotas, Brazil (see Note 11 to the Consolidated Financial Statements included herein). Concurrent with that acquisition the Company began reporting in two business segments; the NutraCea segment which manufactures and distributes ingredients primarily derived from SRB and the Irgovel segment which manufactures rice-bran oil and fatted and defatted SRB products in Pelotas, Brazil (see 17 to the Consolidated Financial Statements included herein).

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Our NutraCea segment is primarily engaged in the manufacturing of SRB at four locations in California and Louisiana (a fifth location in Texas was closed in May 2009) for various consumptive uses. In addition, the Company have the capability to custom manufacture various grain based products for human food ingredient companies at our facility in Dillon, Montana. Our Phoenix, Arizona facility, which became operational in February 2009, was not brought into full production and was sold in 2010. The Company have specialized processing equipment and techniques for the treatment of rice grain products to cook, convert, isolate, dry and package finished food ingredients used in the formulation of health food and consumer food finished products. NutraCea RiSolubles, a highly nutritious, carbohydrate and lipid rich fraction, is produced at our Dillon, Montana facility along with RiFiber, a fiber rich derivative and RiBalance, a complete rice bran nutritional package. NutraCea believes that these manufacturing capabilities are unique among grain processors, with custom processing capabilities suited to numerous food applications. In May 2008, NutraCea was granted USDA/FSIS approval to use SRB as an enhancer into meat products such as meat and poultry sausages that contain binders, nugget-shaped patties, meatballs, meatloaf, and meat and poultry patties. Sales of human food products were approximately 54.2% of total sales in the NutraCea segment in 2009, while the balance of 45.8% of sales made were of animal food products. Our Dillon, Montana manufacturing assets which consist of equipment and building are available for sale as of December 31, 2009.

Our Irgovel segment manufactures rice-bran oil (“RBO”) and fatted and defatted rice bran (“DRB”) products for both the human and animal food markets in Brazil and internationally. Irgovel owns the largest rice bran processing facility in South America and is the only Brazilian company to produce oil from rice for human consumption. The extraction of oil from rice bran produces crude RBO and with further refining results in human edible RBO. After extraction, the resulting DRB can be sold into either the human or animal nutrition food channels. Sales of human food products were approximately 23.9% of total sales in 2009, industrial oils were approximately 39.5% of sales, and the remaining 36.6% of sales was of animal food products. On December 29, 2010 Nutra SA LLC, NutraCea’s wholly owned subsidiary sold approximately 35.6% of its ownership of Irgovel to AF Bran Holdings-NL LLC and AF Bran Holding LLC (see Note 19 to the Condensed Consolidated Financial Statements).

The Company believes deteriorating economic conditions and heightened turmoil in the financial markets have adversely impacted discretionary consumer spending, including spending on health products. The extent to which these conditions will persist and the overall impact they will have on future consumer spending is unclear. The following is a discussion of the consolidated financial condition of our results of operations for the three months ended June 30, 2009 and 2008.

Results of Operations

THREE MONTHS ENDED JUNE 30, 2009 AND 2008

For the three months ended June 30, 2009, the Company’s net loss was (\$5,591,000), or (\$.03) per share, compared to (\$5,678,000) or (\$.04) per share, in the same period of 2008, a slightly reduced loss of \$87,000. The change is attributable to a \$1,303,000 reduction in operating expense offset by reduced revenues of \$1,434,000.

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Our consolidated net revenues for the three months ended June 30, 2009 of \$9,582,000 decreased \$1,434,000 from the \$11,016,000 recorded in the same period last year. Revenues generated by the NutraCea segment declined overall by \$455,000 (9.8%) and the Irgovel segment decreased \$979,000 (15.3%). The NutraCea segment revenue for the 2009 quarter was negatively impacted by the loss of a private label customer, a loss of \$333,000, and reduced revenues of \$825,000 associated with the deconsolidation of VLI. Revenue from the Irgovel segment was negatively impacted by an overall decline to more normal pricing levels in 2009. Worldwide food prices in 2008 were experiencing a significant run up and were impacting prices throughout the food industry.

Gross profit in the three months ended June 30, 2009 was \$1,977,000 (21%) compared to \$3,270,000 (30%) in 2008, a decrease of \$1,293,000. The NutraCea segment contributed \$972,000 (23%) to gross profit and the Irgovel segment contributed \$1,005,000 (19%). The Nutracea segment experienced a slight improvement in gross profit, 23% compared to 22%, due to the inefficiencies associated with bringing the Lake Charles production facility online in May 2008. Additionally in 2008, historically high raw bran prices resulted in higher 2008 costs as compared to 2009. As noted above, the Irgovel segment experienced a significant decline in prices during 2009. Combined with a shift to lower margin products and higher raw bran costs, these factors resulted in gross profit decreasing by \$1,266,000 (55.7%). The following table illustrates the contribution by each of our segments during the three months ended:

|                       | Consolidated |     | June 30, 2009 |     |             |     | June 30, 2008 |     |             |     |             |
|-----------------------|--------------|-----|---------------|-----|-------------|-----|---------------|-----|-------------|-----|-------------|
|                       |              |     | NutraCea      | %   | Irgovel     | %   | Consolidated  | %   | NutraCea    | %   | Irgovel     |
| Net product sales     | \$9,572,000  |     | \$4,172,000   |     | \$5,400,000 |     | \$11,016,000  |     | \$4,637,000 |     | \$6,379,000 |
| Royalty and licensing | 10,000       |     | 10,000        |     | -           |     | -             |     | -           |     | -           |
| Total revenues        | 9,582,000    | 100 | 4,182,000     | 100 | 5,400,000   | 100 | 11,016,000    | 100 | 4,637,000   | 100 | 6,379,000   |
| Cost of sales         | 7,605,000    | 79  | 3,210,000     | 77  | 4,395,000   | 81  | 7,746,000     | 70  | 3,638,000   | 78  | 4,108,000   |
| Gross profit          | \$1,977,000  | 21  | \$972,000     | 23  | \$1,005,000 | 19  | \$3,270,000   | 30  | \$999,000   | 22  | \$2,271,000 |

Sales, General and Administrative (“SG&A”) expenses were \$5,409,000 and \$5,769,000 in the three months ended June 30, 2009 and 2008, respectively, a decrease of \$360,000 (6.2%). The changes in components making up SG&A expense are detailed in the following schedule:

|                                  | Three Months Ended June 30, 2009 | Three Months Ended June 30, 2008 | Increase (Decrease) |
|----------------------------------|----------------------------------|----------------------------------|---------------------|
| Payroll and Benefits             | \$1,982,000                      | \$1,862,000                      | \$120,000           |
| Sales & Marketing                | 162,000                          | 223,000                          | (61,000)            |
| Operations                       | 217,000                          | 258,000                          | (41,000)            |
| Depreciation and Amortization    | 997,000                          | 366,000                          | 631,000             |
| Stock Option and Warrant Expense | 62,000                           | 770,000                          | (708,000)           |
| Other SG&A                       | 1,003,000                        | 939,000                          | 64,000              |
| Total NutraCea Segment SG&A      | 4,423,000                        | 4,418,000                        | 5,000               |

|                         |             |             |              |
|-------------------------|-------------|-------------|--------------|
| Irgovel SG&A            | 986,000     | 1,351,000   | (365,000 )   |
| Total Consolidated SG&A | \$5,409,000 | \$5,769,000 | \$(360,000 ) |



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The decline in SG&A is primarily due to decreased expenses in the Irgovel segment, a direct result of efforts to streamline management and rationalize overhead in the periods after June 30, 2008. The NutraCea segment had significantly lower Stock Option and Warrant Expense. However, it was offset by higher depreciation associated with the Phoenix facility (placed in service February 2009) and the Lake Charles facility (begin production in May 2008). In addition, higher payroll associated with the severance and vacation payouts relative to a work force reduction that occurred in May of 2009.

Research and Development (“R&D”) expenses were \$155,000 and \$738,000 for the three months ended June 30, 2009 and 2008, respectively, a decrease of \$583,000. R&D activities were significantly curtailed in 2009 due to cash constraints and a reduction in scientific staff.

In the three months ended June 30, 2009 our bad debt expense was \$0 compared to \$110,000 in the three months ended June 30, 2008. A significant portion of bad debt expense in 2008 was related to VLI and customers the Company no longer does business with and product lines we no longer sale.

Professional fees were \$819,000 and \$1,092,000 for the three months ended June 30, 2009 and 2008, respectively, a decrease of \$273,000. Professional fees are expenses associated with consultants, accounting and auditing services, SOX 404 compliance, and outside legal counsel. In 2008, higher consulting fees related to the acquisition of Irgovel were incurred. In addition, consultants relating to 2008 SOX compliance work were hired in the prior quarter.

Other income and expense, net, increased by \$153,000 for the three months ended June 30, 2009 compared to 2008. The increase is due primarily to adoption of SFAS No. 161 (“ASC 815”) in January 2009. The result of adopting ASC 815 resulted in warrants to purchase 35,834,361 shares of our common stock (previously treated as equity pursuant to the derivative treatment exemption) not being afforded equity treatment. Effective January 1, 2009, the Company reclassified the fair value of these common stock warrants from equity to liability status. This created an initial liability of \$3,913,000 upon adoption. During the second quarter of 2009, total warrant liability increased by \$123,000 due to a combination of new warrants being issued, a conversion of Series D warrants to Series E warrants and a decline in the value of existing warrants. Interest expense increased by \$667,000 due to the Wells Fargo Bank loan. No similar bank loan existed in the comparable 2008 quarter for the NutraCea segment. The decrease of \$444,000 in other income is due primarily to reversal of a \$221,000 accrued late fee in 2008. The changes to individual components of other income and expense are as follows:

|  | For Three Months |                |            |               |              |              |
|--|------------------|----------------|------------|---------------|--------------|--------------|
|  | June 30, 2009    |                |            | June 30, 2008 |              |              |
|  | Consolidated     | NutraCea       | Irgovel    | Consolidated  | NutraCea     | Irgovel      |
| Interest income                          | \$ 158,000       | \$ 4,000       | \$ 154,000 | \$ 161,000    | \$ 81,000    | \$ 80,000    |
| Interest expense                         | (862,000 )       | (639,000 )     | (223,000 ) | (195,000 )    | 68,000       | (263,000 )   |
| Equity income/loss in equity investments | (48,000 )        | (48,000 )      | -          | (77,000 )     | (77,000 )    |              |
| Gain/(loss) on foreign exchange          | 167,000          | (57,000 )      | 224,000    |               |              |              |
| Warranty liability income/(expense)      | (123,000 )       | (123,000 )     | -          |               |              |              |
| Other income (expense)                   | (142,000 )       | (144,000 )     | 2,000      | (586,000 )    | (414,000 )   | (172,000 )   |
| Total other (expenses) income            | \$(850,000 )     | \$(1,007,000 ) | \$157,000  | \$(697,000 )  | \$(342,000 ) | \$(355,000 ) |

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## SIX MONTHS ENDED JUNE 30, 2009 AND 2008

For the six months ended June 30, 2009, the Company's net loss was (\$10,584,000), or (\$.06) per share, compared to (\$12,205,000) or (\$.08) per share, in the same period of 2008, a reduced loss of \$1,621,000. The decreased loss for the quarter is a combination of gains from reduced operating expenses partially offset by lower gross profit.

Our consolidated net revenues for the six months ended June 30, 2009 of \$16,794,000 decreased \$56,000 from the \$16,850,000 recorded in the same period last year. NutraCea segment revenues decreased slightly by \$256,000 (3%) and were partially offset by the Irgovel segment increase of \$200,000 (2%). NutraCea segment revenues in 2009 were impacted by the loss of a private label customer resulting in lost revenue of \$355,000 and the lost revenue of \$1,739,000 associated with the deconsolidation of VTL in the fourth quarter of 2008. These decreases were off set by the overall increase in remaining business. Irgovel segment revenues were relatively flat in comparison, a small 2% increase. However, the 2008 period only comprises the period beginning with the February 19, 2008 acquisition date.

Gross profit for the six months ended June 30, 2009 was \$2,933,000 (17%) compared to \$3,843,000 (23%) a decrease of \$910,000 compared to the same period last year. The NutraCea segment contributed \$1,844,000 (23%) to gross profit and the Irgovel segment contributed \$1,089,000 (12%). The NutraCea segment experienced significant improvement in margin percentage in 2009 when compared to 2008 due to the high cost of sales incurred in 2008 attributed to historically high raw bran prices and the phasing out of high margin products. Additionally during the three months ended March 31, 2008 the Company recorded a charge to cost of good of \$515,000 on our NutraCea segment relating to a credit to a customer to reimburse them for products purchased by them during 2007 ultimately determined by the customer to not meet their specifications Irgovel segment margins were negatively impacted by declining price levels, an unfavorable shift in sales mix, higher raw bran costs and significantly increased plant maintenance costs. The following table illustrates the contribution by each of our segments during the six months ended:

|  | For Six Months |             |              |               |            |              |
|--|----------------|-------------|--------------|---------------|------------|--------------|
|  | June 30, 2009  |             |              | June 30, 2008 |            |              |
|  | Consolidated   | NutraCea    | Irgovel      | Consolidated  | NutraCea   | Irgovel      |
| Interest income                          | \$257,000      | \$8,000     | \$249,000    | \$540,000     | \$457,000  | \$83,000     |
| Interest expense                         | (1,408,000)    | (1,082,000) | (326,000 )   | (145,000 )    | 235,000    | (380,000 )   |
| Equity income/loss in equity investments | (52,000 )      | (52,000 )   | -            | (94,000 )     | (94,000 )  | -            |
| Gain/(loss) on foreign exchange          | (153,000 )     | (72,000 )   | (81,000 )    | -             | -          | -            |
| Warranty liability income/(expense)      | 1,571,000      | 1,571,000   | -            | -             | -          | -            |
| Other income (expense)                   | (6,000 )       | (12,000 )   | 6,000        | (341,000 )    | (171,000 ) | (170,000 )   |
| Total other (expenses) income            | \$209,000      | \$361,000   | \$(152,000 ) | \$(40,000 )   | \$427,000  | \$(467,000 ) |

Sales, General and Administrative ("SG&A") expenses were \$11,092,000 and \$11,253,000 in the six months ended June 30, 2009 and 2008, respectively, a small decrease of \$161,000 (1.4%). The changes to components making up SG&A expense are detailed in the following schedule:

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|                                  | Six Months<br>Ended<br>June 30,<br>2009 | Six Months<br>Ended<br>June 30,<br>2008 | Increase<br>(Decrease) |
|----------------------------------|---|---|------------------------|
| Payroll and Benefits             | \$4,106,000                             | \$3,402,000                             | \$704,000              |
| Sales & Marketing<br>Operations  | 390,000                                 | 473,000                                 | (83,000 )              |
| Depreciation and Amortization    | 451,000                                 | 519,000                                 | (68,000 )              |
| Stock Option and Warrant Expense | 1,908,000                               | 755,000                                 | 1,153,000              |
| Other SG&A                       | 192,000                                 | 1,820,000                               | (1,628,000)            |
| Total NutraCea Segment SG&A      | 2,340,000                               | 2,413,000                               | (73,000 )              |
| Irgovel SG&A                     | 9,387,000                               | 9,382,000                               | 5,000                  |
| Total Consolidated SG&A          | 1,705,000                               | 1,871,000                               | (166,000 )             |
|                                  | \$11,092,000                            | \$11,253,000                            | \$(161,000 )           |

The decline in SG&A is primarily due to decreased expenses in the Irgovel segment, a direct result of efforts to streamline management and rationalize overhead in the periods after June 30, 2008. The NutraCea segment had significantly lower Stock Option and Warrant Expense. However, it was offset by higher depreciation associated with the Phoenix facility (placed in service in February 2009) and the Lake Charles facility (began production May 2008). In addition, higher payroll and benefit costs. NutraCea segment payroll was significantly higher due to additional operational management hired in anticipation of increased demand, as compared to 2008, and severance and vacation payouts related to the work force reduction that occurred in May of 2009.

Research and Development (“R&D”) expenses were \$674,000 and \$1,002,000 for the six months ended June 30, 2009 and 2008, respectively, a decrease of \$328,000. R&D activities were significantly curtailed in 2009 due to cash constraints and a reduction in scientific staff.

In the six months ended June 30, 2009 our bad debt expense was \$(64,000) compared to \$413,000 in the six months ended June 30, 2008. A significant portion of bad debt expense in 2008 was related to VLI and customers the Company no longer does business with and product lines we no longer sell.

Professional fees were \$1,951,000 and \$2,761,000 for the six months ended June 30, 2009 and 2008, respectively, a decrease of \$810,000. Professional fees are expenses associated with consultants, accounting and auditing services, SOX 404 compliance, and outside legal counsel. This decrease is primarily due to fees related to a \$500,000 accrual booked in 2008 for a brokers fee related to Medan. The remaining decrease is consulting fees related to the purchase of Irgovel and SOX 404 compliance.

Other income and expense, net, increased by \$249,000 for the six months ended June 30, 2009 compared to 2008. The increase is due primarily to adoption of SFAS No. 161 (“ASC 815”) in January 2009. The result of adopting ASC 815 resulted in warrants to purchase 35,834,361 shares of our common stock (previously treated as equity pursuant to the derivative treatment exemption) not being afforded equity treatment. Effective January 1, 2009, the Company reclassified the fair value of these common stock warrants from equity to liability status. This created an initial liability of \$3,913,000 upon adoption. Combined with Series D warrant liability, the total liability at the beginning of the year was 5,069,000. As of June 30, 2009, the liability had decreased to \$2,342,000 due to a combination of new warrants being issued, a conversion of Series D warrants to Series E warrants and a decline in the value of existing warrants. The warrant liability income of \$2,727,000 was offset by \$1,156,000 of expense associated with the initial recording of Series D warrants in January 2009. Interest expense for the NutraCea segment increased by \$1,263,000 due to the Wells Fargo Bank loan that did not exist in 2008. Specific changes to other income and expense components are as follows:



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|  | For Six Months |             |              |               |            |              |
|--|----------------|-------------|--------------|---------------|------------|--------------|
|  | June 30, 2009  |             |              | June 30, 2008 |            |              |
|  | Consolidated   | NutraCea    | Irgovel      | Consolidated  | NutraCea   | Irgovel      |
| Interest income                          | \$257,000      | \$8,000     | \$249,000    | \$540,000     | \$457,000  | \$83,000     |
| Interest expense                         | (1,408,000)    | (1,082,000) | (326,000 )   | (145,000 )    | 235,000    | (380,000 )   |
| Equity income/loss in equity investments | (52,000 )      | (52,000 )   | -            | (94,000 )     | (94,000 )  | -            |
| Gain/(loss) on foreign exchange          | (153,000 )     | (72,000 )   | (81,000 )    | -             | -          | -            |
| Warranty liability income/(expense)      | 1,703,000      | 1,703,000   | -            | -             | -          | -            |
| Other income (expense)                   | (138,000 )     | (144,000 )  | 6,000        | (341,000 )    | (171,000 ) | (170,000 )   |
| Total other (expenses) income            | \$209,000      | \$361,000   | \$(152,000 ) | \$(40,000 )   | \$427,000  | \$(467,000 ) |

## LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2009 our cash and cash equivalents were \$57,000. Our cash decreased by \$4,810,000 in the six months ended June 30, 2009 from our cash position of \$4,867,000 at December 31, 2008.

The Company has \$3,513,000 of restricted cash; \$1,976,000 and \$1,537,000 classified as current and non-current assets respectively. The restricted cash amount includes a balance of approximately \$1,599,000 which is restricted by contract as security on our corporate office lease in Phoenix. The amount of restricted cash required under the office lease decreases annually over the period of five years per the terms of the lease agreement. The lease expires in 2016. The remaining amount of approximately \$1,915,000 represents restricted cash to cover disclosed liabilities under the purchase agreement terms of the acquisition of Irgovel.

Cash used in operating activities was \$3,121,000 for the period ended June 30, 2009, compared to net cash used in operations in the same period of 2008 of \$6,048,000, a decrease of \$2,927,000. Cash used in operating activities for the period ended June 30, 2009 was primarily driven by a net loss of \$10,665,000 offset by non-cash depreciation and amortization of \$3,540,000 an increase in other current assets of \$1,157,000 and a decrease in accounts payable and accrued liabilities of \$4,502,000.

Cash provided/(used) in investing activities was \$703,000 and (\$38,508,000) for the periods ended June 30, 2009 and 2008 respectively. This decrease of \$39,211,000 was primarily due to our plant expansion projects (Lake Charles and Phoenix), the acquisition of Irgovel, and our investments in subsidiaries that occurred in 2008.

Cash provided/(used) from financing activities was (\$2,405,000) and \$1,9443,000 for the periods ended June 30, 2009 and 2008, respectively. This decrease in cash provided in financing activities is due to an equity financing proceeds of \$18,775,000 in 2008 and no equity financing proceeds in 2009.

Our working capital position was (\$8,376,000) and (\$3,298,000) as of March 31, 2009 and December 31, 2008, respectively.

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OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risk, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing and liquidity support or market risk or credit risk support to the Company.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures on the date of the financial statements. On an ongoing basis, we evaluate the estimates, including, but not limited to, those related to revenue recognition. The Company use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates.

For further information about other critical accounting policies, see the discussion of critical accounting policies in our 2008 Form 10-K for the fiscal year ended December 31, 2008.

Recent accounting pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — A Replacement of FASB Statement No. 162 (as codified in the FASB Accounting Standards Codification (“ASC” or “Codification”) topic 105, Generally Accepted Accounting Principles (“ASC 105”)). ASC 105 establishes the Codification as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. ASC 105 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification has become non-authoritative. Following this update to ASC 105, the FASB will not issue new standards in the form of Statements, FASB Staff Positions (“FSP”), or Emerging Issues Task Force (“EITF”) Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the basis for conclusions on the change(s) in the Codification. The Company adopted the requirements of this standard for the quarter ended September 30, 2009. The adoption of this update to ASC 105 did not have a material impact on the Company’s Consolidated Financial Statements. All accounting references have been updated, and therefore SFAS references have been augmented with ASC references. In future filings all accounting references will refer to the Codification only.

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In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R),” codified into ASC 810. The revised guidance requires an enterprise to perform a qualitative analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity’s economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise’s involvement in a variable interest entity. This update to ASC 810 becomes effective for the Company on January 1, 2010. The adoption of the requirements under this update to ASC 810 will not have a material impact on the Condensed Consolidated Financial Statements.

On June 30, 2009, the Company adopted FASB Staff Position (FSP) No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” (“ASC 820”). The update to this ASC 820 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased and includes guidance for identifying circumstances that indicate a transaction is not orderly. This guidance is necessary to maintain the overall objective of fair value measurements, which is that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The adoption of this update to ASC 820 did not have an impact on the Condensed Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (codified into ASC 825, Financial Instruments (“ASC 825”). This update to ASC 825 requires companies to disclose in interim financial statements the fair value of financial instruments within the scope of ASC 825. However, companies are not required to provide in interim periods the disclosures about the concentration of credit risk of all financial instruments that are currently required in annual financial statements. The fair-value information disclosed in the footnotes must be presented together with the related carrying amount, making it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the balance sheet. This update to ASC 825 also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period. The Company adopted the requirements of this standard as of June 30, 2009. Other than the required disclosures, the adoption of this update to ASC 825 did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (as codified in ASC topic 320, Investments — Debt and Equity Securities (“ASC 320”). This update to ASC 320 amends SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, SFAS 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and EITF Issue 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets (all of which are codified in ASC 320), to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This standard replaces the existing requirement that the entity’s management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. The Company adopted the requirements of this standard as of June 30, 2009. The adoption of this update to ASC 320 did not have a material impact on the Company’s Condensed Consolidated Financial Statements.





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Effective January 1, 2009, the Company adopted FSP No. FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,” (“ASC 805”), which was issued on April 1, 2009. This update to ASC 805 applies to all assets acquired and liabilities assumed in a business combination that arise from certain contingencies as defined in this FSP and requires (i) an acquirer to recognize at fair value, at the acquisition date, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period otherwise the asset or liability should be recognized at the acquisition date if certain defined criteria are met; (ii) contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be recognized initially at fair value; (iii) subsequent measurements of assets and liabilities arising from contingencies be based on a systematic and rational method depending on their nature and contingent consideration arrangements be measured subsequently in accordance with the provisions of ASC 805; and (iv) disclosures of the amounts and measurement basis of such assets and liabilities and the nature of the contingencies. The adoption of the requirements under this update to ASC 805 did not have an impact on the Company’s Condensed Consolidated Financial Statements.

On January 1, 2009, the Company adopted SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB 51 (“ASC 810”). This update to ASC 810 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements (which is codified in ASC 810), to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a non-controlling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. This update to ASC 810 requires, among other items, that a non-controlling interest be included in the consolidated balance sheet within equity separate from the parent’s equity; consolidated net income to be reported at amounts inclusive of both the parent’s and non-controlling interest’s shares and, separately, the amounts of consolidated net income attributable to the parent and non-controlling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The result of the adoption of the requirements under ASC 810 is included in the Company’s Condensed Consolidated Financial Statements and did not have a material impact.

In June 2008, the FASB issued FASB Staff Position (“FSP”) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (“ASC 260”). This update to ASC 260 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company adopted the requirements of this standard as of January 1, 2009. The adoption to this update to ASC 260 did not have an impact on the Company’s Condensed Consolidated Financial Statements.

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In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) (“ASC 470”). Under the new rules for convertible debt instruments that may be settled entirely or partially in cash upon conversion, an entity should separately account for the liability and equity components of the instrument in a manner that reflects the issuer’s economic interest cost. The effect of the new rules for the convertible debt is that the equity component would be included in the paid-in-capital section of stockholders’ equity on the consolidated balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the convertible debt instruments. The Company adopted the requirements of this standard as of January 1, 2009. The adoption of this update to ASC 470 did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (“ASC 350”). This update to ASC 350 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350, Goodwill and Other Intangible Assets in order to improve the consistency between the useful life of a recognized intangible asset under ASC 142 and the period of expected cash flows used to measure the fair value of the asset under ASC 805 Business Combinations (“ASC 805”), and other GAAP. The Company adopted the requirements of this standard as of January 1, 2009. The adoption of this update to ASC 350 did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133 (“ASC 815”). This update to ASC 815 requires enhanced disclosures about an entity’s derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for and (iii) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. The Company adopted the requirements of this standard as of January 1, 2009. The adoption of this update to ASC 815 did not have an impact on the Company’s Condensed Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (“ASC 805”). This update to ASC 805 replaces SFAS No. 141, Business Combinations, and retains the fundamental requirements in SFAS No. 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. This update to ASC 805 requires an acquirer in a business combination, including business combinations achieved in stages (step acquisition), to recognize the assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values at that date, with limited exceptions. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. The Company adopted the requirements of this standard as of January 1, 2009. The adoption of this update to ASC 320 did not have an impact on the Company’s Condensed Consolidated Financial Statements as it has not yet completed a business acquisition since that date.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the Company's market risk, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report filed on Form 10-K. Our cash and cash equivalents have been maintained only with maturities of 30 days or less. Our short-term investments have interest reset periods of 30 days or less. These financial instruments may be subject to interest rate risk through lost income should interest rates increase during their limited term to maturity or resetting of interest rates. As of March 31, 2009 our NutraCea segment had notes payable of \$6,884,000 outstanding bearing interest of 8% payable over 4 years and our Irgovel segment had notes payable of \$4,394,000 outstanding bearing interest from 2.8% to 21.4% payable over 2.3 to 9.5 years (see Note 13 Notes Payable and Long-term Debt to the Condensed Consolidated Financial Statements included herein). Future borrowings, if any, would bear interest at negotiated rates and would be subject to interest rate risk. We do not believe that a hypothetical adverse change of 10% in interest rates would have a material effect on our financial position.

Item 4. Controls and Procedures

The Company's management evaluated, with the participation of its Interim Chief Executive Officer and Interim Principal Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Company's Interim Chief Executive Officer and Interim Principal Chief Financial Officer have concluded that the Company's disclosure controls and procedures are not effective as of the end of the period covered by this report because the material weaknesses identified by management in its 2008 Annual Report on Form 10-K were not remediated. As of June 30, 2009, management continued to evaluate a plan and process to remediate the material weaknesses.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Various lawsuits, claims, proceedings and investigations are pending involving us as described below in this section. In accordance with ASC No. 5, Contingencies, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In addition to the matters described herein, we are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, which in our opinion will not have a material adverse effect on our financial condition, cash flows or results of operations.

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Irgovel Stockholders Lawsuit

On August 28, 2008, former Irgovel stockholder David Resyng filed an indemnification suit against Irgovel, Osmar Brito and the remaining Irgovel stockholders (“Sellers”), requesting: (i) the freezing of the escrow account maintained in connection with the transfer of Irgovel’s corporate control to the Company and the presentation of all documentation related to the transaction, and (ii) damages in the amount of the difference between (a) the sum received by David Resyng in connection with the judicial settlement agreement executed in the action for the partial dissolution of the limited liability company filed by David Resyng against Irgovel and the Sellers and (b) the amount received by the Sellers in connection with the sale of Irgovel’s corporate control to the Company, in addition to moral damages as determined in the court’s discretion. The amount of damage claimed by Mr. Resyng is approximately \$3 million.

The Company believes that the filing of the above lawsuit is a fundamental default of the obligations undertaken by the Sellers under the Quotas Purchase Agreement for the transfer of Irgovel’s corporate control, executed by and among the Sellers and the Company on January 31, 2008 (“Purchase Agreement”). Consequently, the Company believes that the responsibility for any indemnity, costs and expenses incurred or that may come to be incurred by Irgovel and/or the Company in connection with the above lawsuit is the sole responsibility of the Sellers.

On February 6, 2009, the Sellers filed a collection lawsuit against the Company seeking payment of the second installment of the purchase price under the Purchase Agreement, which the Sellers allege is approximately \$936,000. The Company has withheld payment of the second installment pending resolution of the Resyng lawsuit noted above. The Company has not been served with any formal notices in regard to this matter so far. To date, only Irgovel has received formal legal notice. In addition, the Purchase Agreement requires that all disputes between the Company and the Sellers be adjudicated through arbitration. As part of the Purchase Agreement \$2,023,000 was deposited into an escrow account to cover contingencies with the net remaining funds payable to the Sellers upon resolution of all contingencies. The Company believes any payout due to the lawsuit will be made out of the escrow account. As of December 31, 2010 and 2009 the balance in the escrow account was \$1,917,000 and \$1,915,000, respectively. The Company believes that there is no additional material exposure as any amounts determined to be owed as a result of the above noted litigation and contingencies will be covered by the escrow account.

Shareholder Class Action

On February 27, 2009 and on April 27, 2009 securities class action lawsuits were filed in the District Court for the District of Arizona against the Company and certain of its current and former officers and directors. On May 29, 2009 the cases were consolidated into a single action (the “Federal Action”) and lead plaintiff was appointed. On July 1, 2009, lead plaintiff filed a consolidated class action complaint on behalf of all persons who purchased NutraCea common stock between April 2, 2007 and February 23, 2009. The complaint alleged that the Company filed material misstatements in publically disseminated press releases and SEC filings misstating the Company’s financial condition and certain transactions during the period in question. An amended consolidated complaint was filed on September 25, 2009.

The case has been settled in its entirety with the settlement to be funded by the Company’s directors and officers’ insurance carrier. On October 1, 2010 the District Court of Arizona issued an Order approving the Settlement, certifying the class and entering Judgment dismissing the matter. On October 27, 2010, the Bankruptcy Court for the District of Arizona also entered an Order approving the settlement.

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Shareholder Derivative Action

In addition to the shareholder class actions, on March 30, 2009 and May 8, 2009, two shareholder derivative lawsuits were filed in Maricopa County Superior Court by persons identifying themselves as shareholders of the Company and purporting to act on its behalf, naming the Company as a nominal defendant and naming its former Chief Executive Officer and its then current Board of Directors as defendants.

In these actions, the plaintiffs asserted claims against the individual defendants for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment based on the alleged wrongful conduct complained of in the Federal Action described above. All of these claims were purportedly asserted derivatively on the Company's behalf and the plaintiffs sought no monetary recovery against the Company. Instead they sought, among other relief, disgorgement of all profits, benefits, and compensation received by the individual defendants together with their attorneys' fees and costs.

By an order entered on June 3, 2009, the superior court consolidated these two cases into one action captioned In re: NutraCea Derivative Litigation, Case No. CV2009-051495. Following the filing of the Chapter 11 Reorganization, the defendants filed a motion to dismiss the action for lack of standing. On February 10, 2010, in response to that motion, plaintiffs filed a voluntary dismissal without prejudice of both actions and the Court entered the dismissals.

SEC Enforcement Investigation

The Company received a letter from the SEC in January 2009 indicating that it had opened an informal inquiry, and the Company subsequently received an informal request for the production of documents in February 2009 relating to a number of 2007 transactions. In March 2009, the Company received a Formal Order of Private Investigation from the SEC. In June 2009, the Company received a subpoena for the production of documents that largely tracked the SEC's earlier requests. The Company responded to these requests for documents and based on findings related to the internal review and the SEC's requests, the Company restated its financial statements for 2006, 2007 and the first three quarters of 2008.

On January 13, 2011, the SEC filed a complaint in the United States District Court for the District of Arizona alleging that the Company violated Section 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a), Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, and 240.13a-13 (the "SEC Action"). The Company has settled these allegations with the SEC, without admitting or denying them, and has consented to the entry of a Final Judgment of Permanent Injunction (the "Consent Judgment"), which, among other things, permanently restrains and enjoins NutraCea from violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, and 240.13a-13. The final Consent Judgment was entered in the SEC Action on February 14, 2011. No financial penalty was assessed by the SEC against the Company.

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W.D. Manor Mechanical Contractors, Inc. and Related Matters

On April 30, 2009, W.D. Manor Mechanical Contractors, Inc. (“W.D.”) filed a complaint against NutraPhoenix, LLC, the Company and other unrelated defendants in Superior Court of Arizona, Maricopa County (CV2009-013957) arising out of the construction of a facility in Phoenix, Arizona that was owned by NutraPhoenix, LLC and at which the Company was the tenant. Various other sub-contractors joined in the lawsuit and asserted lien claims. These claims have been accrued and expensed in our Consolidated Financial Statements as of December 31, 2009. With the sale of the Phoenix facility in September 2010, all claims held by W. D. Manor and the other subcontractors who joined in the lawsuit, totaling \$699,000, were paid in full from the proceeds of the sale and the lawsuit was dismissed.

Halpern

On January 21, 2009, Halpern Capital Inc, filed a complaint against NutraCea in the Circuit Court of the Eleventh Judicial Circuit in Miami-Dade County, Florida (Case No: 09-04688CA06) arising out of a financial advisory and investment banking relationship. The two parties reached a confidential settlement agreement that included cash payment and warrants. The total value of the settlement was accrued in our Consolidated Financial Statements as of December 31, 2008 and the lawsuit was dismissed.

Farmers’ Rice Milling

Farmers’ Rice Milling (“FRM”) contended that the Company defaulted by failing to pay rentals due under two leases between the parties: (i) the March 15, 2007 ground lease, as amended on November 1, 2008 and (ii) the April 15, 2007 Warehouse lease (collectively the “Leases”). FRM filed suit against the Company to terminate the Leases and recover damages thereunder. This suit was filed in the 14th Judicial District Court on June 24, 2009 and was timely removed to the United States District Court, Western District of Louisiana, Lake Charles division. The Company filed an Answer and Counterclaim and deposited into the registry of the court the sum of \$60,425 constituting the rental due under both the Leases, a late fee due under the Warehouse lease plus accrued interest. Following the filing of the Chapter 11 Reorganization both leases were assumed under Section 365 of the Bankruptcy Code, the arrearages were paid and the lawsuit was dismissed. FRM also asserted a claim for monetary damages for breach of a supply agreement, but that claim was dismissed from the lawsuit and allowed as a general unsecured claim in the Chapter 11 Reorganization.

In addition to the litigation matters discussed above, from time to time the Company is involved in litigation incidental to the conduct of the Company’s business. While the outcome of lawsuits and other proceedings against the Company cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on the Company’s financial position or results of operations.

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Item 1A. Risk Factors

Investors or potential investors in our stock should carefully consider the risks described below. Our stock price will reflect the performance of our business relative to, among other things, our competition, expectations of securities analysts or investors, and general economic market conditions and industry conditions. One should carefully consider the following factors in connection with any investment in our stock. Our business, financial condition and results of operations could be materially adversely affected if any of the following risks occur. Should any or all of the following risks materialize, the trading price of our stock could decline, and investors could lose all or part of their investment.

Risks Related to Our Emergence from Bankruptcy

Our actual financial results may vary significantly from the projections filed with the Bankruptcy Court.

In connection with the Chapter 11 Reorganization, we were required to prepare projected financial information to demonstrate the feasibility of the Amended Plan and our ability to continue operations upon emergence from bankruptcy. As part of the disclosure statement approved by the Bankruptcy Court, the projections reflected numerous assumptions concerning anticipated future performance and anticipated market and economic conditions that were and continue to be beyond our control and that may not materialize. Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. Our actual results may vary from those contemplated by the projections for a variety of reasons. The projections have not been incorporated by reference into this report and neither those projections nor any version of the disclosure statement should be considered or relied upon in connection with any investment decision concerning our common stock.

The Company's Obligations under its confirmed Plan of Reorganization

As noted above, the Company estimates that its payment obligations under the confirmed Amended Plan total more than \$7 million. It intends to pay these obligations by selling non-core assets, collecting outstanding receivables, and borrowing on a secured basis. It has granted a lien in all of its assets to secure its payment obligations to general unsecured creditors. The lien is administered and may be enforced by a Plan Agent, who may, among other things, sell specified assets if the payment benchmarks set forth in the Amended Plan are not met.

We cannot be certain that the Chapter 11 Reorganization will not adversely affect our operations going forward.

Although we emerged from bankruptcy under Chapter 11 upon the effective date of the Amended Plan, we cannot assure you that having been subject to bankruptcy protection will not adversely affect our operations going forward, including our ability to negotiate favorable terms from suppliers, partners and others and to attract and retain customers. The failure to obtain such favorable terms and attract and retain customers could adversely affect our financial performance.

If we do not meet certain payment benchmarks as described in the Amended Plan, the Plan Agent will be able to direct and control the sale of certain of our assets.

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Under the Amended Plan, if we fail to meet certain payment benchmarks to Class 6 claimants as described in the Amended Plan, the Plan Agent may direct and control the sale of (i) our Dillon, Montana facility, (ii) all of our loose equipment, (iii) the sale of equipment located in our Lake Charles, Louisiana facility, and (iv) the sale of any pledged assets. The Class 6 claimants will retain up to 100% of net proceeds from such sale in satisfaction of its claims. Since we will not be able to control the sale of the above assets if we do not meet the payment benchmarks, we cannot guarantee that the assets will be sold at a value satisfactory to us.

Our payment obligations under the Amended Plan may adversely affect our cash flow and we may not be able to obtain additional financing on satisfactory conditions.

Our ability to service our payment obligations under the Amended Plan will depend upon, among other things, our future operating performance and the ability to enter into financing transactions. These factors depend partly on economic, financial, competitive and other factors beyond our control. We may not be able to generate sufficient cash from operations to meet our payment obligations as well as fund necessary capital expenditures. In addition, if we need to obtain additional financing or sell assets or equity, we may not be able to do so on commercially reasonable terms, if at all. Failure to service our payment obligations may result in the Plan Agent selling one or more of our assets, as described above.

Our actual financial results after emergence from bankruptcy under Chapter 11 may not be comparable to our historical financial information.

As a result of the effectiveness of the Amended Plan and the transactions contemplated thereby, our financial condition and results of operations may not be comparable to the financial condition or results of operations reflected in the Company's historical financial statements.

## Risks Related to Our Business

Our significant losses and negative cash flow raise questions about our ability to continue as a going concern.

Our cash flows from operating activities used \$ 3.1 million and \$6.0 million for the three month period ended June 30, 2009 and 2008, respectively. We cannot assure you that we will be able to achieve or sustain revenue growth, profitability, or positive cash flow on either a quarterly or annual basis or that profitability, if achieved, will be sustained. No adjustments have been made to the financial statements that might result from the outcome of this uncertainty. If we are unable to achieve or sustain profitability, we may not be financially viable in the future and may have to curtail, suspend, or cease operations, restructure existing operations to attempt to ensure future viability, or pursue other alternatives such as filing for bankruptcy, pursuing dissolution and liquidation or seeking to merge with another company or sell all or substantially all of our assets.

The restatement of our Consolidated Financial Statements has subjected us to a number of additional risks and uncertainties, including increased costs for accounting and legal fees and the increased possibility of legal proceedings.

As a result of the restatement that was completed in October 2009, we have become subject to a number of additional risks and uncertainties, including:



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- We incurred substantial unanticipated costs for accounting and legal fees during 2009 in connection with the restatement. Although the restatement is complete, we expect to continue to incur additional legal costs as noted below.
- As a result of the restatement, we have been named in a number of lawsuits as discussed in Item 1 of Part II of this Quarterly Report, “Legal Proceedings” and Note 16, Litigation. Other plaintiffs may bring additional actions with other claims, although such claims are most likely barred by the discharge injunction resulting from the confirmation of the Amended Plan. If such actions are brought and are not barred by the discharge injunction, we may incur substantial defense costs regardless of the outcome of these actions and insurance may not be sufficient to cover the losses we may incur. Likewise, such actions might cause a diversion of our management’s time and attention. If we do not prevail in one or more of these actions, we could be required to pay substantial damages or settlement costs, which could adversely affect our business, financial condition, results of operations and liquidity.

We have a limited operating history and have generated losses in each quarter except for the second and third quarter of 2006.

We began operations in February 2000 and incurred losses in each reporting period except for the second and third quarter of 2006. Our prospects for financial success are difficult to forecast because we have a relatively limited operating history. Our prospects for financial success must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new, unproven and rapidly evolving markets. Our business could be subject to any or all of the problems, expenses, delays and risks inherent in the establishment of a new business enterprise, including limited capital resources, possible delays in product development, possible cost overruns due to price and cost increases in raw product and manufacturing processes, uncertain market acceptance, and inability to respond effectively to competitive developments and attract, retain and motivate qualified employees. Therefore, there can be no assurance that our business or products will be successful, that we will be able to achieve or maintain profitable operations or that we will not encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated.

We have not yet achieved positive cash flow.

We have not generated a positive cash flow from operations continuously period to period since commencing operations. We raised \$5,000,000 gross proceeds in a preferred stock offering in October 2008 and \$20,000,000 gross proceeds in a common stock and warrants offering in April 2008. Management is reassessing the business to identify core and non-core assets. To raise additional cash funding, non-core assets and/or business units will be offered for sale as part of Nutracea’s bankruptcy restructuring efforts. Additionally, increased focus and attention will be undertaken in an effort to reduce operating expenses to increase cash flow and fund current operations in our NutraCea Segment.

Our ability to meet long term business objectives likely will be dependent upon our ability to raise additional financing through public or private equity financings, establish increasing cash flow from operations, enter into collaborative or other arrangements with corporate sources, or secure other sources of financing to fund long-term operations. There is no assurance that external funds will be available on terms acceptable to us in sufficient amount to finance operations until we do reach sufficient positive cash flow. Any issuance of securities to obtain such funds would dilute percentage ownership of our shareholders. Such dilution could also have an adverse impact on our earnings per share and reduce the price of our common stock. Incurring additional debt may involve restrictive covenants and increased interest costs that will strain our future cash flow. Our inability to obtain sufficient financing may require us to delay, scale back or eliminate some or all of our product development and marketing programs, eliminate or restructure portions of our operations, restructure existing operations to attempt to ensure future viability, or pursue other alternatives including dissolution and liquidation or seeking to merge with another company or sell all

or substantially all of our assets.

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There are significant market risks associated with our business.

We have formulated our business plan and strategies based on certain assumptions regarding the size of the rice bran market, our anticipated share of this market and the estimated price and acceptance of our products. These assumptions are based on the best estimates of our management; however there can be no assurance that our assessments regarding market size, potential market share attainable by us, the price at which we will be able to sell our products, market acceptance of our products or a variety of other factors will prove to be correct. Any future success may depend upon factors including changes in the dietary supplement industry, governmental regulation, increased levels of competition, including the entry of additional competitors and increased success by existing competitors, changes in general economic conditions, increases in operating costs including costs of production, supplies, personnel, equipment, and reduced margins caused by competitive pressures.

We may face difficulties integrating businesses we acquire.

As part of our strategy, we expect to review opportunities to buy other businesses or technologies that would complement our current products, expand the breadth of our markets or enhance technical capabilities, or that may otherwise offer growth opportunities. In the event of any future acquisitions, we could:

- issue stock that would dilute current shareholders' percentage ownership;
  - incur debt; or
  - assume liabilities.

These purchases also involve numerous risks, including:

- problems combining the purchased operations, technologies or products;
  - unanticipated costs;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
  - potential loss of key employees of purchased organizations.

We cannot assure you that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future.

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We intend to pursue significant foreign operations and there are inherent risks in operating overseas.

An important component of our business strategy is to build rice bran stabilization and rice bran oil facilities in foreign countries and to market and sell our products internationally. For example, in 2008 we purchased Irgovel in Brazil that manufactures rice bran oil. There are risks in operating facilities in developing countries because, among other reasons, we may be unable to attract sufficient qualified personnel, intellectual property rights may not be enforced as we expect, and legal rights may not be available as contemplated. Should any of these risks occur, we may be unable to maximize the output from these facilities and our financial results may decrease from our anticipated levels. The inherent risks of international operations could materially adversely affect our business, financial condition and results of operations. The types of risks faced in connection with international operations and sales include, among others:

- cultural differences in the conduct of business;
- fluctuations in foreign exchange rates;
- greater difficulty in accounts receivable collection and longer collection periods;
- impact of recessions in economies outside of the United States;
- reduced protection for intellectual property rights in some countries;
- unexpected changes in regulatory requirements;
- tariffs and other trade barriers;
- political conditions in each country;
- management and operation of an enterprise spread over various countries;
- the burden and administrative costs of complying with a wide variety of foreign laws; and
- currency restrictions.

Fluctuations in foreign currency exchange could adversely affect our financial results.

We earn revenues, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar, including primarily the Brazilian Real. Currently, a significant portion of our revenues and expenses occur with our Brazilian subsidiary, Irgovel. Because our Consolidated Financial Statements are presented in U.S. dollars, we must translate revenues, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect historically, during or at the end of each report period. Therefore, increases or decreases in the value of the U.S. dollar against the Brazilian real and any other currency which affects a material amount of our operations, will affect our revenues, cost of sales, gross profit (loss), operating expenses, or other income and expenses and the value of balance sheet items denominated in foreign currencies. These fluctuations may have a material adverse effect on our financial results. Disruptions in financial markets may result in significant changes in foreign exchange rates in relatively short periods of time which further increases the risk of an adverse currency effect. Since we plan to expand our international operations, we will likely increase our exposure to foreign currency risks. We do not hedge our currency risk, and do not expect to as currency hedges are expensive and do not necessarily reduce the risk of currency fluctuations over longer periods of time.

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We depend on a limited number of customers.

For the six months ended June 30, 2009, one customer accounted for a total of 11.6% of the Company's sales. At June 30, 2009, this customer accounted for 18.5% of the Company's accounts receivable. No other customers accounted for more than 10% of the total outstanding accounts receivable.

For the six months ended June 30, 2008, one customer accounted for a total of 10.2% of the Company's sales. At June 30, 2008, only one customer accounted for 12.0% of total accounts receivable. No other customer accounted for 10.0% of the total outstanding accounts receivable.

Although we continue to expand our customer base in an attempt to mitigate the concentration of customers, the loss of any one of these customers could have an adverse effect on our revenues and results of operations.

We may encounter difficulties in maintaining relationships with customers and distributors while enforcing our credit policies.

We define credit risk as the risk of loss from obligors or counterparty default. Our credit risks arise from both consumers and distributors. Many of these risks and uncertainties are beyond our control.

Our ability to forecast future trends and spot shifts in consumer patterns or behavior even before they occur are vital for our success in today's economy. In managing risk, our objective is to protect our profitability, but also protect, to the extent we can, our ongoing relationship with our distributors and customers. With this in mind, we have taken the following actions:

- We adopted, and our Board of Directors approved, a new credit risk policy that establishes general principles and the overall framework for managing consumer credit risk across the Company. This policy is further supported by subordinate policies and practices covering all facets of consumer credit extension, including prospecting, approvals, authorizations, line management, collections, and fraud prevention. Going forward, these policies should help ensure consistent application of credit management principles and standardized reporting of asset quality and projected loss reserves.
  - We incorporated more sophisticated information in the Company's risk evaluations;
- We increased our focus on areas of high risk, including canceling an account or placing a cash only policy on certain questionable accounts;
  - We reduced certain credit limits;
- We concentrated our efforts on quickly identifying and assisting distributors who are experiencing temporary financial difficulty.

Implementing and enforcing our credit policy and providing guidance to the officers on the policy is critical for us to achieve US GAAP compliant revenue recognition. We may encounter difficulties in maintaining relationships with customers and distributors while enforcing our credit policies.

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The inability of our significant customers to meet their obligations to us may adversely affect our financial results.

We are subject to credit risk due to concentration of our trade accounts receivables and notes receivables. As of June 30, 2009, one customer accounted for 18.5% of our \$4,030,000 trade accounts receivable. The inability of our significant customers and obligors to meet their obligations to us, may adversely affect our financial condition and results of operations.

We rely upon a limited number of product offerings.

The majority of the products that we have sold as of June 30, 2009 have been based on SRB produced at our US facilities and extracted rice bran oil from Irgovel, our Brazil facility. Although we will market SRB as a dietary supplement, as an active food ingredient for inclusion in our products and in other companies' products, and in other ways, a decline in the market demand for our SRB products, as well as the products of other companies utilizing our SRB products, could have a significant adverse impact on us.

We are dependent upon our marketing efforts.

We are dependent on our ability to market products to animal food producers, food manufacturers, mass merchandise and health food retailers, and to other companies for use in their products. We must increase the level of awareness of dietary supplements in general and our products in particular. We will be required to devote substantial management and financial resources to these marketing and advertising efforts and there can be no assurance that it will be successful.

We rely upon an adequate supply of raw rice bran.

All of our current products depend on our proprietary technology using raw rice bran, which is a by-product from milling paddy rice to white rice. Our ability to manufacture SRB is currently limited to the production capability of our production equipment at Farmers' Rice Co-operative and Archer Daniels Midland in California and our own plants located next to Louisiana Rice Mill in Mermentau, Louisiana, and Farmer's Rice Inc. in Lake Charles, Louisiana. Along with our value-added product plants in Dillon, Montana and our facility in Pelotas, Brazil, we currently are capable of producing enough finished products to meet current demand. If demand for our products were to increase dramatically in the future, we would need additional production capacity.

There can be no assurance that we will continue to secure adequate sources of raw rice bran to meet our future demand. Since rice bran has a limited shelf life, the supply of rice bran is affected by the amount of rice planted and harvested each year. If economic or weather conditions adversely affect the amount of rice planted or harvested, the cost of rice bran products that we use may increase. We are not generally able to immediately pass cost increases to our customers and any increase in the cost of SRB products would have an adverse effect on our results of operations.

We face competition.

Competition in our targeted industries, including nutraceuticals, functional food ingredients, rice bran oils, animal feed supplements and companion pet food ingredients is vigorous, with a large number of businesses engaged in the various industries. Many of our competitors have established reputations for successfully developing and marketing their products, including products that incorporate bran from other cereal grains and other alternative ingredients that are widely recognized as providing similar benefits as rice bran. In addition, many of our competitors have greater financial, managerial, and technical resources than us. If we are not successful in competing in these markets, we may not be able to attain our business objectives.



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We must comply with our contractual obligations.

We have numerous ongoing contractual obligations under various purchases, sale, supply, production and other agreements which govern our business operations. We also have contractual obligations which require ongoing payments such as various lease obligations and the agreement of Irgovel to pay tax obligations to the Brazilian government over a ten year period. While we seek to comply at all times with these obligations, there can be no assurance that we will be able to comply with the terms of all contracts during all periods of time, especially if there are significant changes in market conditions or our financial condition. If we are unable to comply with our material contractual obligations, there likely would be a material adverse effect on our financial condition and results of operations.

We have a high concentration of credit risk

Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. Historically, we have not experienced any loss of our cash and cash equivalents, but we have experienced losses to our trade receivables.

The Company currently depends on a limited number of customers. This results in a concentration of credit risk with respect to the Company's outstanding accounts receivable. The Company considers the financial strength of the customer, the remoteness of the possible risk that a default event will occur, the potential benefits to the future growth and development of the Company, possible actions to reduce the likelihood of a default event and the benefits to the Company from the transaction before entering into a large credit limit for a customer. Although the Company analyzes these factors, there can be no assurance that the ultimate collection of the obligation from the customer will occur.

Although we continue to expand our customer base in an attempt to mitigate the concentration of credit risk, the writing off of an accounts receivable balance could have an adverse effect on our results of operations.

Our products could fail to meet applicable regulations which could have a material adverse affect on our financial performance.

The dietary supplement and cosmetic industries are subject to considerable government regulation, both as to efficacy as well as labeling and advertising. There is no assurance that all of our products and marketing strategies will satisfy all of the applicable regulations of the Dietary Supplement, Health and Education Act, the Federal Food, Drug and Cosmetic Act, the U.S. Food and Drug Administration and/or the U.S. Federal Trade Commission. Failure to meet any applicable regulations would require us to limit the production or marketing of any non-compliant products or advertising, which could subject us to financial or other penalties.



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We may be subject to product liability claims and product recalls.

We sell food and nutritional products primarily for human consumption, which involves risk such as product contamination or spoilage, product tampering and other adulteration of food products. We may be subject to liability if the consumption of any of our products causes injury, illness or death. In addition, we may voluntarily recall products in the event of contamination or damage. A significant product liability judgment or a widespread product recall may cause a material adverse effect on our financial condition. Even if a product liability claim is unsuccessful, there may be negative publicity surrounding any assertion that our products caused illness or injury which could adversely affect our reputation with existing and potential customers.

Many of the risks of our business have only limited insurance coverage and many of our business risks are uninsurable.

Our business operations are subject to potential product liability, environmental, fire, employee, manufacturing, shipping and other risks. Although we have insurance to cover some of these risks, the amount of this insurance is limited and includes numerous exceptions and limitations to coverage. Further, no insurance is available to cover certain types of risks, such as acts of God, war, terrorism, major economic and business disruptions, and similar events. In the event we were to suffer a significant uninsured claim, our financial condition would be materially and adversely affected.

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights for our products and technology.

Our success is dependent upon our ability to protect the patents, trade secrets and trademarks that we have and to develop new patents and trademarks for future processes, machinery, compounds and products that we develop. The process of seeking patent protection may be long and expensive, and there can be no assurance that patents will be issued, that we will be able to protect our technology adequately, or that competition will not be able to develop similar technology.

There currently are no claims or lawsuits pending or threatened against us regarding possible infringement claims, but there can be no assurance that infringement claims by third parties, or claims for indemnification resulting from infringement claims, will not be asserted in the future or that such assertions, if proven to be accurate, will not have a material adverse affect on our business, financial condition and results of operations. In the future, litigation may be necessary to enforce our patents, to protect our trade secrets or know-how or to defend against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of others. Any litigation could result in substantial cost and diversion of our efforts, which could have a material adverse affect on our financial condition and results of operations. Adverse determinations in any litigation could result in the loss of our proprietary rights, subjecting us to significant liabilities to third parties, require us to seek licenses from third parties or prevent us from manufacturing or selling our systems, any of which could have a material adverse affect on our financial condition and results of operations. There can be no assurance that a license under a third party's intellectual property rights will be available to us on reasonable terms, if at all.

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We are dependent on key employees and consultants.

Our success depends upon the efforts of our top management team, including the efforts of John Short (Chairman and Chief Executive Officer), Dale Belt (Chief Financial Officer), Leo Gingras (President and Chief Operating Officer), and Collin Garner (Senior Vice President of Sales and Marketing). Although we have written employment agreements with each of the foregoing individuals, there is no assurance that such individuals will not die, become disabled, or resign. In addition, our success is dependent upon our ability to attract and retain key management persons for positions relating to the marketing and distribution of our products.

Our products may require clinical trials to establish efficacy and safety.

Certain of our products may require clinical trials to establish our benefit claims or their safety and efficacy. Such trials can require a significant amount of resources and there is no assurance that such trials will be favorable to the claims we make for our products, or that the cumulative authority established by such trials will be sufficient to support our claims. Moreover, both the findings and methodology of such trials are subject to challenge by the FDA and scientific bodies. If the findings of our trials are challenged or found to be insufficient to support our claims, additional trials may be required before such products can be marketed.

Risks Related to Our Stock

Our Stock Price is Volatile.

The market price of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly in the future. We trade on the over the counter “pink sheets” for which there is an inconsistent market and we are a thinly traded stock subject to volatility in price and demand of our shares. The high and low closing sales prices of our common stock for the following periods were:

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| NutraCea Common Stock        | Low    | High   |
|------------------------------|--------|--------|
| Year Ended December 31, 2010 |        |        |
| Fourth Quarter               | \$0.10 | \$0.25 |
| Third Quarter                | \$0.08 | \$0.13 |
| Second Quarter               | \$0.06 | \$0.16 |
| First Quarter                | \$0.07 | \$0.14 |
| Year Ended December 31, 2009 |        |        |
| Fourth Quarter               | \$0.04 | \$0.18 |
| Third Quarter                | \$0.12 | \$0.27 |
| Second Quarter               | \$0.15 | \$0.41 |
| First Quarter                | \$0.18 | \$0.56 |
| Year Ended December 31, 2008 |        |        |
| Fourth Quarter               | \$0.31 | \$0.52 |
| Third Quarter                | \$0.39 | \$0.70 |
| Second Quarter               | \$0.69 | \$1.13 |
| First Quarter                | \$0.89 | \$1.56 |
| Year Ended December 31, 2007 |        |        |
| Fourth Quarter               | \$0.75 | \$1.76 |
| Third Quarter                | \$1.34 | \$3.31 |
| Second Quarter               | \$3.03 | \$5.00 |
| First Quarter                | \$2.21 | \$3.39 |

The market price of a share of our common stock may continue to fluctuate in response to a number of factors, including:

- announcements of new products or product enhancements by us or our competitors;
  - fluctuations in our quarterly or annual operating results;
  - developments in our relationships with customers and suppliers;
- the loss of services of one or more of our executive officers or other key employees;
- announcements of technological innovations or new systems or enhancements used by us or our competitors;
  - developments in our or our competitors' intellectual property rights;
  - adverse effects to our operating results due to impairment of goodwill;
  - failure to successfully restructure and exit bankruptcy
  - failure to meet the expectation of securities analysts' or the public;
  - general economic and market conditions;
- our ability to expand our operations, domestically and internationally, and the amount and timing of expenditures related to this expansion;
  - litigation involving us, our industry or both;
- actual or anticipated changes in expectations regarding our performance by investors or securities analysts; and
  - price and volume fluctuations in the overall stock market from time to time.

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In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Our stock price is volatile and we have become the target of securities litigation which could result in substantial costs and divert our management's attention and resources from our business. In addition, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our equity incentive program, may adversely affect our ability to retain key employees.

We have significant "equity overhang" which could adversely affect the market price of our common stock and impair our ability to raise additional capital through the sale of equity securities.

As of January 31, 2011, NutraCea had 195,509,109 shares of common stock outstanding. Additionally, as of January 31, 2011, options and warrants to purchase approximately 79,887,000 shares of our common stock were outstanding. The possibility that substantial amounts of our outstanding common stock may be sold by investors or the perception that such sales could occur, often called "equity overhang," could adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities in the future.

The exercise of outstanding options and warrants may dilute current shareholders.

As of January 31, 2011, there were outstanding options and warrants to purchase approximately 79,887,000 shares of our common stock. Holders of these options and warrants may exercise them at a time when we would otherwise be able to obtain additional equity capital on terms more favorable to us. Moreover, while these options and warrants are outstanding, our ability to obtain financing on favorable terms may be adversely affected.

We likely will need to raise funds through debt or equity financings in the future to achieve our business objectives and to satisfy our cash obligations, which would dilute the ownership of our existing shareholders and possibly subordinate certain of their rights to the rights of new investors.

We likely will need to raise funds through debt or equity financings in order to meet our current cash requirements and to complete our ultimate business objectives. We also may choose to raise additional funds in debt or equity financings if they are available to us on terms we believe reasonable to increase our working capital, strengthen our financial position or to make acquisitions. Our Board of Directors has the ability, without seeking shareholder approval, to issue additional shares of common stock or preferred stock that is convertible into common stock for such consideration as the Board of Directors may consider sufficient, which may be at a discount to the market price. Any sales of additional equity or convertible debt securities would result in dilution of the equity interests of our existing shareholders, which could be substantial. Additionally, if we issue shares of preferred stock or convertible debt to raise funds, the holders of those securities might be entitled to various preferential rights over the holders of our common stock, including repayment of their investment, and possibly additional amounts, before any payments could be made to holders of our common stock in connection with an acquisition of the company. Such preferred shares, if authorized, might be granted rights and preferences that would be senior to, or otherwise adversely affect, the rights and the value of our common stock. Also, new investors may require that we and certain of our shareholders enter into voting arrangements that give them additional voting control or representation on our Board of Directors.

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The authorization and issuance of preferred stock may have an adverse effect on the rights of holders of our common stock.

Our Board of Directors, without further action or vote by holders of our common stock, has the right to establish the terms, preference, rights and restrictions and issue shares of preferred stock. The terms of any series of preferred stock could be issued with terms, rights, preferences and restrictions that could adversely affect the rights of holders of our common stock and thereby reduce the value of our common stock. The designation and issuance of preferred stock favorable to current management or shareholders could make it more difficult to gain control of our Board of Directors or remove our current management and may be used to defeat hostile bids for control which might provide shareholders with premiums for their shares. We have designated and issued five series of preferred stock, no shares of which remain outstanding as of August 31, 2009. We may issue additional series of preferred stock in the future.

Compliance with corporate governance and public disclosure regulations may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, and new regulations issued by the Securities and Exchange Commission, are creating uncertainty for companies. In order to comply with these laws, we may need to invest substantial resources to comply with evolving standards, and this investment would result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Our officers and directors have limited liability and have indemnification rights.

Our Articles of Incorporation and by-laws provide that we may indemnify our officers and directors against losses sustained or liabilities incurred which arise from any transaction in that officer's or director's respective managerial capacity unless that officer or director violates a duty of loyalty, did not act in good faith, engaged in intentional misconduct or knowingly violated the law, approved an improper dividend, or derived an improper benefit from the transaction.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following securities were issued during the three month period ended June 30, 2009.

On May 1, 2009, the Company issued an option to a consultant to purchase 320,000 shares of our Common Stock at a strike price of \$0.20 with a five year expiration date in connection with consulting services.

The securities described were issued in private placement transactions to a limited number of recipients in reliance on Section 4(2) of the Securities Act of 1933, as amended, and/or Regulation D promulgated under the Securities Act. Each person or entity to whom securities were issued represented that the securities were being acquired for investment purposes, for the person's or entity's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof in violation of the Securities Act.

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Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are attached hereto and filed herewith:

| EXHIBIT<br>NUMBER | DESCRIPTION OF EXHIBIT   |
|-------------------|--|
| 3.1(1)            | FORM CREATING TWO THOUSAND SEVEN HUNDRED FORTY THREE (2,743) SHARES OF PREFERRED STOCK DESIGNATED AS SERIES E CONVERTIBLE PREFERRED STOCK ON APRIL 29, 2009. |
| 4.1(1)            | FORM OF COMMON STOCK PURCHASE WARRANT, MAY 7, 2009.  |
| 10.1(1)           | FORM OF EXCHANGE AGREEMENT, DATED AS OF MAY 7, 2009, BY AND BETWEEN NUTRACEA AND THE INVESTOR SIGNATORY THERETO  |
| 10.1(2)           | BINDING LETTER OF INTENT ENTERED INTO AS OF JUNE 17, 2009 BY AND BETWEEN NUTRACEA, A CALIFORNIA CORPORATION AND CEAUTAMED WORLDWIDE, LLC.                    |
| <u>31.1</u>       | CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.  |
| <u>31.2</u>       | CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.  |
| <u>32.1</u>       | CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICE PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.                               |

(1) Incorporated herein by reference to exhibit previously filed on registrant's current report on Form 8-K filed on May 8, 2009.

(2) Incorporated herein by reference to exhibit previously filed on registrant's current report on Form 8-K filed on June 22, 2009.

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SIGNATURES

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

NUTRACEA (Registrant)

Dated: February 24, 2011

By: /s/ W. John Short  
Name: W. John Short  
Title: Chief Executive Officer

By: /s/ Dale Belt  
Name: Jerry Dale Belt  
Title: Chief Financial Officer