

NUTRACEA  
Form SB-2/A  
February 07, 2006

As filed with the Securities and Exchange Commission on February 7, 2006

Registration No. 333-129839

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

PRE-EFFECTIVE AMENDMENT NO. 1  
to  
**Form SB-2**

**REGISTRATION STATEMENT UNDER THE  
SECURITIES ACT OF 1933**

**NUTRACEA**  
(Name of Small Business Issuer in Its Charter)

**California**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**2040**  
(Primary Standard Industrial  
Classification Code Number)

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

**1261 Hawk's Flight Court, El Dorado Hills, CA 95762**  
**(916) 933-7000**  
(Address and Telephone Number of Principal Executive Offices)

**1261 Hawk's Flight Court, El Dorado Hills, CA 95762**  
(Address of Principal Place of Business or Intended Principal Place of Business)

**Bradley D. Edson**  
**1261 Hawk's Flight Court, El Dorado Hills, CA 95762**  
**(916) 933-7000**  
(Name, Address and Telephone Number of Agent For Service)

Copy to:

**Christopher V. Chediak, Esq.**  
**Weintraub Genshlea Chediak Law Corporation**  
**400 Capitol Mall, 11<sup>th</sup> Floor, Sacramento, CA 95814**  
**(916) 558-6000**

Approximate Date of Commencement of Proposed Sale to the Public: as soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o \_\_\_\_\_

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If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o \_\_\_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price Per Share (1)</b>	<b>Proposed Maximum Aggregate Offering Price (1)</b>	<b>Amount of Registration Fee (2)</b>
Common Stock	29,486,680	\$0.845	\$24,916,245	\$2,932.63

**SUPPLEMENTAL FEE TABLE (3)**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price Per Share (1)</b>	<b>Proposed Maximum Aggregate Offering Price (1)</b>	<b>Amount of Registration Fee (4)</b>
Common Stock	992,192	\$1.02	\$1,012,036	\$108.29

(1) Estimated solely for purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933.

(2) Previously paid.

(3) For purposes of calculating registration fee for additional securities included in Amendment No. 1.

(4) Represents additional fee paid with this Amendment.

If, as a result of stock splits, stock dividends or similar transactions, or by reason of changes in the conversion price of the preferred stock, the number of securities purported to be registered on this registration statement increases, the provisions of Rule 416 under the Securities Act of 1933 shall apply, and this registration statement shall be deemed to cover any such additional shares of common stock.

**The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. The Selling Security Holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities, and we are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED FEBRUARY 7, 2006.**

**PROSPECTUS**

**NutraCea**

**30,478,872 Shares of Common Stock**

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This prospectus relates to the disposition of up to 30,478,872 shares of NutraCea common stock or interests therein by the shareholders named in this prospectus under the heading "Selling Shareholders". We will not receive any of the proceeds from the disposition of the shares covered hereby or interests therein, although we will receive the proceeds from the cash exercise of warrants to acquire certain of these shares.

Our common stock is quoted on the Over-the-Counter ("OTC") bulletin board under the symbol "NTRZ". On February 3, 2006, the last sale price of our common stock on the Over-the-Counter Bulletin Board was \$1.04 per share.

Our principal executive offices are located at 1261 Hawk's Flight Court, El Dorado Hills, CA 95762, and our telephone number is (916) 558-6000.

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**INVESTING IN THE COMMON STOCK OFFERED HEREIN INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT. YOU SHOULD CONSIDER CAREFULLY THE "RISK FACTORS" CONTAINED IN THIS PROSPECTUS BEGINNING ON PAGE 4.**

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**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this prospectus is \_\_\_\_\_, 2006.

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## ABOUT THIS PROSPECTUS

We have not authorized anyone to provide information different from that contained in this prospectus. This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where such offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock. In this prospectus, references to “NutraCea”, the “Company”, “we”, “us” and “our” refer to NutraCea, a California corporation.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus and in any prospectus supplement we may file constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events concerning our business and to our future revenues, operating results, and financial condition. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “forecast,” “potential,” or “continue” or the negative of those terms or other comparable terminology.

Any forward looking statements contained in this prospectus or any prospectus supplement are only estimates or predictions of future events based on information currently available to our management and management’s current beliefs about the potential outcome of future events. Whether these future events will occur as management anticipates, whether we will achieve our business objectives, and whether our revenues, operating results, or financial condition will improve in future periods are subject to numerous risks. The section of this prospectus captioned “Risk Factors,” beginning on page 4, provides a summary of the various risks that could cause our actual results or future financial condition to differ materially from forward-looking statements made in this prospectus. The factors discussed in this section are not intended to represent a complete list of all the factors that could adversely affect our business, revenues, operating results, or financial condition. Other factors that we have not considered may also have an adverse effect on our business, revenues, operating results, or financial condition, and the factors we have identified could affect us to a greater extent than we currently anticipate. Before making any investment in our securities, we encourage you to carefully read the information contained under the caption “Risk Factors,” as well the other information contained in this prospectus and any prospectus supplement we may file.

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“TheraFoods,” “NutraCea,” “NutraBeauticals,” “RiSolubles,” “RiceMucil,” “RiceMucille,” “StaBran,” “SolubleSo  
“ZymeBoost,” “NutraHGH,” “Equineceuticals,” “FiberSolutions,” “NutraBreathe,” “LiverBoost,” “RiceLean,” “VetC  
“PetCeuticals,” Caduceus logo, “HiFiSolubles,” “Therafeed,” “Via-Bran,” “Proventics,” “SuperSolubles,” “Nourishing The B  
Health,” “Proceuticals,” “Cea100,” “DiaBoost” and “NutraBalance” are registered trademarks of NutraCea.

RiceX® and RiceX Solubles® are registered trade names of The RiceX Company, NutraCea’s wholly owned subsidiary. Mirachol®, Max "E"® and Max "E" Glo® are registered trademarks of The RiceX Company.

## PROSPECTUS SUMMARY

*The following summary is qualified in its entirety by the information contained elsewhere in this prospectus. You should read the entire prospectus, including "Risk Factors" and the financial statements before making an investment decision.*

**Issuer:** NutraCea  
1261 Hawk's Flight Court  
El Dorado Hills, California 95762  
(916) 933-7000

**Description of Business:** We are a developer, formulator and distributor of nutraceutical, health, cosmetic and nutrition products using stabilized rice bran and specially formulated rice bran oil. We have also developed dietary products that provide the benefits of stabilized rice bran and rice bran oil as a nutritional supplement for humans and animals. Consumer products are marketed under the TheraFoods® name. Medical supplements are marketed under the NutraCea® name. Products for veterinary and animal use are marketed under the NutraGlo® name. Cosmetics are marketed under the NutraBeautical® name. A description of our business begins on page 30 of this prospectus.

On October 4, 2005, we acquired The RiceX Company. The RiceX Company manufactures and distributes nutritionally dense foods and food ingredients made from stabilized rice bran for supply to the global food manufacturing and equine feed industries. A description of the business of The RiceX Company begins on page 4 of this prospectus.

**The Offering:** This offering relates to the resale of shares of our common stock that are outstanding and shares of our common stock that may be acquired from time to time upon conversion of our outstanding Series B preferred stock and upon exercise of outstanding options and warrants. The selling shareholders and the number of shares that may be sold by each are set forth on page 61 of this prospectus.

**Shares:** 30,478,872 shares of our common stock. A description of our common stock is set forth on page 59 of this prospectus.

**Manner of Sale:** The shares of our common stock may be sold from time to time by the selling shareholders in open market or negotiated transactions at prices determined from time to time by the selling shareholders. A description of the manner in which sales may be made is set forth in this prospectus beginning on page 64 of this prospectus.

**Use of Proceeds:** We will not receive any of the proceeds from the sale of our common stock by the selling shareholders.

**Risk Factors:** The securities offered hereby involve a high degree of risk and will result in immediate and substantial dilution. A discussion of additional risk factors relating to our stock, our business and this offering begins on page 4 of this prospectus.

## RISK FACTORS

*Please carefully consider the specific factors set forth below as well as the other information contained in this prospectus before purchasing shares of our common stock. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements.*

### **Risks Related to Our Business**

***We have a limited operating history and have not generated a profit since we began operations.***

We began operations in February 2000 and have incurred losses in each reporting period since commencing operations. 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 its capital resources more rapidly than anticipated.

***We may need to obtain additional funds to finance long-term product research and development as well as fund current operations.***

We have not generated a positive cash flow from operations in any period since commencing operations. While we believe that we have adequate cash reserves and working capital to fund current operations, our ability to meet long term business objectives and debt obligations is 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 positive cash flow or that we will reach positive cash flow. In addition, 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.

***We may not realize the anticipated benefits from the RiceX transaction because of integration difficulties and other challenges.***

If we fail to meet the challenges involved in successfully integrating the operations of NutraCea and RiceX or to realize any of the anticipated benefits or synergies of the RiceX transaction could seriously harm our results. Realizing the benefits of the RiceX transaction will depend in part on our ability to overcome significant challenges, such as timely, efficient and successful execution of post-merger strategies, including:

- combining the operations of two companies;
- retaining and assimilating the key personnel of each company;
- integrating the technology and products of the two companies;





- retaining existing customers and strategic partners of both companies and attracting new customers and strategic partners; and

- successfully exploiting potential synergies of the two companies.

The risks related to the execution of these post-merger strategies include:

- potential disruption of our ongoing business and distraction of our management resulting from the efforts to combine and integrate NutraCea's and RiceX's operations;

- difficulties associated with successfully coordinating our management;

- difficulties inherent in creating successful strategies for coordinating sales and marketing plans for the products and services of the two companies;

- the risk that synergies anticipated for our products will not be achieved or may not be realized within the timeframe currently anticipated;

- the possibility that efforts to achieve operating expense reductions may be unsuccessful or give rise to unexpected liabilities;

- the potential need to demonstrate to customers that the merger will not result in adverse changes in customer service standards or business;

- impairment of relationships with employees, suppliers and customers as a result of the integration of new management personnel; and

- failure to retain key employees, including members of the management team.

***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 rely upon a limited number of product offerings.***

All of our products are based on stabilized rice bran. Although we will market rice bran 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 products, as well as the products of other companies utilizing our 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.***

Our proprietary technology is used to stabilize rice bran, which is a by-product from milling paddy rice to white rice. We currently have a supply arrangement with one of the largest rice mills in the United States, Farmers Rice Cooperative. We are pursuing other supply sources in the United States and in foreign countries. However, there can be no assurance that we will continue to secure adequate sources of raw rice bran to meet our requirements to produce stabilized rice bran products. 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 pass cost increases to our customers and any increase in the cost of stabilized rice bran products would have an adverse effect on our results of operations.

***The inability of our production plants to produce stabilized rice bran products to fulfill our current and future requirements could materially and adversely affect our business, results from operations, and financial condition.***

We have a unique process to stabilize rice bran products that results in an increase of the shelf life of such products from hours to at least one year. We require this long shelf life in our products to avoid unacceptable losses from spoilage. Our ability to manufacture rice bran raw materials is currently limited to the production capability of our facility at Farmers Rice Cooperative and our isolate plant in Dillon, Montana. Between the Dillon, Montana plant and the facility at Farmers Rice Cooperative, we currently are capable of producing all of our required rice bran raw materials, but that capacity may not be sufficient to meet all of our long-term supply needs.

***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.

***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 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.

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

NutraCea has one patent entitled Methods for Treating Joint Inflammation, Pain and Loss of Mobility, which covers both humans and mammals. In addition, RiceX has five United States patents and may decide to file corresponding international applications. RiceX holds patents to the production of Beta Glucan and to a micro nutrient enriched rice bran oil process. RiceX also holds patents to a method to treat high cholesterol, to a method to treat diabetes and to a process for producing Higher Value Fractions from stabilized rice bran. 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 or RiceX 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.

***We are dependent on key employees and consultants.***

Our success depends upon the efforts of our top management team, including the efforts of Bradley D. Edson, our President and Chief Executive Officer, Todd C. Crow, our Chief Financial Officer, Ike E. Lynch, our Chief Operating Officer, Patricia McPeak, our founder and former Chief Executive Officer, Margie D. Adelman, our Secretary and Senior Vice President, and Reddy Cherukuri and Rukmini Cheruvanky, our primary research scientists. Although we have written employment agreements or consulting agreements with each of the foregoing individuals there is no assurance that such individuals will not die or become disabled. 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. There is no assurance that we will be able to recruit and employ such executives at times and on terms acceptable to us.

***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 a share of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly in the future. During 2005, through November 15, the high and low sales prices of a share of NutraCea

common stock were \$1.81 and \$0.30, respectively. During 2004, the high and low sales prices of a share of our common stock were \$2.14 and \$0.29, respectively. The market price of a share of our common stock may continue to fluctuate in response to a number of factors, including:

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- 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 its competitors;
- developments in our or our competitors intellectual property rights;
- adverse effects to our operating results due to impairment of goodwill;
- failure to meet the expectation of securities analysts' or the public; and
- general economic and market conditions.

***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 October 21, 2005, NutraCea had approximately 66,891,667 shares of common stock outstanding and 7,850 shares of preferred stock outstanding, which preferred shares are convertible into 15,700,000 shares of our common stock. Additionally, as of October 21, 2005, options and warrants to purchase a total of 29,055,359 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.

***We may need to raise funds through debt or equity financings in the future, which would dilute the ownership of our existing shareholders and possibly subordinate certain of their rights to the rights of new investors.***

We may choose to raise additional funds in debt or equity financings if they are available to us on terms it believes reasonable to increase its working capital, strengthen its financial position or to make acquisitions. 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.

***Inadequate market liquidity may make it difficult to sell our stock.***

There is currently a public market for our common stock, but we can give no assurance that there will always be such a market. Only a limited number of shares of our common stock are actively traded in the public market and we cannot give assurance that the market for our stock will develop sufficiently to create significant market liquidity. An investor may find it difficult or impossible to sell shares of our common stock in the public market because of the limited number of potential buyers at any time. In addition, the shares of our common stock are not eligible as a

margin security and lending institutions may not accept our common stock as collateral for a loan.

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***The application of the “penny stock regulation” could adversely affect the market price of our common stock***

Penny stocks generally are equity securities with a price of less than \$5.00 per share other than securities registered on certain national securities exchanges or quoted on the NASDAQ Stock Market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. Our securities may be subject to “penny stock rules” that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser’s written consent to the transaction prior to the purchase. Consequently, the “penny stock rules” may restrict the ability of broker-dealers to sell our securities and may have the effect of reducing the level of trading activity of our common stock in the secondary market.

**The senior rights and preferences of our outstanding Series B preferred stock may have an adverse economic effect on our common shareholders and could impair our ability to obtain future financing when and if needed.**

As long as any shares of our Series B preferred stock remain outstanding, Series B preferred shareholders will enjoy various economic rights and contractual benefits not held by our common shareholders. Most significantly, holders of Series B preferred stock are entitled to a liquidation preference upon a liquidation of NutraCea, and for purposes of the Series B preferred stock, a liquidation is deemed to include a merger, acquisition, or similar transaction involving NutraCea. As a result, the Series B preferred stock is entitled to receive its liquidation preference prior to any payments or distributions being made to holders of our common stock. After payment of the liquidation preference, holders of Series B preferred stock and holders of common stock share pro-rata in any remaining proceeds. The aggregate outstanding liquidation preference of our Series B preferred stock currently totals approximately \$7.85 million. Holders of our Series B preferred stock also hold certain preferential voting rights, including the right to approve liquidation events and future financings.

Based on the senior rights of the Series B preferred stock, particularly the liquidation preference, common shareholders may receive a substantially reduced portion of the proceeds of any merger, acquisition, or other liquidation of NutraCea compared to the amount they would have received if the Series B preferred stock were converted into common stock. In addition, any new investor who may wish to invest any substantial amounts of capital in NutraCea may require that any securities it purchases rank senior in priority to the Series B preferred stock. Based on the rights of the Series B preferred shareholders, we would not be able to conclude such a financing without their consent.

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

We may, without further action or vote by holders of our common stock, designate and issue shares of our preferred stock. The terms of any series of preferred stock 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 the Board of Director 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 may engage in future acquisitions that dilute our shareholders and cause us to incur debt or assume contingent liabilities.***

As part of our strategy, we expect to review opportunities to buy other businesses or technologies that would complement its current products, expand the breadth of its 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 RiceX's business or any businesses, products, technologies or personnel that it might purchase 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.

## USE OF PROCEEDS

The Shares offered by this prospectus are being registered for the account of the selling shareholders. We will not receive any proceeds from the sale of common stock by the selling shareholders.

## PRICE RANGE OF COMMON STOCK

On September 17, 1998, our common stock was approved for quotation on the National Association of Securities Dealers' Over-the-Counter ("OTC") bulletin board where it traded under the name Alliance Consumer International, Inc., and was quoted under the symbol "ACIL" until June 3, 1999. On June 3, 1999, our common stock was moved to the "Pink Sheets" published by the Pink Sheets LLC (previously National Quotation Bureau, LLC). In May 2001, our common stock was again approved for quotation on the OTC bulletin board and its symbol was changed to "ACIN." Effective December 17, 2001, we changed our name to NutraStar Incorporated and the common stock began trading on the OTC bulletin board under the symbol "NTRA." On October 1, 2003, we changed our name to NutraCea and our common stock began trading on the OTC bulletin board under the symbol "NTRC." On November 12, 2003, we declared a 1:10 reverse stock split. Our post-split shares trade on the OTC Bulletin Board under the Symbol "NTRZ".

A public trading market having the characteristics of depth, liquidity and orderliness depends upon the existence of market makers as well as the presence of willing buyers and sellers, which are circumstances over which we do not have control. The following table sets forth the high and low sales prices reported by the OTC Bulletin Board for our common stock and its predecessors in the periods indicated. The quotations below reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

NUTRACEA COMMON STOCK	Low	High
<b>Year Ending December 31, 2005</b>		
Fourth Quarter	\$0.65	\$1.17
Third Quarter	\$0.39	\$1.81
Second Quarter	\$0.39	\$0.65
First Quarter	\$0.30	\$0.67
<b>Year Ended December 31, 2004</b>		
First Quarter	\$0.85	\$2.14
Second Quarter	\$0.83	\$1.33
Third Quarter	\$0.29	\$1.16
Fourth Quarter	\$0.32	\$0.56
<b>Year Ended December 31, 2003</b>		
First Quarter	\$0.60*	\$1.10*
Second Quarter	\$0.50*	\$1.10*
Third Quarter	\$0.70*	\$2.90*
Fourth Quarter	\$0.75	\$1.85

\*Represents stock prices adjusted for 1 for 10 share split in November 2003.

As of October 21, 2005, there were approximately 440 holders of record of our common stock.

### **DIVIDEND POLICY**

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future. In addition our ability to pay cash dividends on our common stock is limited by the provisions of our Certificate of Determination, Rights and Privileges of Series B Convertible Preferred Stock, which provide that we may not pay dividends on our common stock unless we first pay a dividend on our Series B preferred stock equal to 5% of the sales price for the Series B preferred stock. Based upon the number of shares of Series B preferred stock outstanding as of October 21, 2005, the aggregate dividend preference that our Series B preferred stock would be entitled to receive prior to our paying dividends on our common stock equals \$392,500.

## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On October 4, 2005, NutraCea acquired The RiceX Company, a Delaware corporation (“RiceX”), in a merger transaction pursuant to the terms of an Agreement and Plan of Merger and Reorganization, dated April 4, 2005, by and among NutraCea, Red Acquisition Corporation, a wholly-owned subsidiary of NutraCea, and RiceX (the “Merger Agreement”). At the effective time of the merger, Red Acquisition Corporation merged with and into RiceX, with RiceX surviving the merger as a wholly-owned subsidiary of NutraCea. Pursuant to the Merger Agreement and as a result of the merger, each share of RiceX common stock outstanding immediately prior to the effective time of the merger was converted into the right to receive approximately 0.76799 shares of NutraCea common stock.

The following Unaudited Pro Forma Condensed Combined Consolidated Financial Statements, and the accompanying notes thereto (“Pro Forma Financial Statements”), describe the pro forma effect of NutraCea’s acquisition of RiceX on:

NutraCea’s Balance Sheets at September 30, 2005;

NutraCea’s Statements of Operations for the Nine Months Ended September 30, 2005; and

NutraCea’s Statements of Operations for the Year Ended December 31, 2004.

The Pro Forma Balance Sheets give effect to the acquisition of RiceX as if it had occurred on September 30, 2005, and the Pro Forma Statements of Operations give effect to the acquisition of RiceX as if it had occurred on January 1, 2004. The Pro Forma Financial Statements should be read in conjunction with and are qualified by the historical financial statements and notes thereto of NutraCea and RiceX.

NutraCea has prepared these Pro Forma Financial Statements using the purchase method of accounting for business combinations, which prescribes that assets acquired and liabilities assumed by NutraCea are recorded at estimated fair values. Because the Pro Forma Financial Statements are based upon RiceX’s financial condition and operating results during periods when RiceX was not under the control, influence, or management of NutraCea, the information presented may not be indicative of the results that would have actually occurred had the merger been completed as of January 1, 2004, nor are they indicative of future financial or operating results of NutraCea. The Pro Forma Financial Statements do not give effect to any synergies that may occur due to the integration of RiceX with NutraCea.

The Pro Forma Financial Statements are based on estimates and assumptions which are preliminary. This information is presented for informational purposes only and is not intended to represent or be indicative of the consolidated results of operations or financial condition of NutraCea that would have been reported had the acquisition been completed as of the dates presented, and should not be taken as representative of future consolidated results of operations or financial condition of NutraCea.

**NUTRACEA**  
**UNAUDITED PRO FORMA CONDENSED COMBINED**  
**CONSOLIDATED BALANCE SHEETS**  
**At September 30, 2005**

	<b>HISTORICAL</b> (Unaudited)		<b>Adjustment</b>	<b>PRO FORMA</b> (Unaudited)		<b>Combined</b>
	<b>RiceX</b>	<b>NutraCea</b>				
<b>ASSETS</b>						
<i><b>Current Assets</b></i>						
Cash and equivalents	\$ 546,148	\$ 389,034	\$ 7,850,000	(h)		\$ 8,785,182
Fees paid (7%) associated with financing transaction	—	—	(549,500)	(h)		(549,500)
Investment advisor legal fees paid	—	—	(25,000)	(h)		(25,000)
NutraCea legal fees for the merger and financing transaction	—	—	(448,521)	(h)		(448,521)
Payment for 12/4/04 private placement secured promissory note	—	—	(2,400,000)	(h)		(2,400,000)
Accrued interest paid on private placement secured promissory note	—	—	(137,043)	(h)		(137,043)
Other RiceX employee compensation	—	—	(260,000)	(e)		(260,000)
Other NutraCea employee compensation	—	—	(450,000)	(f)		(450,000)
Marketable securities	—	170,977	—			170,977
Trade receivables	407,618	87,801	(7,342)	(a)		488,077
Inventory	398,038	391,740	—			789,778
Deposits and other current assets	44,043	410,808	—			454,851
<b>Total Current Assets</b>	<b>1,395,847</b>	<b>1,450,360</b>	<b>3,572,594</b>			<b>6,418,801</b>
Restricted marketable securities	—	170,977	—			170,977
Property and equipment, net	475,026	108,806	5,600,000	(b)		6,183,832
Depreciation	—	—	(613,889)	(d)		(613,889)
Patents and trademarks, net	—	354,600	2,000,000	(b)		2,354,600
Amortization	—	—	(150,000)	(d)		(150,000)
Other assets, net	2,886	—	—			2,886
Goodwill and other intangibles, net	—	250,001	30,247,991	(b)		30,497,992
<b>Total Assets</b>	<b>\$ 1,873,759</b>	<b>\$ 2,334,744</b>	<b>\$ 40,656,695</b>			<b>\$ 44,865,198</b>
<b>LIABILITIES AND SHAREHOLDER EQUITY (DEFICIT)</b>						
<i><b>Current Liabilities</b></i>						
Accounts payable	\$ 560,076	\$ 882,684	\$ (7,342)	(a)		\$ 1,435,418
NutraCea legal fees for the merger and financing transaction	—	—	(448,521)	(h)		(448,521)
Accrued expenses	205,800	296,797	(137,043)	(h)		365,554

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Deferred revenue	5,461	—	—	5,461
Due to related party	—	2,010	—	2,010
Current portion of long-term debt	5,433	2,221,684	(2,221,684)	(h) 5,433
Convertible, mandatorily redeemable series A preferred stock, no par value, \$1 stated value, 20,000,000 shares authorized, 0 shares issued and outstanding	—	20,473	(20,473)	(g) —
<b>Total Current Liabilities</b>	<b>776,770</b>	<b>3,423,648</b>	<b>(2,835,063)</b>	<b>1,365,355</b>

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**UNAUDITED PRO FORMA CONDENSED COMBINED  
CONSOLIDATED BALANCE SHEETS**

At September 30, 2005

(--Cont.)

	<b>HISTORICAL</b> (Unaudited)		<b>Adjustment</b>	<b>PRO FORMA</b> (Unaudited)	<b>Combined</b>
	<b>RiceX</b>	<b>NutraCea</b>			
<b>LIABILITIES AND SHAREHOLDER EQUITY (DEFICIT) (--cont.)</b>					
<b>Long-term Liabilities</b>					
Long-term debt, net of current portion	11,059	—	—		11,059
<b>Total Liabilities</b>	<b>787,829</b>	<b>3,423,648</b>	<b>(2,835,063)</b>		<b>1,376,414</b>
<b>Shareholder Equity (deficit)</b>					
Series B convertible preferred stock, no par value, 25,000 shares authorized, 7,850 shares issued and outstanding	—	—	7,850,000	(h)	7,850,000
Offering fees, 7%, associated with financing transaction	—	—	(549,500)	(h)	(549,500)
Valuation of 1,099,000 warrant shares issued with offering	—	—	(911,071)	(h)	(911,071)
Investment advisor legal fees with the financing transaction	—	—	(25,000)	(h)	(25,000)
NutraCea legal fees for the merger and financing transaction	—	—	(448,521)	(h)	(448,521)
Common stock, additional paid in capital	31,945,230	49,608,419	(31,945,230)	(b)	49,608,419
Aggregate value of NutraCea common stock consideration	—	—	29,120,393	(b1)	29,120,393
Estimated value of the RiceX warrants and options assumed	—	—	9,813,528	(b1)	9,813,528
Valuation of 1,099,000 warrant shares issued with offering	—	—	911,071	(h)	911,071
Deferred compensation	—	(20,239)			(20,239)
Accumulated deficit	(30,859,300)	(48,639,037)	30,859,300	(b)	(48,639,037)
NutraCea legal fees for the merger and financing transaction	—	—	448,521	(h)	448,521
Other RiceX compensation	—	—	(260,000)	(e)	(260,000)
Other NutraCea compensation	—	—	(450,000)	(f)	(450,000)
Depreciation	—	—	(613,889)	(d)	(613,889)
Amortization	—	—	(150,000)	(d)	(150,000)
Discount on promissory note	—	—	(178,316)	(h)	(178,316)
	—	—	20,473	(g)	20,473



Accumulated other comprehensive income, unrealized loss on marketable securities	—	(2,038,046)	—	(2,038,046)
<b>Total Shareholder Equity (Deficit)</b>	<b>1,085,930</b>	<b>(1,088,904)</b>	<b>43,491,758</b>	<b>43,488,784</b>
<b>Total Liabilities and Shareholder Equity (Deficit)</b>	<b>\$ 1,873,759</b>	<b>\$ 2,334,744</b>	<b>\$ 40,656,695</b>	<b>\$ 44,865,198</b>

-- See Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements --

**NUTRACEA**  
**UNAUDITED PRO FORMA CONDENSED COMBINED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Nine Months Ended September 30, 2005**

INCOME STATEMENT	HISTORICAL			PRO FORMA	
	RiceX (Unaudited)	NutraCea (Unaudited)	Adjustment (Unaudited)		Combined (Unaudited)
<b>Revenues</b>					
Net product sales	\$ 2,767,255	\$ 1,060,271	\$ (179,923)	(c)	\$ 3,647,603
Royalties	13,324	—	—		13,324
<b>Total Revenues</b>	<b>2,780,579</b>	<b>1,060,271</b>	<b>(179,923)</b>		<b>3,660,927</b>
COGS	1,123,812	704,569	(179,923)	(c)	1,648,458
Depreciation	—	—	613,889	(d)	613,889
<b>Gross Profit</b>	<b>1,656,767</b>	<b>355,702</b>	<b>(613,889)</b>		<b>1,398,580</b>
Operating expense	5,369,087	3,457,937	—		8,827,024
Amortization	—	—	150,000	(d)	150,000
Other RiceX employee compensation	—	—	260,000	(e)	260,000
Other NutraCea employee compensation	—	—	450,000	(f)	450,000
Merger legal expenses capitalized	—	—	(448,521)	(h)	(448,521)
<b>Loss From Operations</b>	<b>(3,712,320)</b>	<b>(3,102,235)</b>	<b>(1,025,368)</b>		<b>(7,839,923)</b>
Customer deposit forfeiture	—	100,000	—		100,000
Interest income	9,314	6,036	—		15,350
Interest expense	(195)	(715,046)	178,316	(h)	(536,925)
Provision for income tax	(2,226)	—	—		(2,226)
Total other income (expense)	6,893	(609,010)	178,316		(423,801)
<b>Net Income (Loss)</b>	<b>\$ (3,705,427)</b>	<b>\$ (3,711,245)</b>	<b>\$ (847,052)</b>		<b>\$ (8,263,724)</b>
<b>Cumulative Preferred Dividends</b>	<b>—</b>	<b>—</b>	<b>—</b>		<b>—</b>
<b>Net Loss Available to Common Shareholders</b>	<b>(3,705,427)</b>	<b>(3,711,245)</b>	<b>(847,052)</b>		<b>(8,263,724)</b>
<b>Basic and Diluted Loss Available to Common Shareholders Per Share</b>	<b>\$ (0.10)</b>	<b>\$ (0.10)</b>	<b>—</b>		<b>\$ (0.13)</b>
<b>Basic and Diluted Weighted-Average Shares Outstanding</b>	<b>36,721,625</b>	<b>36,756,797</b>	<b>(8,541,048)</b>	(b1)	<b>64,937,374</b>

-- See Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements --

**NUTRACEA**  
**UNAUDITED PRO FORMA CONDENSED COMBINED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Year Ended December 31, 2004**

INCOME STATEMENT	HISTORICAL		Adjustment (Unaudited)	PRO FORMA	
	RiceX	NutraCea		Combined (Unaudited)	
<b>Revenues</b>					
Net product sales	\$ 4,010,186	\$ 1,009,729	\$ (405,000)	(c)	\$ 4,614,915
Royalties	—	—	—	—	—
Licensing fees	—	214,500	—	—	214,500
<b>Total Revenues</b>	<b>4,010,186</b>	<b>1,224,229</b>	<b>(405,000)</b>		<b>4,829,415</b>
COGS	1,655,940	600,129	(405,000)	(c)	1,851,069
Depreciation	—	—	818,519	(d)	818,519
<b>Gross Profit</b>	<b>2,354,246</b>	<b>624,100</b>	<b>(818,519)</b>		<b>2,159,827</b>
Operating expense	3,268,220	24,175,462	—	—	27,443,682
Amortization	—	—	200,000	(d)	200,000
Other RiceX employee compensation	—	—	260,000	(e)	260,000
Other NutraCea employee compensation	—	—	450,000	(f)	450,000
Merger legal expenses capitalized	—	—	(448,521)	(h)	(448,521)
<b>Loss From Operations</b>	<b>(913,974)</b>	<b>(23,551,362)</b>	<b>(1,279,998)</b>		<b>(25,745,334)</b>
Customer deposit forfeiture	—	—	—	—	—
Interest income	33,070	4,497	—	—	37,567
Interest expense	—	(27,602)	178,316	(h)	150,714
Provision for income tax	1,650	—	—	—	1,650
Total other income (expense)	31,420	(23,105)	178,316	—	186,631
<b>Net Income (Loss)</b>	<b>\$ (882,554)</b>	<b>\$ (23,574,467)</b>	<b>\$ (1,101,682)</b>		<b>\$ (25,558,703)</b>
<b>Cumulative Preferred Dividends</b>					
	—	8,373	—	—	8,373
<b>Net Loss Available to Common Shareholders</b>	<b>(882,554)</b>	<b>(23,582,840)</b>	<b>(1,101,682)</b>		<b>(25,567,076)</b>
<b>Basic and Diluted Loss Available to Common Shareholders Per Share</b>					
	\$ (0.02)	\$ (1.18)	—	—	\$ (0.53)
<b>Basic and Diluted Weighted-Average Shares</b>	<b>37,061,242</b>	<b>19,905,965</b>	<b>(8,541,048)</b>	(b1)	<b>48,426,159</b>

**Outstanding**

-- See Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements -

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## NUTRACEA

**NOTES TO UNAUDITED PRO FORMA CONDENSED  
COMBINED CONSOLIDATED FINANCIAL STATEMENTS  
For the Periods Ended December 31, 2004 and September 30, 2005**

**1. Basis of Presentation.**

The accompanying Unaudited Pro Forma Condensed Combined Consolidated Financial Statements are presented for illustrative purposes only and do not give effect to any cost savings, revenue synergies or restructuring costs which may result from the integration of NutraCea and RiceX's operations. In addition, actual results may be different from the projections set forth in these Unaudited Pro Forma Condensed Combined Consolidated Financial Statements.

As of the date of this document, NutraCea has not obtained, and does not presently intend to obtain, a third-party appraisal for the purchase price allocation, however, it has estimated the fair value of the assets acquired and allocated the purchase price accordingly. If an actual third-party appraisal is obtained by NutraCea in the future, the appraisal may contain allocations that are materially different than those presented in these Unaudited Pro Forma Condensed Combined Consolidated Financial Statements. In addition, these Unaudited Pro Forma Condensed Combined Consolidated Financial Statements have not been adjusted, as may be necessary, to conform the RiceX data to NutraCea's accounting policies.

**2. Pro Forma Adjustments.**

(a) The Pro Forma Condensed Combined Consolidated Balance Sheet is derived from the unaudited balance sheet of RiceX as of September 30, 2005 and has been adjusted to record eliminating adjustments from transactions between RiceX and NutraCea. For purposes of the Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet, eliminating adjustments consist of trade receivables and trade payables between RiceX and NutraCea for product sales and purchases, as well as for sublease amounts.

(b) This entry reflects the preliminary allocation of the purchase price to identifiable net assets acquired and the excess purchase price to "Goodwill and other intangibles, net" as follows:

	Common Stock	Additional Capital	Total
Value of NutraCea common stock issued to RiceX shareholders:	\$	—\$ 38,933,921	\$ 38,933,921
<i>Estimate of fair value of identifiable net assets acquired:</i>			
RiceX equity			1,085,930
Estimate of fair value adjustment of property, plant and equipment			5,600,000
Estimate of fair value adjustment of RiceX intellectual property			2,000,000
Estimate of fair value of identifiable net assets acquired			8,685,930
Goodwill and other intangibles, net			\$ 30,247,991

(b1) The purchase price allocation included within these Unaudited Pro Forma Condensed combined Financial Statements is based upon a purchase price of \$38,933,921, calculated as follows:

RiceX shares outstanding at October 4, 2005	36,813,274
Merger exchange ratio	0.76799
NutraCea shares reserved for issuance to RiceX shareholders	28,272,226
Net change in total combined common shares outstanding	(8,541,048)
Price per share (NutraCea closing price as of October 4, 2005)	\$ 1.03
Aggregate value of NutraCea common stock consideration	29,120,393
Value attributed to par, no par	
Balance to capital in excess of par value	29,120,393
Estimated value of the RiceX warrants and options assumed**	9,813,528
Total estimated consideration	\$ 38,933,921

\*\* The purchase price allocation discussed herein accounts for the assumption by NutraCea of the outstanding RiceX options and warrants to purchase up to 15,378,465 shares of RiceX common stock that are “in-the-money” (i.e. exercisable at \$1.03 per share or less), which, based on the conversion ratio of 0.76799 per share of RiceX common stock (and assuming employees will exercise the “net exercise” provision), would result in the issuance by NutraCea of options and warrants to purchase up to 11,733,708 additional shares of NutraCea common stock. The possible issuance of an additional 11,733,708 shares of NutraCea common stock would be distributed among third party warrant and option holders (warrants to purchase 3,762,740 shares of NutraCea common stock) and RiceX current employees and directors (options to purchase 7,970,968 shares of NutraCea common stock). Using the Black-Scholes option-pricing model, the estimated fair value of the aggregate warrants and options underlying the shares would be \$9,813,528, or \$0.84 per share.

(c) The Pro Forma Condensed Combined Consolidated Statements of Operations are derived from the audited Statements of RiceX for the period ended December 31, 2004 and the unaudited Statements of RiceX for the period ended September 30, 2005, and has been adjusted to record eliminating adjustments from transactions between RiceX and NutraCea. For purposes of the Unaudited Pro Forma Condensed Combined Consolidated Statement of Operations, eliminating adjustments consist of product sales and cost of goods sold between RiceX and NutraCea.

(d) This entry reflects the estimate and additional depreciation expense associated with the estimate of fair value of property, plant and equipment. NutraCea has estimated the fair value of property, plant and equipment for presentation of the purchase price allocation. If NutraCea obtains a third-party appraisal of the purchase price allocation, the appraisal may contain allocations that are materially different than those presented in these Unaudited Pro Forma Condensed Combined Consolidated Financial Statements.

(d)(i) Estimate of fair value of property, plant and equipment:

		Life / Yr.	Depreciation	
			Yearly	Nine Months
Property, Plant & Equipment	\$ 5,600,000	3-10	\$ 818,519	\$ 613,889

(d)(ii) Estimate of fair value adjustment of RiceX intellectual property (patents, trademarks, and trade secrets):

		Life / Yr.	Amortization	
			Yearly	Nine Months
Intellectual Property	\$ 2,000,000	10	\$ 200,000	\$ 150,000





(e) The Unaudited Pro Forma Condensed Financial Statements have been adjusted for compensation to RiceX employees in accordance with the Merger Agreement as follows: (i) retention bonuses for three RiceX executives (at \$50,000 each) totaling \$150,000; and (ii) accrued vacation payout to RiceX employees in the aggregate amount of \$110,000.

(f) The Unaudited Pro Forma Condensed Combined Financial Statements have been adjusted for compensation to NutraCea as follows: (i) in accordance with an employment agreement, a merger success bonus for a NutraCea executive for \$250,000 was awarded following the closing of the merger; and (ii) a corporate discretionary merger success bonus was awarded to two NutraCea executives totaling \$200,000 (at \$50,000 and \$150,000, respectively).

(g) The Unaudited Pro Forma Condensed Combined Financial Statements have been adjusted to eliminate a cash dividend of \$20,473 owed by NutraCea to RiceX by virtue of RiceX's prior ownership of certain shares of NutraCea Series A Convertible Preferred Stock.

(h) These entries reflect NutraCea satisfying its closing requirement of debt retirement and the infusion of an additional \$2.5 million in cash through a private placement of its securities. On September 28, 2005, NutraCea entered into a Securities Purchase Agreement and a Registrations Rights Agreement in connection with a private placement of its securities to certain investors for aggregate gross proceeds of approximately \$7.85 million (approximately \$7.3 million after estimated offering expenses). Upon the closing of the transaction on October 4, 2005, the investors purchased an aggregate of 7,850 shares of Series B Convertible Preferred Stock at a price of \$1,000 per share pursuant to the Purchase Agreement. The preferred shares can be converted to shares of common stock at a conversion rate of 2,000 shares of common stock for each preferred share issued in the transaction. Additionally, pursuant to the Purchase Agreement, the investors were issued warrants to purchase an aggregate of 7,850,000 shares of common stock at an exercise price of \$0.70 per share. The warrants have a term of five years and are immediately exercisable. An advisor for the financing received a customary fee based on aggregate gross proceeds received from the investors and a warrant to purchase 1,099,000 shares of common stock at an exercise price per share of \$0.50 per share.

<i>Total NutraCea merger financing transaction and use of funds:</i>	<b>Series B Preferred Stock</b>	<b>Additional Capital</b>	<b>Total</b>
Sale of series B convertible preferred stock, 7,850 shares at \$1,000 per share	\$ 7,850,000	—\$	7,850,000
Offering fees (7%) associated with financing transaction	(549,500)	—	(549,500)
Valuation of 1,099,000 warrant shares issued in conjunction with Offering (non-cash transaction)	(911,071)	—	(911,071)
Investment advisor legal fees associated with the financing transaction	(25,000)	—	(25,000)
NutraCea legal fees associated with the merger and financing transaction	\$ (448,521)	—	(448,521)
<i>Total financing, net</i>			5,915,908
Retire debt in connection with December 22, 2004 private placement of secured promissory note			(2,400,000)
Discount on promissory note			178,316
Interest expense non-cash			(178,316)
Accrued interest on private placement secured promissory note			(137,043)
Total debt and accrued interest retired		\$	(2,537,043)

### 3.

### **Federal Income Tax Consequences of Merger.**

The Unaudited Pro Forma Condensed Combined Consolidated Financial Statements assume that the merger qualifies as a tax-free reorganization for federal income tax purposes.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion on our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Prospectus.*

### **Note Regarding Forward-Looking Statements**

This discussion contains forward-looking statements that relate to future events or future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential" or "continue" or the negative of such terms or other comparable terminology. These statements are only predictions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks outlined under "Risk Factors" and elsewhere in this Prospectus.

### **Recent Developments**

*Merger with The RiceX Company.* On October 4, 2005, NutraCea acquired The RiceX Company, or RiceX, by merger pursuant to the terms of an Agreement and Plan of Merger and Reorganization, dated April 4, 2005, by and among NutraCea, Red Acquisition Corporation, a wholly owned subsidiary of NutraCea and RiceX ("Merger Agreement"). At the effective time of the merger, Red Acquisition Corporation merged with and into RiceX, with RiceX surviving the merger as a wholly-owned subsidiary of NutraCea. Pursuant to the Merger Agreement and as a result of the Merger, each share of RiceX common stock outstanding immediately prior to the effective time of the merger was converted into the right to receive 0.76799 shares of NutraCea's common stock.

In connection with the merger, NutraCea issued 28,272,226 shares of NutraCea common stock to holders of RiceX common stock. In addition, NutraCea assumed each outstanding option and warrant to purchase RiceX common stock and converted those options and warrants into options and warrants to purchase an aggregate of 11,810,507 shares of NutraCea common stock.

Pursuant to the terms of the merger, the number of directors serving on NutraCea's board of directors increased from five to seven.

*Financing Transaction.* On September 28, 2005, NutraCea entered into a Securities Purchase Agreement (the "Purchase Agreement") and a Registration Rights Agreement (the "Registration Rights Agreement") in connection with a private placement of its securities to certain investors for aggregate gross proceeds of approximately \$7.85 million. Upon closing of the transaction on October 4, 2005, the investors purchased an aggregate of 7,850 shares of NutraCea's Series B Convertible Preferred Stock (the "Preferred Shares") at a price of \$1,000.00 per share pursuant to the Purchase Agreement. The Preferred Shares can be converted to shares of NutraCea common stock at a conversion rate of 2,000 shares of common stock for each Preferred Share issued in the transaction. Additionally, pursuant to the Purchase Agreement, the investors were issued warrants to purchase an aggregate of 7,850,000 shares of NutraCea common stock at an exercise price of \$0.70 per share. The warrants have a term of five years and are immediately exercisable.

On September 13, 2005 NutraCea entered into an agreement with Dominican Republic rice mill whereby the two companies will form a joint venture to install equipment to annually produce at least 5,000 metric tons of stabilized rice bran. The joint venture will be equally owned by the two companies and will commercially sell stabilized rice bran products through retail and government in the Dominican Republic and Haiti.

In November 2005 NutraCea signed a Supply and Distribution Agreement with T. Geddes Grant, a Jamaican Corporation. The agreement requires NutraCea to deliver a customized formulated and fortified RiSolubles mix to T. Geddes Grant. The agreement requires that T. Geddes Grant purchase a minimum of \$4,500,000 of the custom formulation per year for a term of two years. Under the terms of the agreement, T. Geddes Grant is also appointed as exclusive distributor for the territory of Jamaica, Barbados and Trinidad. T. Geddes Grant is obligated to obtain all necessary regulatory approvals for marketing NutraCea products in the Territory and use its best efforts to develop commercial sales in the Territory.

### **Comparison of Results for the Years Ended December 31, 2004 and 2003**

Our revenues decreased by \$311,924, to \$1,224,229 in 2004, from \$1,536,153 in 2003. The 20% decrease resulted from a decrease of approximately \$730,500 in sales by our equine division from \$1,248,996 in 2003 to \$600,976 in 2004. This decrease was partially offset by product licensing fees of \$214,500 in 2004 (\$0 in 2003).

Cost of goods sold decreased by \$245,539 to \$600,129 in 2004, from \$845,668 in 2003. This 29% decrease results primarily from a decrease in cost of goods sold from our equine division of \$321,371 in 2004.

Gross profit decreased by \$66,385 to \$624,100 in 2004, from \$690,485 in 2003. This 10% decrease is due to lower equine division sales, which have been partially offset by the licensing fees revenue in 2004.

Operating expenses increased by \$15,257,973 to \$24,175,462 in 2004, from \$8,917,489 in 2003. This increase was primarily due to increased non-cash expenses related to issuances of common stock and common stock warrant and option awards. These non-cash items totaled \$21,672,093 in 2004 and \$1,577,938 in 2003. During 2004, these non-cash expenses included \$8,360,000 relating to the issuance of 5.5 million restricted shares of common stock to our CEO for services rendered and repayment of debt; \$4,100,603 representing the value of restricted shares and shares covered by the our S-8 registration statement issued to officers, directors and consultants for services; and \$8,537,516 representing the value of options and warrants issued to various employees and consultants. During 2003, non-cash expenses included \$14,795 representing the value of restricted stock issued to consultants for services; \$1,233,567 representing the value of options issued to consultants; and \$329,576 representing the value of options issued to employees and directors. The increased issuance of restricted stock, options and warrants during 2004 was deemed necessary by management to retain and compensate officers, directors, consultants and employees while conserving cash assets that would otherwise have been expended for these purposes. Management expects in the future to reduce the amount of securities issued as compensation in light of expected future increases in cash assets due to anticipated increases in revenue and anticipated availability of additional investment capital from outside sources. However, if additional invested capital is not realized as anticipated, we may be required to issue additional restricted stock, options and/or warrants to compensate service providers in the current fiscal year. Also, professional fees increased \$703,360 to \$1,122,250 in 2004 from \$418,890 in 2003. Primary reasons for the increase in professional fees include the use of consultants instead of hiring permanent employees (\$351,820), legal fees associated with transactions (\$157,570), and additional costs associated with public filings (\$109,042). Employee wages and related expense increased by \$153,640 due to increased bonuses of \$305,000 which were partially offset by reductions in the total number of employees.

Interest expense decreased by \$4,283,194 to \$27,602 in 2004, from \$4,310,796 in 2003 primarily due to the recording of \$4,224,246 in interest expense in 2003 relating to modifications of stock option and warrant awards attached to debt as a result of the 1 for 10 reverse stock split occurring on November 12, 2003.

#### **Comparison of Results for the Nine-Months Ended September 30, 2005 and 2004**

Our revenues increased by \$397,361, to \$1,060,271 for the nine months ended September 30, 2005 from \$662,910 for the nine months ended September 30, 2004. Human product sales increased by 24% due to increased medical food sales while the NutraGlo animal products subsidiary accounted for 76% of the increase in revenues due to increased orders from its primary equine customer.

Costs of goods sold increased by \$308,075 to \$704,569 for the nine months ended September 30, 2005 from \$396,494 for the nine months ended September 30, 2004. The increase in costs of goods sold generally reflects the increase in products sold during the first nine months of 2005 as well as a small deterioration in our gross profit margin from 37% in 2004 to 34% in 2005.

Operating expenses decreased by \$18,109,638, to \$3,457,937 for the nine months ended September 30, 2005 from \$21,567,575 for the nine months ended September 30, 2004. Most of the decrease is due to an \$18,075,295 reduction in expenses related to non-cash stock and option awards in 2005 as compared to 2004. During the first nine months of 2005, we issued stock valued at \$812,200 to consultants and employees as compensation and stock options valued at \$479,449 to consultants and employees as compensation. The significant decrease in non-cash expenses reflects management's intention to reduce the amount of compensation paid with our stock or options/warrants. Management expects the reduced amount of securities issued as compensation during 2005 to be indicative of the future levels of securities issuances for compensation purposes. Management hopes that increasing revenues and the availability of invested capital will allow us to pay more of its operating expenses with cash rather than securities.

Other decreases in expenses include reduced commissions and finders fees in the amount of \$209,437 and marketing expense of \$77,961. Offsetting these decreases in expenses during the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004, were the increase in salaries of \$91,496 to \$451,191 from \$359,695; the increase in legal fees of \$208,519 to \$241,781 from \$33,263; and the increase in travel and entertainment of \$45,278 to \$108,646 from \$63,367. The salary and travel expense increases related primarily to more executive employees generating additional business during the quarter while the significant increase in legal fees relate primarily to the merger transaction with The RiceX Company.

A customer forfeited its \$100,000 deposit by terminating a technology rights agreement which resulted in \$100,000 of other income for the nine months ended September 30, 2005.

Interest expense increased substantially to \$715,046 for the nine months ended September 30, 2005 from \$495 for the nine months ended September 30, 2004. The increase is due to \$128,536 of interest expense on notes payable that were funded in December 2004 and amortization of debt discount of \$586,510 related to the same notes payable.

The net loss for the nine months ended September 30, 2005 was \$3,559,689 compared to a net loss of \$21,297,570 recorded for the nine months ended September 30, 2004. The lower net loss for the first nine months of 2005 was due primarily to the higher non-cash stock and options expensed during the first nine months of 2004.

## **Liquidity and Capital Resources**

We have incurred significant operating losses since its inception, and, as of September 30, 2005 we had an accumulated deficit of \$48,639,037. We used approximately \$557,000 of cash to fund operations during the quarter ended September 30, 2005 leaving a cash and cash equivalents balance of \$389,034 at September 30, 2005 and a working capital deficit of \$1,973,288. The cash is not deemed sufficient to cover our operating deficits, expanded business plan and growth, nor the repayment of debt obligations.

To date, we have funded our operations, in addition to sales revenues, through a combination of short-term debt and the issuance of common and preferred stock. During the nine months ended September 30, 2005, we issued a total of 2,388,897 shares of common stock of which 1,957,897 shares were issued as compensation to our officers and consultants. We continue to pursue cost cutting and expense deferral strategies in order to conserve working capital.

Subsequent to September 30, 2005, on October 4, 2005 we completed a private placement of securities which generated aggregate gross proceeds of approximately \$7.85 million (approximately \$7.3 million after estimated offering expenses). This subsequent sale of securities will provide additional operating capital for at least the next 12 months for NutraCea.

As of September 30, 2005, our principal commitments include a lease commitment for our corporate offices of \$ 6,366 per month that expires in September 2006.

In addition to the capital raised on October 4, 2005, our management believes that it may need to raise additional capital to continue to develop, promote and conduct its operations. Such additional capital may be raised through public or private financing as well as borrowing from other sources. Although we believe that current and/or future investors will continue to fund our expenses, there is no assurance that such investors will continue to fund our ongoing operations or that the terms upon which such investments would be made will be favorable to us.

## **Critical Accounting Policies**

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

### *Revenue recognition*

NutraCea is required to make judgments based on historical experience and future expectations, as to the reliability of shipments made to its customers. These judgments are required to assess the propriety of the recognition of revenue based on Staff Accounting Bulletin No. 101, "Revenue Recognition," and related guidance. NutraCea makes these assessments based on the following factors: (a) customer-specific information, (b) return policies, and (c) historical experience for issues not yet identified.

### *Valuation of long-lived assets*

Long-lived assets, consisting primarily of property and equipment, patents and trademarks, and goodwill, comprise a significant portion of NutraCea's total assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Recoverability of assets is measured by a comparison of the carrying value of an asset to the future net cash flows expected to be generated by those assets. The cash flow projections are based on historical experience, management's view of growth rates within the industry, and the anticipated future economic environment.

Factors NutraCea considers important that could trigger a review for impairment include the following:

- (a) significant underperformance relative to expected historical or projected future operating results,
- (b) significant changes in the manner of its use of the acquired assets or the strategy of its overall business, and
- (c) significant negative industry or economic trends.

When NutraCea determines that the carrying value of patents and trademarks, long-lived assets and related goodwill and enterprise-level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, it measures any impairment based on a projected discounted cash flow method using a discount rate determined by its management to be commensurate with the risk inherent in its current business model.

*Marketable securities*

Marketable securities are marked to market at each period end. Any unrealized gains and losses on the marketable securities are excluded from operating results and are recorded as a component of "Other comprehensive income (loss)." If declines in value are deemed other than temporary, losses are reflected in "Net income (loss)."

*Inventory*

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

*Property and equipment*

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

Furniture and equipment	5-7 years
Automobile	5 years
Software	3 years
Leasehold Improvements	2.4 years

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

*Fair value of financial instruments*

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



*Stock-based compensation*

Compensation is recorded for stock-based compensation grants based on the excess of the estimated fair value of the common stock on the measurement date over the exercise price. Additionally, for stock-based compensation grants to consultants, NutraCea recognizes as compensation expense the fair value of such grants as calculated pursuant to Statement of Financial Accounting Standard ("SFAS") No. 123, recognized over the related service period. SFAS No. 148 requires companies to disclose pro forma results of the estimated effect on net income and earnings per share to reflect application of the fair value recognition provision of SFAS No. 123.

*Debt satisfaction*

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE RICEX COMPANY**

*The following discussion of the financial condition and results of operations of The RiceX Company should be read in conjunction with the consolidated financial statements and notes thereto regarding The RiceX Company included elsewhere in this Prospectus.*

**Comparison of Results for the Years Ended December 31, 2004 and 2003**

Consolidated revenues for the year ended December 31, 2004 were \$4,010,000, an increase of \$499,000, or 14% on a comparative basis to the year ended December 31, 2003. RiceX experienced an increase of \$303,000 in sales to its domestic animal SRB Regular and an increase to its human SRB Fine markets of \$97,000, compared to the year ended December 31, 2003. RiceX also had increased sales in domestic SRB Fiber of \$71,000. Central American Solubles sales increased \$539,000 from zero sales last year internationally. RiceX added the SRB Dextrinized product line in 2004, which produced \$82,000 in sales for the year ended December 31, 2004. RiceX experienced decreases in human SRB Regular of \$60,000, animal SRB Fine of \$64,000, and domestic SRB Solubles of \$469,000, compared to the same period last year.

Gross margins for the year ended December 31, 2004 were \$2,354,000, or 59%, compared to \$1,646,000, or 47%, during the same period last year. The increase in percentage as well as gross margin dollars of \$708,000 was the result of increased sales of \$499,000 and decreased cost of sales of \$209,000. The decrease in cost of sales was mostly the result of production efficiencies and decreased depreciation costs of production equipment at RiceX's Montana manufacturing facility. Gross margins on RiceX's different products vary widely and the gross margins are impacted from period to period by sales mix and utilization of production capacity.

R&D expenses decreased \$2,000, to \$224,000 for the year ended December 31, 2004, compared to the same period in 2003. The change in R&D expenses is mostly due to reduced activity in research and development. R&D expenses were mostly based on allocating SG&A costs dedicated to research personnel and process research.

SG&A expenses were \$2,465,000 for the year ended December 31, 2004, an increase of \$284,000. The increase was due primarily to employee costs related to an accrual for severance expenses of two executives that resigned from RiceX. Adding to SG&A expenses was \$101,000 of commission expenses related to shipments to Central America and a portion relating to marketing to the equine market. RiceX put back 130,000 shares of Preferred Stock priced at \$1 per share in the amount of \$130,000 per a Put Agreement to NutraCea and sold 60,000 shares of NutraCea common stock offsetting SG&A expenses by approximately \$181,000. Because of NutraCea financial position at the time the Put Agreement was entered into and the common stock was received, RiceX booked an allowance for loss on investment of \$190,000.

Professional fees increased \$62,000, to a total of \$502,000, for the year ended December 31, 2004 compared to last year. The increase is primarily due to higher legal fees from increased general corporate legal activity in 2004.

Investor relations' fees decreased \$42,000, to a total of \$62,000, for the year ended December 31, 2004. The decrease was primarily associated with expenses related to an investor relations firm and webpage design work performed and paid for in 2003. Investor relations' fees included expenses related to printing and distribution of RiceX's annual report, annual meeting costs, and costs related to SEC reporting requirements.

RiceX had a net loss of \$883,000 for the year ended December 31, 2004, or \$0.02 per share, compared to \$1,292,000 for 2003, or \$0.03 per share. The net loss improvement of \$410,000 was due to increased total revenues, better utilization of production capacity, and an increase in higher margin SRB Solubles sales internationally through year ended December 31, 2004. This improvement was offset by \$250,000 in additional employee expenses related to the severance of two executives, but was increased by related party debt recovery of approximately \$181,000.

The provision of income taxes for the years ended December 31, 2004 and 2003 consists of the \$1,650 minimum state income tax.

Deferred taxes arise from temporary differences in the recognition of certain expenses for tax and financial statement purposes. At December 31, 2004, RiceX's management determined that realization of these benefits is not assured and has provided a valuation allowance for the entire amount of such benefits. At December 31, 2004, net operating loss carryforwards were approximately \$14,510,000 for federal tax purposes that expire at various dates from 2011 through 2025 and \$10,782,000 for state tax purposes that expire in 2005 through 2014. Utilization of net operating loss carryforwards may be subject to substantial annual limitations due to the "change in ownership" provisions of the Code and similar state regulations. The annual limitation may result in expiration of net operating loss carryforwards before utilization.

#### **Comparison of Results for the Nine-Months Ended September 30, 2005 and 2004**

For the nine months ending September 30, 2005, the RiceX's net loss was \$3,705,000, or \$.10 per share, compared to \$528,000 net loss, or \$.01 per share, in 2004, showing a greater net loss of \$3,178,000 compared to the same period last year. The increase in net loss for the year comparably was mostly due to non cash charges of \$2,968,000 to compensation expense required by the variable accounting treatment to re-price director and employee stock options as well as increased professional and investor relation fees in the amount of approximately \$505,000 related to merger activity as of September 30, 2005.

RiceX's consolidated revenues through September 30, 2005 of \$2,781,000 increased \$44,000, or 2%, from the same period last year. The revenue increase is primarily attributed to increased sales in three categories, SRB Regular, SRB Fine and Fiber. SRB Fine increased \$22,000. Solubles showed a decrease in revenue of \$338,000, mostly due to no international sales through September 2005 compared to \$477,000 in Solubles sales to Central America through September 2004. SRB Regular increased \$263,000, and Fiber increased \$73,000 compared to sales through September 2004.

Product volume movement through September 2005 was up 1,487,000 lbs., or 18%, to 9,842,000 lbs. Year to date product volume was up in all product lines except for Solubles. Solubles were down 61,000 lbs., SRB Regular volume was up 1,419,000 lbs., SRB Fine was up 64,000 lbs., and Fiber was up 65,000 lbs. over the same period last year.

RiceX's Gross margins through September 2005 were \$1,657,000, or 60%, compared to \$1,658,000, or 61%, during the same period last year. The variance in gross margin dollars of \$1,000 was essentially even to the same period last year.

RiceX's SG&A expenses were \$5,369,000 and \$2,213,000 through period ended September 30, 2005 and 2004 respectively, an increase of \$3,156,000. The increase was mostly due to a \$2,968,000 non-budgeted non-cash charge to compensation expense which was the result of variable accounting treatment required for the re-pricing of director and employee stock options. Added to SG&A expenses year to date was \$63,000 in final tax and legal costs related to the severance of two executives in January of 2005. RiceX experienced an increase in R&D expenses of \$17,000, due to increased allocations of SG&A to research. Professional fees increased \$382,000 mostly due to a year to date increase in legal costs relating to merger activity. Investor relations fees increased \$11,000 compared to last year at \$68,000 due to proxy material printing and filing related to merger activity.



Year-to-date through September 30, 2005, RiceX incurred approximately \$505,000 in legal, investor relation and professional fees that are directly associated with the merger of NutraCea and RiceX. Legal fees were \$407,000 and professional fees were \$50,000. Additional accounting, edgarizing, and printing costs, which are accrued and included in investor relation fees, amount to over \$48,000 and are directly associated with merger activity.

RiceX's cash balance for period ended September 30, 2005 was \$546,000 versus \$1,207,000 for the period last year. The Company's operating cash position improved by \$252,000 for period ending September 30, 2005 compared to September 30, 2004 monthly activities.. Our cash disbursements exceeded cash receipts by \$485,000 in 2005 while cash disbursements exceeded cash receipts by \$737,000 in 2004. In September 2005 RiceX received \$40,000 in cash for the exercise of employee stock options. In 2004 there were no non-operations cash receipts or disbursements.

Cash used in operating activities for period ended September 30, 2005 was \$483,000. Cash used in investing activities for period ended September 30, 2005 was \$46,000. Investing activities include the purchase of extrusion machinery equipment and a new warehouse fork lift. There was \$40,000 cash provided by financing activities during the period ended September 30, 2005.

### **Liquidity and Capital Resources**

As discussed above, NutraCea acquired all the outstanding capital stock of RiceX on October 4, 2005 in a merger transaction. As a result of the merger, RiceX's capital stock will no longer be traded publicly. Immediately following the merger with NutraCea, RiceX had \$546,000 of cash and cash equivalents.

### **Critical Accounting Policies**

A summary of RiceX's significant accounting policies is included in Note 1 to its Notes to Consolidated Financial Statements for the year ended December 31, 2004.

## BUSINESS OF NUTRACEA

### General

We are a California corporation formerly known as Alliance Consumer International, Inc. As a result of the reorganization transaction discussed below, we conduct the business previously carried on by NutraStar Technologies Incorporated, or NTI, a Nevada corporation that was formed and started doing business in February 2000. In addition, we conduct business through our wholly-owned subsidiary, The RiceX Company, or RiceX, a Delaware corporation that we acquired on October 4, 2005 (For a description of the business of The RiceX Company, see the section of this prospectus titled "BUSINESS OF THE RICEX COMPANY"). We are a relatively new health science company focused on the development and distribution of products based upon the use of stabilized rice bran and proprietary rice bran formulations. Rice bran is the outer layer of brown rice which until recently was a wasted by-product of the commercial rice industry. These products include food supplements and medical foods, or "*nutraceuticals*," which provide health benefits for humans and animals, as well as cosmetics and beauty aids based on stabilized rice bran, rice bran derivatives and rice bran oil. We believe that stabilized rice bran products can deliver beneficial physiological effects with fewer of the adverse side effects commonly associated with many prescription drugs. As a result, we believe that certain of our products may be used in place of, or as a supplement to, some of the most commonly used pharmaceuticals. We have conducted and are currently involved in ongoing clinical trials and third party analyses in order to support the uses for and effectiveness of our products.

We have developed a number of product lines that are currently or soon will be available for sale in the market through our four divisions: *TheraFoods*®, which provides health food supplements to the retail market; *ProCeuticals*®, which distributes medical foods through the medical community; *NutraGlo*®, which distributes animal feed products; and *NutraBeauticals*®, which is developing and marketing cosmetics and beauty aids. We anticipate developing strategic distribution and marketing agreements with retail merchandisers, pharmaceutical companies and medical practices, including HMOs, hospitals and institutions.

Our corporate offices are located at 1261 Hawk's Flight Court, El Dorado Hills, California 95762. Our telephone number is (916) 933-7000. We have two wholly owned subsidiaries, NTI, which in turn wholly owns NutraGlo Incorporated, a Nevada corporation, and RiceX, which wholly owns RiceX Nutrients, Inc., a Montana corporation. We also own part of NutraStarSport, Inc., a Nevada corporation.

### History

We originally incorporated on March 18, 1998 in California as Alliance Consumer International, Inc. On December 14, 2001, NTI effected a reorganization with the inactive publicly-held company, Alliance Consumer International, Inc., and the name was changed to NutraStar Incorporated. As a result of the reorganization NTI became a wholly-owned subsidiary of NutraStar Incorporated and NutraStar Incorporated assumed the business of NTI.

On October 1, 2003, NutraStar Incorporated changed our name to NutraCea and the common stock began trading on the OTCBB under the symbol "NTRC." On November 12, 2003, we declared a 1:10 reverse stock split. Our common stock trades on the OTCBB under the symbol "NTRZ."

On April 27, 2000, NutraStar formed NutraGlo Incorporated, or NutraClo, a Nevada corporation, which was owned 80% by NTI and 20% by NaturalGlo Investors L.P. During 2001, NutraGlo started marketing, manufacturing and distributing one of our products to the equine market. In 2002, we issued 250,001 shares of our common stock to NaturalGlo Investors L.P. in exchange for the remaining 20% of the common stock of NutraGlo. The value of the shares was \$250,001. As a result, NutraGlo is now a wholly-owned subsidiary of NTI.



On October 4, 2005, we acquired RiceX in a merger transaction in which our wholly-owned subsidiary, Red Acquisition Corporation, merged with and into RiceX, with RiceX surviving the merger as our wholly-owned subsidiary. For a description of the business of RiceX, see the portion of this prospectus titled "BUSINESS OF THE RICEX COMPANY."

## **Industry Overview**

By definition, nutraceuticals are products from natural sources that have biologically therapeutic effects in humans and mammals. These compounds include vitamins, antioxidants, polyphenols, phytosterols, as well as macro and trace minerals. Rice bran and rice bran oil are good sources for some of these compounds, including tocotrienols, a newly discovered complex of vitamin E, and gamma-oryzanol, which is found only in rice bran. Among other things, these compounds act as potent antioxidants. Stabilized rice bran and its derivatives also contain high levels of B-complex vitamins and beta-carotene, a vitamin A precursor. Stabilized rice bran also contains high levels of carotenoids and phytosterols, both essential fatty acids, as well as a balanced amino acid profile and both soluble and insoluble fiber which promote colon health.

Rice is one of the world's major cereal grains, although United States production of rice is only a small fraction of total world production. According to the United States Department of Agriculture, approximately 65% of the nutritional value of rice is contained in the rice bran, the outer brown layer of the rice kernel which is removed during the milling process. However, raw, unstabilized rice bran deteriorates rapidly. Because of the rapid degradation and short shelf life, rice bran has not been widely accepted as a component of nutrition, health or beauty products notwithstanding the known benefits. RiceX has developed a method of stabilizing rice bran that we believe is superior to other methods, and provides a shelf life of approximately two years, which we believe is longer than any other stabilized rice bran. Using stabilized rice bran as an ingredient provides the longer shelf life necessary for economical production of nutrition products which incorporate rice bran ingredients.

As the population of the United States ages over the next 30 years, we believe demand for our products will increase materially. Since stabilized rice bran is a safe food product, we believe that its beneficial effects can be obtained with no known deleterious side effects, such as those that may be present in pharmaceuticals. Many physicians have taken an interest in our nutraceutical products as a means of offering alternative or complementary approaches for treating serious healthcare problems. If further clinical trials support the beneficial effects of our nutraceutical and medical foods products and if the medical community widely endorses such use of our products, we believe that our products may be used as a nutritional therapy either prior to or as a complement to traditional pharmaceutical therapies for the treatment of a variety of ailments including diabetes and coronary heart disease.

## **Products**

In addition to the products sold by The RiceX Company, we have two segments with four primary divisions through which we currently sell our products.

### **Products of NutraStar Technologies Incorporated:**

*TheraFoods® Nutrition Supplements.* We distribute our consumer products through our TheraFoods® Nutritional Supplements division. The primary products currently sold through this division are RiSolubles®, RiceMucil®, CeaFlex®, FlexBoost®, DiaBoost®, MigraCea®, ProstaCea®, Cea100®, NutraImmune™, LiverBoost®, SuperSolubles®, SynBiotics™ and StaBran® Nutritional Supplements. All the products are currently available in either capsule or powdered form for use as food supplements. The powdered form can also be used as a food additive in breads, cookies, snacks, beverages, and similar foods. We have also developed and currently produces CeaFlex® Cream, a topical, cream product for arthritic joint and muscle pain.





· *ProCeuticals® Medical Foods.* We distribute our medical foods products to doctors, clinics and healthcare providers through our ProCeuticals® Medical Foods Division. In addition to certain consumer products, the primary products to be distributed through this division are SynBiotics 1™ Probiotics to support treatment of Irritable Bowel Syndrome, SynBiotics 2™ Probiotics to support treatment of Inflammatory Bowel Disease, SynBiotics 3™ Probiotics to support treatment of antibiotic-induced diarrheal conditions, and LiverBoost® to support liver health. We expect to market these medical foods to healthcare providers through the same distribution systems that market pharmaceutical and medical supplies.

· *NutraBeauticals® Beauty Products.* We distribute our natural beauty products through our NutraBeauticals® Beauty Products Division. The principal product sold through this division is NutraBeauticals® Skin Cream, a topical emollient containing rice bran oil and other natural ingredients to support the health and improve the appearance of skin. We do not have an established distribution system for our beauty and skin care products.

#### **Products of NutraGlo Incorporated:**

· *NutraGlo® Animal Products.* We developed a derivative of our CeaFlex® Nutritional Supplement to prevent and rehabilitate joint degeneration in horses and markets CeaFlex® Equine Nutritional Supplements and Absorbine Flex+® Equine Pain Relief through our NutraGlo® Animal Products Division. Our Absorbine Flex+™ Equine products are distributed exclusively through W.F. Young, Inc. pursuant to a distribution agreement in the United States and many foreign countries. Other equine and animal health care products will be distributed through this or other channels.

#### **Other Products**

On September 13, 2005, we entered into a Production Facility Development and Rice Bran Supply and Purchase Agreement (“Purchase Agreement”) with Food Trading Company Dominicana, S.A. (“FTCD”), a Dominican Republic company that owns and operates a substantial rice milling operation located in the Dominican Republic. We and FTCD have agreed to form one or more entities to operate in the Dominican Republic and Haiti and that will be equally owned by us and FTCD (the “Jointly Owned Company”). The term of the Agreement is ten years.

Under the terms of the Agreement, we will construct or improve a production facility for the processing of stabilized rice bran into a bulk fiber soluble mixture. The Jointly Owned Company will then package individual servings of the rice fiber solubles mixed with water (the “Products”). The Products are intended to be sold and distributed through government sponsored feeding programs within the Dominican Republic and Haiti. NutraCea has agreed to grant to the Jointly Owned Company an exclusive license in the Dominican Republic and Haiti to manufacture, package and distribute the Products.

FTCD is responsible for the purchase agreements for the Jointly Owned Company’s Products in the aggregate amount of at least \$10.8 million annually for the first two years of the agreement, with purchase orders beginning no later than 45 days from the effective date of the Agreement and at least \$4 million monthly for years three and four of the agreement. Additionally, FTCD has agreed to obtain all appropriate governmental and legal permits relating to the operation of the Jointly Owned Company, and to sell quantities of raw rice bran to the Jointly Owned Company for production of the Products.

Should we and FTCD elect to construct a Dominican Republic production facility, FTCD has agreed to lease land to the Jointly Owned Company for the construction of the production facility and we have agreed to secure financing to construct or improve the production facility. We have agreed to ship bulk fiber soluble mixture from our production facilities in the United States until we and FTCD elect to construct a facility in the Dominican Republic.

## **Marketing**

Our TheraFoods® Division is currently marketing its products domestically through various distribution channels including our toll-free phone number and through the Internet at <http://www.nutracea.com/products.html>. In addition, we distribute products under the names FlexProtex™, Rice'n Shine™, Flex Protex Cream™, RiceMucil Wafers®, SuperSolubles®, ZymeBoost® and CeaBars™ through ITV Global, Inc. ("ITV"), a direct response marketing company. We and ITV entered into a Private Label Supply Agreement (the "Supply Agreement") and Strategic Alliance on August 24, 2005. The Supply Agreement has an initial term of two years and allows for a subsequent one-year term renewal. We have agreed in the Supply Agreement to fulfill ITV's requirements for the products specified in the agreement while ITV will use its best efforts to market, distribute and sell such products.

Our equine products are distributed under the name "Absorbine Flex+®" by W.F. Young, Inc. pursuant to agreements. We and W.F. Young entered into a distribution agreement on May 1, 2001 which provides for NutraGlo to manufacture, package and ship all W.F. Young's sales requirements while W.F. Young is granted a license to use and market our equine products. NutraGlo has agreed to sell its equine healthcare products exclusively through W.F. Young at preferred product prices. W.F. Young has agreed to use its best efforts to promote NutraGlo's current and future equine products and make minimum product purchases. In May of 2003, the purchase requirements for the three-year contract had been met. The distribution agreement was for an initial term of three years ending on August 31, 2004. On September 18, 2003, NutraCea, W.F. Young and Wolcott Farms, Inc. entered into a Technology Agreement which, among other things, extended the initial term of the Distribution Agreement through September 12, 2006, allowed for subsequent one-year term renewals and amended the minimum purchase requirement. On April 12, 2005, NutraCea and W.F. Young entered into a Manufacturing Agreement which granted to us the exclusive worldwide rights to manufacture certain equine products for W.F. Young. On the same date, NutraCea and W.F. Young entered into an Assignment of Interests in which W.F. Young transferred to us certain rights held by W.F. Young under the Technology Agreement in exchange for 1,222,222 shares of our common stock. In addition, certain rights to the Technology Agreement, held by NaturalGlo Specialty Products, LLC, a subsidiary of W.F. Young, were also transferred to NutraGlo in exchange for 166,667 shares of our common stock and W.F. Young's agreement to decline to exercise its options to acquire additional rights to certain NutraCea technologies under the Technology Agreement. Additionally, on April 12, 2005, NutraCea and W.F. Young entered into a Distribution Agreement under which we granted W.F. Young (i) the right of first offer and right of first refusal to market our stabilized rice bran food supplements (other than Equine Flex+) for the equine market and (ii) the right of first offer and right of first refusal to market the Flex+ product and Flex+ technology for the non-equine, non-human market.

We have developed a number of other animal products, which we are seeking to distribute, subject to rights granted to W.F. Young, through various distribution channels such as the Internet and strategic joint ventures in the large animal, pet and veterinarian industries.

## **International Initiatives**

We have initiated discussions with governmental agencies within various Central and South America countries to explore securing contracts for the introduction of our highly nutritious and proprietary food supplements for use in local and national school feeding initiatives and family nutritional support programs. We are pursuing a strategy to introduce our technology to both the public and private sectors simultaneously using the strength of our local partners in foreign markets.



We are building alliances with strong partners demonstrating our commitment to building the type of mutually beneficial strategic relationships that could launch our products through distribution channels in commercial and retail outlets in Latin America countries as well as supply a better, more cost effective solution for government feeding programs.

### **Product Supply**

We currently purchase all of our stabilized rice bran, rice bran solubles, rice bran fiber concentrates, and other rice bran products from RiceX. We believe RiceX has a proprietary manufacturing process for stabilizing the rice bran it processes. This process results in an estimated shelf life for the rice bran products of approximately two years under proper storage conditions, compared to a typical shelf life of approximately two months for rice bran products processed by other suppliers. The extended shelf life is a critical factor in the use of rice bran products as an ingredient since the availability of rice bran products would otherwise be seasonal and inventories of products using rice bran products would spoil or become unusable between seasons.

RiceX is a wholly owned subsidiary of NutraCea. We purchase our rice bran products at RiceX's standard prices. We believe that RiceX will be able to continue supplying our requirements of stabilized rice bran products. There are no other known sources of stabilized rice bran of the quality comparable to that produced by RiceX. The interruption of supply from RiceX, either because of other significant purchasers or the damage or destruction of the RiceX processing facility, could interrupt the production of our products, and a prolonged interruption would have a material adverse effect on our business, financial condition and results of operation if we did not quickly locate another suitable supplier.

### **Competition**

We compete with other companies that offer products incorporating stabilized rice bran as well as companies that offer other food ingredients and nutritional supplements. Suppliers of nutritional supplements and other products that use stabilized rice bran provided by other suppliers are subject to the higher costs of shorter shelf life and the seasonal availability of stabilized rice bran ingredients. We also face competition from companies providing products that use oat bran and wheat bran in the nutritional supplements as well as health and beauty aids. Many consumers may consider such products to be a replacement for the products manufactured and distributed by us even though they have a higher incidence of allergic reactions and adverse health indications. Many of our competitors have greater marketing, research, and capital resources than we do, and may be able to offer their products at lower costs because of their greater purchasing power or the lower cost of oat and wheat bran ingredients. There are no assurances that our products will be able to compete successfully.

### **Government Regulation**

The Federal Food, Drug, and Cosmetic Act, or FFDCFA, and the U.S. Food and Drug Administration regulations govern the marketing of our products.

The FFDCFA provides the statutory framework governing the manufacturing, distribution, composition and labeling of dietary supplements for human consumption. These requirements apply to our products distributed by the TheraFoods® and ProCeutical® divisions.

Marketers of dietary supplements may make three different types of claims in labeling: nutrient content claims; nutritional support claims; and health claims.

Nutrient content claims are those claims that state the nutritional content of a dietary supplement and include claims such as "high in calcium" and "a good source of vitamin C." The FFDCA prescribes the form and content of nutritional labeling of dietary supplements and requires the marketer to list all of the ingredients contained in each product. A manufacturer is not required to file any information with the Food and Drug Administration, or FDA, regarding nutrient content claims, but must have adequate data to support any such claims.

Nutritional support claims may be either statements about classical nutritional deficiency diseases, such as "vitamin C prevents scurvy" or statements regarding the effect of a nutrient on the structure or function of the body, such as "calcium builds strong bones." The FFDCA requires that any claim regarding the effect of a nutrient on a structure or function of the body must be substantiated by the manufacturer as true and not misleading. In addition, the label for such products must bear the prescribed disclaimer: "This statement has not been evaluated by the Food and Drug Administration. This product is not intended to diagnose, treat, cure, or prevent any disease."

Health claims state a relationship between a nutrient and a disease or a health-related condition. FDA's regulations permit certain health claims regarding the consumption of fiber and the reduction of risk for certain diseases, such claims may relate to rice bran ingredients.

The FDA has broad authority to enforce the provisions of federal law applicable to dietary supplements, including the power to seize adulterated or misbranded products or unapproved new drugs, to request product recall, to enjoin further manufacture or sale of a product, to issue warning letters, and to institute criminal proceedings. In the future, we may be subject to additional laws or regulations administered by the FDA or other regulatory authorities, the repeal of laws or regulations that we might consider favorable or more stringent interpretations of current laws or regulations. We are not able to predict the nature of such future laws or regulations, nor can we predict the effect of such laws or regulations on our operations. We may be required to reformulate certain of our products, recall or withdraw those products that cannot be reformulated, keep additional records, or undertake expanded scientific substantiation. Any or all of such requirements could have a material adverse effect on our business and financial condition.

The Federal Trade Commission, or FTC, regulates the advertising of dietary supplement and other health-related products. The FTC's primary concern is that any advertising must be truthful and not misleading, and that a company must have adequate substantiation for all product claims. The FTC actively enforces requirements that companies possess adequate substantiation for product claims. FTC enforcement actions may result in consent decrees, cease and desist orders, judicial injunctions, and the payment of fines with respect to advertising claims that are found to be unsubstantiated.

In addition to the foregoing, our operations will be subject to federal, state, and local government laws and regulations, including those relating to zoning, workplace safety, and accommodations for the disabled, and our relationship with our employees are subject to regulations, including minimum wage requirements, anti-discrimination laws, overtime and working conditions, and citizenship requirements.

We believe that we are in substantial compliance with all material governmental laws and regulations.

### **Results of Trials and Scientific Research**

The beneficial attributes of stabilized rice bran, including the RiSolubles® and RiceMucil® Nutritional Supplements, have been studied and reported by several laboratories, including Medallion Laboratories, Craft's Technologies, Inc., Southern Testing & Research Laboratories, and Ralston Analytical Laboratories. We have no affiliation with any of the laboratories that performed these studies but did pay for certain portions of these studies. These analyses have verified the presence of antioxidants, polyphenols, and phyosterols, as well as beneficial macro and trace minerals, in our stabilized rice bran products. Antioxidants are compounds which scavenge or neutralize damaging compounds

called free radicals. Polyphenols are organic compounds which potentially act as direct antioxidants. Phytosterols are plant-derived sterol molecules that help improve immune response to fight certain diseases.

A 57-subject clinical trial conducted by Advanced Medical Research with funding by RiceX suggested that consumption of the stabilized rice bran used in our RiSolubles® and RiceMucil® Nutritional Supplements may lower blood glucose levels of type 1 and type 2 diabetes mellitus patients and may be beneficial in reducing high blood cholesterol and high blood lipid levels. If warranted, we may develop products which address the use of stabilized rice bran products as medical foods for, and to potentially make health benefit claims relating to, the effects of dietary rice bran on diabetes and cardiovascular disease.

Through several consulting physicians, we have relationships with several medical institutions and practicing physicians who may continue to conduct clinical trials and beta work for our products. Some of these previous clinical trials are reviewed in an article published in the March 2002 issue of the Journal of Nutritional Biochemistry. The trials produced positive results by showing that the levels of blood lipids and glycosylated hemoglobin were reduced. Subsequently, six domestic and international patents were issued.

The W.F. Young Company, distributors of Absorbine® Equine Pain Relief Products, sponsored a 50-horse equine clinical trial, which demonstrated the our Absorbine Flex+® Equine Products to be effective products for treating joint degeneration as well as inflammation in horses.

### **Intellectual Property**

We, through NTI, filed applications with the U.S. Patent and Trademark Office and has successfully registered our logo, StaBran®, RiSolubles®, RiceMucil®, and 24 other product names, as registered federal trademarks and service marks. We also have an additional 36 trademark and service mark applications in various stages in the U.S Patent and Trademark Office.

RiceX® and RiceX Solubles® are RiceX's registered trade names. Mirachol®, Max "E"® and Max "E" Glo® are RiceX's registered trademarks.

We, through NTI, filed a non-provisional patent application with 47 claims entitled "Methods of Treating Joint Inflammation, Pain and Loss of Mobility" on November 6, 2001. In a December 3, 2002 office action, the U.S. Patent and Trademark Office allowed 26 and disallowed 21 of the patent's 47 claims. Subsequently, in February 2004, the 26 claims which were allowed in December of 2002 were disallowed. In March 2004, we appealed the disallowance of the 26 claims which were previously allowed. Additionally, in October 2003, nine additional preventive claims were added to the patent. In February 2005, we received a written notification that the U.S. Patent and Trademark Office had allowed 11 claims and the prosecution of the application was closed. On June 8, 2005, NutraCea was granted U.S. Patent Number 6,902,739.

We, through RiceX, have been assigned five U.S. patents relating to the production or use of Nutraceutical or HVF products. The patents include Patent Number 5,512,287 "PRODUCTION OF BETA-GLUCAN AND BETA-GLUCAN PRODUCT," which issued on April 30, 1996; Patent Number 5,985,344 "PROCESS FOR OBTAINING MICRONUTRIENT ENRICHED RICE BRAN OIL," which issued on Nov. 16, 1999; Patent Number 6,126,943 "METHOD FOR TREATING HYPERCHOLESTEROLEMIA, HYPERLIPIDEMIA, AND ATHEROSCLEROSIS," which issued on Oct. 3, 2000; Patent Number 6,303,586 B1 "SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA," which issued on Oct. 15, 2001 and Patent Number 6,350,473 B1 "METHOD FOR TREATING HYPERCHOLESTEROLEMIA, HYPERLIPIDEMIA AND ATHEROSCLEROSIS," which issued on Feb. 26, 2002. We plan to apply for additional patents in the future as new products, treatments and uses are developed.



The RiceX Process is an adaptation and refinement of standard food processing technology applied to the stabilization of rice bran. We have chosen to treat the RiceX Process as a trade secret and not to pursue process or process equipment patents on the original processes. However, process improvements will be reviewed for future patent protection. We believe that the unique products, and their biological effects, resulting from RiceX's Stabilized Rice Bran are patentable.

We endeavor to protect our intellectual property rights through patents, trademarks, trade secrets and other measures. However, there can be no assurance that we will be able to protect our technology adequately or that competitors will not develop similar technology. There can be no assurance that any patent application we may file will be issued or that foreign intellectual property laws will protect our intellectual property rights. Other companies and inventors may receive patents that contain claims applicable to our systems and processes. The use of our systems covered by such patents could require licenses that may not be available on acceptable terms, if at all. In addition, there can be no assurance that patent applications will result in issued patents.

Although there currently are no pending claims or lawsuits against us regarding possible infringement claims, 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 true, will not have a material adverse effect on our 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 such litigation could result in substantial cost and diversion of our resources, which could have a material adverse effect on our financial condition and results of operations. Adverse determinations in such litigation could result in the loss of our proprietary rights, subject us to significant liabilities to third parties, require us to seek licenses from third parties or prevent us from manufacturing or selling our systems or products, any of which could have a material adverse effect on our financial condition and results of operations. In addition, there can be no assurance that a license under a third party's intellectual property rights will be available on reasonable terms, if at all.

### **Research and Development Expenditures**

During fiscal years 2004 and 2003, we spent \$78,331 and \$63,873, respectively, on product research and development.

### **Employees**

As of October 21, 2005, NutraCea had seven full-time employees, two hourly temporary employees and three independently contracted staff members, and RiceX had a total of twelve employees, all of whom were full-time employees. From year to year RiceX experiences normal variable labor fluctuation at its production facility in Dillon, Montana. None of our employees are employed pursuant to a collective bargaining or union agreement, and we consider that our relationship with our employees is good.

### **Description of Property**

We sublease our executive offices, warehouse and laboratory, located at 1261 Hawk's Flight Court, El Dorado Hills, California, from RiceX for a monthly rental of \$6,366. We have subleased this 10,080 square foot facility, and RiceX has leased the facility, through September 30, 2006. We believe that this facility will be adequate for current operations.

RiceX currently leases a 5,600 square-foot office facility at 1241 Hawk's Flight Court, El Dorado Hills, California, a 2,000 square-foot office facility at 1901 Conant Avenue, Burly, Idaho and a 17,000 square foot warehouse facility at 1755 Enterprise Boulevard, West Sacramento, California. RiceX's subsidiary, RiceX Nutrients, Inc. (formally Food Extrusion, Montana), owns a 15,700 square-foot production facility in Dillon, Montana. The lease for the El Dorado Hills facility expires in September 2006. The lease for the offices in Burley, Idaho expires in May 2009 and the lease for the West Sacramento, California warehouse facility is on a month to month basis. RiceX has aggregate annual lease payments for all of its facilities approximating \$109,000, net of sub-lease payment collections approximating \$76,000 per year. We believe that these facilities are adequate for current operation and that the properties are adequately covered by insurance.

### **Legal Proceedings**

From time to time we are involved in litigation incidental to the conduct of our business. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of our management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position or results of operations.

## **BUSINESS OF THE RICEX COMPANY**

RiceX was incorporated under Delaware law in May 1998. RiceX succeeded to the business of its predecessor corporation, Food Extrusion, Inc., a Nevada Corporation, pursuant to a re-incorporation that was effective upon completion of the merger of the Nevada corporation with the Delaware corporation on August 4, 1998. Food Extrusion, Inc. was incorporated in California in May 1989 and subsequently merged in a stock-for-stock exchange into Core Iris, a Nevada corporation and subsequently changed its name to Food Extrusion, Inc. Food Extrusion, Inc. changed its name to The RiceX Company in May 1998. RiceX Nutrients, Inc. (formally Food Extrusion Montana, Inc.) was incorporated in Montana in December 1996, as RiceX's wholly-owned subsidiary. In January 1997, RiceX Nutrients, Inc. acquired certain assets of Centennial Foods, Inc., an Idaho corporation in exchange for common stock and the assumption of certain liabilities, which were paid in full in January 1999.

The RiceX Process stabilizes rice bran, which is the portion of the rice kernel that lies beneath the hull and over the white rice. Rice bran contains over 60% of the nutritional value of rice. However, without stabilization, the nutritional value of rice bran is lost shortly after the milling process. This is due to the lipase-induced rancidity caused by the rice milling process. Consequently, a rich nutrient resource must either be thrown away or disposed of as low value animal feed. The RiceX Process deactivates the lipase enzyme and makes the bran shelf life stable for a minimum of one year. While other competing processes have been able to stabilize rice bran for a limited time, the RiceX Process naturally preserves more of the higher value nutritional and antioxidant compounds found in rice bran for a significantly longer period of time.

The RiceX Process has enabled RiceX to develop a variety of nutritional food products, including its primary product, RiceX® Stabilized Rice Bran. The RiceX® Stabilized Rice Bran RiceX produces meets microbiological standards for human consumption. RiceX's customers include consumer nutrition and healthcare companies, domestic and international food companies, and companion animal feed manufacturers.

Through RiceX's wholly-owned subsidiary, RiceX Nutrients, Inc., RiceX is engaged in custom manufacturing of grain based products for food ingredient companies at its production facility in Dillon, Montana. RiceX Nutrients, Inc. has specialized processing equipment and techniques for the treatment of grain products to cook, convert, isolate, dry and package finished food ingredients used in the formulation of health food and consumer food finished products. RiceX Solubles, a highly nutritious, carbohydrate and lipid rich fraction, is produced at the Dillon, Montana facility. RiceX believes that these manufacturing capabilities are unique among grain processors, with custom processing capabilities suited to numerous food applications.

### **RiceX Products**

RiceX produces stabilized, nutrient-rich rice bran that may be used in a wide variety of new products. RiceX is pursuing the development of proprietary rice bran products from stabilized rice bran. RiceX's current products include:

RiceX Stabilized Rice Bran:	Stable whole rice bran and germ. This is RiceX's basic stabilized rice bran product that is both a food supplement and an ingredient for cereals, baked goods, companion animal feed, health bars, etc., and also the base material for producing RiceX Solubles, oils and RiceX Fiber Complex.
RiceX Stabilized Rice Bran Fine:	This is the same product as the RiceX Stabilized Rice Bran, except that it has been ground to a particle size that will pass through a 20 mesh screen. It is used primarily in baking applications.
Dextrinized Rice Bran:	A carbohydrate converted RiceX Stabilized Rice Bran that is more suitably used in baking and mixed health drink applications. This product contains all of the nutrient-rich components of RiceX Stabilized Rice Bran.
RiceX Solubles:	A highly concentrated soluble carbohydrate and lipid rich fraction component of RiceX Stabilized Rice Bran with the fiber removed. RiceX Solubles also embodies a concentrated form of the vitamins and nutrients found in RiceX Stabilized Rice Bran.
RiceX Fiber Complex:	Nutrient-rich insoluble fiber source that contains rice bran oil and associated nutrients. This product, designed for use by the baking and health food markets, is the remaining ingredient when RiceX Stabilized Rice Bran is processed to form RiceX Solubles.
In addition to the above, further refining RiceX Stabilized Rice Bran into oil and its by-products can produce Max RiceX Defatted Fiber and Higher Value Fractions.	
Max "E" Oil:	Nutrient-rich oil made from RiceX Stabilized Rice Bran. This oil has a high flash point, which provides a very long fry life, and it is not readily absorbed into food. In addition, the oil maintains many of the nutritional benefits of the whole rice bran products.
RiceX Defatted Fiber:	Low fat soluble fiber that does not contain rice bran oil. This is a product designed for use by the baking industry for its high fiber nutritional benefits.
Higher Value Fractions:	Nutraceutical like compounds naturally occurring in RiceX Stabilized Rice Bran and Rice Bran Oil that provide specific health benefits. Tocopherols, tocotrienols, and gamma oryzanol are some of the antioxidant-rich fractions that are found in rice bran and are enhanced by stabilization, with the gamma oryzanol being unique to rice.

### **The Importance of Rice**

Rice is the staple food for approximately 70% of the world's population, and is the staple food source for several of the world's largest countries. World rice production is expected to be more than 500 million metric tons in the

2004-2005 crop year (according to the United States Department of Agriculture), constituting more than one quarter of all cereal grains produced worldwide. The United States accounts for less than 2% of the world's rice production. Ninety percent (90%) of world rice tonnage is produced in 13 countries with aggregate populations of 3.2 billion people (according to the USA Rice Federation, Rice Notes). Approximately 75% of all rice production occurs in China, India, South East Asia, Africa and South America. Combined, these regions have a population of 2.3 billion people (nearly 50% of the world's population), and an average per capita gross domestic product of \$2,000 (less than one-tenth of the U.S. average).

Malnutrition is a common problem in this group of nations, particularly for people located in rural villages where subsistence rice farming is a primary livelihood. Transportation and storage are poor. Consequently, locally grown rice is consumed locally and the amount of food available varies widely over time with changes in seasons and weather. Children are especially susceptible to variations in local agricultural output due to their heightened nutritional needs and dependency on others for food. Per capita rice consumption in many of the poorer rice belt countries exceeds one pound per day.

Despite the importance of rice as a worldwide food source and the problems associated with nutritional deficiencies in rice-dependent nations, more than 60% of the nutrients found in rice are destroyed during milling. Most of the rice nutrients are contained in the outer brown layer of the rice kernel known as the bran layer, which, because of poor stability, becomes inedible due to lipase-induced rancidity or microbiological spoilage shortly after the milling process.

### **Rice Processing and Rice Bran Stabilization**

When harvested from the field, rice is in the form of paddy, or "rough" rice. In this form, the rice kernel is fully enveloped by the rice hull. The hull is dried and then removed in the first stage of milling, yielding brown rice. In the second stage of milling, the outer brown layer, or rice bran, is removed to produce white rice. Rice bran is composed of the rice germ and several sub-layers, which accounts for approximately 8% by weight of paddy rice and contain over 60% of the nutrients found in each kernel of rice. (See Juliano, B.O., 1985 Rice: Chemistry and Technology, American Assoc. of Cereal Chemists, St. Paul, MN, pp. 37-50.)

Under normal milling conditions, when brown rice is milled into white rice, the oil in the bran and a potent lipase enzyme found on the surface of the bran come into contact with one another. The lipase enzyme causes very rapid hydrolysis of the oil, converting it into glycerol, monoglycerides, diglycerides and free fatty acid, or FFA. As the FFA content increases, the rice bran becomes unsuitable for human or animal consumption. At normal room temperature, the FFA level increases to 5-8% within 24 hours and thereafter increases at the rate of approximately 4-5% per day. Rice bran is unfit for human consumption at 5% FFA, which typically occurs within 24 hours of milling.

When the lipase enzyme can be deactivated, rice bran can be stabilized, thus preserving a potentially important nutrient source that is largely wasted today. Heat will deactivate the lipase enzyme, reduce microbiological load and reduce moisture levels. Although heat serves as the basis for most attempts to stabilize rice bran, most of the rice bran nutrients are lost in this process. Parboiled, or converted rice, is subjected to soaking and steaming prior to being dried and milled. This process softens the rice kernel and reduces the problem of lipase-induced hydrolysis. The bran produced from parboiled rice, however, is only semi-stabilized, typically spoiling in 20 days or less. The parboiling process also destroys much of the nutritional value of the bran because many of the micro nutrients are water-soluble and are leached out during the parboiling process. There have been a number of attempts to develop alternative rice bran stabilization processes that deactivate the lipase enzyme using chemicals, microwave heating and variants on extrusion technology. RiceX believes each of these efforts results in an inferior product that uses chemicals or does not remain stable for a commercially reasonable period, or the nutrients in the bran are lost thereby significantly reducing the nutritional value in the bran.

## The RiceX Solution

The RiceX Process uses proprietary innovations in food extrusion technology to create a combination of temperature, pressure and other conditions necessary to deactivate the lipase enzyme without significantly damaging the structure or activity of other, higher value compounds, oils and proteins found in the bran. The RiceX Process does not use chemicals to stabilize raw rice bran, and produces an "all natural" nutrient-rich product.

RiceX's processing equipment is designed to be installed on the premises of any two-stage rice mill and is located downstream from the rice polishers. After hulling, the rice is transported pneumatically to the rice polishing room where the brown rice kernels are tumbled and the rice bran is polished from the surface of each kernel. The bran is separated from the denser polished rice grain and is transported pneumatically to a loop conveyor system designed by RiceX. The loop conveyor system immediately carries the fresh, unstabilized rice bran to the RiceX stabilization system.

Bran leaving RiceX's stabilization system is packaged in multi-walled bags or bulk for transport to RiceX customers. RiceX Bran has a shelf life of at least one year and is rich in tocopherols, tocotrienols, oryzanols, a complete and balanced amino acid profile and other nutritional and natural compounds that exhibit positive health properties.

The RiceX Process system is modular. Each stabilization module can process approximately 2,000 pounds of RiceX Bran per hour and has a capacity of over 5,700 tons per year. Stabilization production capacity can be doubled or tripled by installing additional units sharing a common conveyor and stage system, which can handle the output of the world's largest rice mills. RiceX has developed and tested a smaller production unit, which has a maximum production capacity of 840 tons per year, for installation in countries or locations where rice mills are substantially smaller than those in the United States.

The processing conditions created by the RiceX Process are unique. However, the ancillary equipment used to achieve these processing conditions is in wide use throughout the food industry. It is in the stabilizer unit that RiceX's proprietary technology resides; all of the other processing, material handling, control, and storage components are off-the-shelf equipment items.

## Benefits of RiceX Stabilized Rice Bran

Rice bran is a rich source of protein, oil, vitamins, antioxidants, dietary fiber and other nutrients. The approximate composition and caloric content of RiceX Stabilized Rice Bran is as follows:

Fat	18%-23%
Protein	12%-16%
Total Dietary Fiber	23%-35%
Soluble Fiber	2%-6%
Moisture	4%-8%
Ash	7%-10%
Calories	3.2 kcal/gram

Rice bran is unique in the plant kingdom. Its protein is hypoallergenic and contains all of the essential amino acids, the necessary building blocks of protein in the body. Rice bran contains approximately 20% oil, which closely resembles peanut oil in fatty acid composition and heat stability. Rice bran oil contains essential fatty acids and a broad range of nutraceutical compounds that have been demonstrated to have therapeutic properties. (See Cheruvanky and Raghuram, 1991 Journal of the American College of Nutrition, Vol. 10, No. 4, pp. 593-691.)

Nutraceuticals are food constituents that have human therapeutic effects. Some of these compounds include a newly discovered complex of Vitamin E called "tocotrienols," and gamma oryzanol, which is only found in rice. These compounds are potent antioxidants that have been shown to aid in reducing damage from free radicals in the body. RiceX Bran also contains very high levels of B-complex vitamins, betacarotene (a vitamin A precursor), other carotenoids and phytosterols, as well as both soluble and insoluble fiber. (See Saunders, 1990, Rice Bran Oil, presented at Calorie Control Council Meeting, February 14, 1990, Washington, D.C.)



## **Business Strategy**

RiceX's goal is to become the world's leading producer and distributor of stabilized rice bran and rice bran based products in the premium consumer food and animal feed sectors of the marketplace. RiceX produces stabilized rice bran and related products in manufacturing facilities RiceX owns or through joint venture arrangements.

RiceX believes that clinical support for stabilized rice bran products will further enhance the value of its products as nutraceuticals and functional food ingredients. Finally, RiceX intends to aggressively market its products in four distinct product areas. These areas are nutraceuticals, functional food ingredients, performance feed and companion pet food supplements, and rice bran oils. In further pursuit of this goal, RiceX has focused and will continue to focus its marketing and development efforts in developed regions, including the U.S., Europe, South Africa, Argentina, Japan, Korea and Taiwan; and in developing regions, including in Central and South America, India, China, Indonesia and most of the other countries in Asia and Africa.

## **Developed Nations**

In developed nations, RiceX's focus is on producing and selling ingredients to large consumer product marketers as health enhancing ingredients for existing or newly developed products, and as stand-alone products to consumers. In addition, RiceX has continued relationships with Korean, German and other European companies to introduce its products into these regions. Although there can be no assurance that RiceX's products will be successfully introduced into these regions, RiceX believes that interest of this type validates the potential opportunity. In addition, RiceX believes that the relationship reflects the strategy for RiceX's foreign ventures. RiceX intends to seek other opportunities in developed nations by converting stabilized rice bran grown in those countries into finished goods and into HVFs with demonstrated health or nutritional benefits.

## **Developing Nations**

RiceX's strategic development has been focused on making its nutrient-dense stabilized rice bran products available to developing countries where nutritional deficiencies are a major concern, particularly among school-aged children. RiceX remains on the cutting edge in developing nations by reducing malnutrition and enhancing nutritional growth potential school-aged children. RiceX believes that the school nutritional and diet upgrading programs in developing countries worldwide represent a market opportunity for RiceX in excess of \$100 million per year. The Food and Agriculture Organization of the United Nations and the Foreign Agricultural Service of the United States Department of Agriculture have targeted over 800 million nutritionally deficient humans for assistance in the worldwide program titled "American Special Supplemental Food Programs for Women, Infants and Children."

RiceX's first international strategic alliance was established in December 2000 with PRODESA and the Christian Children's Fund in Guatemala. Under this alliance, RiceX supplied nutritionally dense ingredients throughout Guatemala over a twelve-month period starting in January 2001. As a result, RiceX's stabilized rice bran product, RiceX Solubles, has been used as a base for nutritionally enhanced drink for school breakfast and lunch programs to over 67,000 children in rural communities throughout Guatemala. The twelve-month program in Guatemala was highly successful in reducing malnutrition in school age children and enhancing their nutritional growth potential. This proof-of-concept program in Guatemala generated nearly \$2,300,000 in revenues for RiceX for the year ended December 31, 2001. In 2002, El Salvador's Ministry of Education in San Salvador purchased RiceX's stabilized rice bran product, RiceX Solubles, for applications in its school nutrition programs for El Salvadorian children. The agreement, which follows the similar program of Guatemala, resulted in revenues of approximately \$1,000,000 for the year ended December 31, 2002. Other similar programs in the region resulted in receiving payment for RiceX Solubles of approximately \$600,000 in December 2003, and recognizing the revenue during the calendar year 2004.



RiceX is in the process of broadening its presence in the international markets. Building on RiceX's year 2001 successful proof-of-concept program in Guatemala, RiceX continues to develop and expand international market development activities in Central America. RiceX has two program approaches, 1) year-to-year applications and 2) multi-year self sustaining programs. The year-to-year applications approach calls for direct sales contracts financed in part through the United States government's Public Law 416 program. The multi-year self sustaining strategy will require funding from the USAID programs, philanthropic contributions and joint participation by the host country government. RiceX believes that product sales and shipments will continue and expand into Central American countries during 2005 and beyond.

RiceX continues to work with major rescue and relief agencies, congressional supporters and government offices of the USDA and the United States Agency for International Development to bring a multi-year program to provide nutritional drinks to one million children each school day from a RiceX facility located within the Central American region. RiceX has secured a financing commitment from Overseas Private Investment Corporation to assist in funding the facility. However, there can be no assurance that this financial commitment will lead to building a facility in the Central American region.

RiceX also intends to partner with local governments and companies in developing nations, on a joint venture basis, to stabilize locally grown rice bran for local consumption and for future export. RiceX plans to introduce its stabilization process systems in large rice mills located in Central and South America, China, India and Southeast Asia in the future. In many developing nations, the average person has a 300-500 calorie daily diet deficit. (See The Food and Agriculture Organization of the United Nations (FAO), Agrostat PC, on diskette (FAO, Rome, 12993); and the World Resources Institute in collaboration with the United Nations Environment Programme and the United Nations Development Programme, World Resources 1994-95 (Oxford University Press; New York, 1994), p. 108.) If RiceX is able to expand into these areas, the installation of 100 RiceX processing systems has the capacity to provide up to 500 nutritionally dense calories per day to over 15 million people each year. The diet supplement provided by the locally grown and stabilized rice bran would help those people approach U.S. levels of nutrition.

RiceX has had preliminary discussions regarding the demonstration of its system and the end products for its technology with a number of companies and governments including countries in Central America, India, China, Argentina, Brazil, Malaysia and certain African countries. However, there can be no assurance that these discussions will lead to implementation of the RiceX Process with these companies or governments.

### **Sales and Marketing**

RiceX has targeted four distinct product areas in which RiceX Bran and related products may be used as the primary ingredient. RiceX's key marketing strategy is to form strategic alliances with industry leaders in each of its target markets. This strategy will allow RiceX to leverage the research, marketing and distribution strengths of its partners in order to more economically and efficiently introduce and market products. RiceX has formed alliances, or has entered into negotiations to form alliances, in each of its target markets, which are nutraceuticals, functional food ingredients, performance feed and companion pet food supplements. RiceX continues to develop its rice bran oil marketing initiatives.

RiceX's overall marketing plans in each of the target markets are discussed below.

### **Nutraceuticals**

Nutraceuticals are food-derived substances with pharmaceutical-like properties, including vitamins and dietary supplements. RiceX Bran can be used as a nutraceutical to provide certain specific nutrients or food components (including antioxidants, oryzanols, Vitamin E, Vitamin B, and bran fiber) or to address specific health applications such as cardiovascular health, diabetes control, fighting free radicals and general nutritional supplementation. RiceX has sold RiceX Bran products as ingredients to consumer nutrition and healthcare companies, national nutritional retailers, and multi-level personal product marketers. However, there can be no assurance that such marketing efforts will be successful or that any of the proposed products will be developed in a commercially reasonable time or at all.

### **Functional Food Ingredients**

RiceX Bran is a low cost, all natural food product that contains a unique combination of oil, protein, carbohydrates, vitamins, minerals, fibers, and antioxidants that can be used to enhance the nutritional value of popular consumer products. Foods that are ideally suited for the addition of RiceX Bran to their products include cereals, snack foods and breads. RiceX is marketing RiceX Bran to consumer food companies for use in already established products and for development of new products.

The functional food market in the United States is \$16 billion and RiceX estimates that this represents more than a \$35 to \$45 million per year market share opportunity for RiceX. Premium ingredient manufacturers are in high demand and RiceX is strategically positioned to take advantage of this growing and sustainable market opportunity. RiceX believes that its proprietary technology and product patents represent valuable assets for achieving strategic leverage in this industry segment.

### **Performance Feed and Companion Pet Food Supplements**

RiceX also markets RiceX Bran as a feed supplement for animals. RiceX Bran is used as an equine feed supplement and has proven to provide greater muscle mass, improved stamina, and hair-coat luster when added to a normal diet. Show and performance horses represent the premium end of the equine market and present a \$12 to \$15 million market share opportunity for RiceX's future revenue growth. During 2003, RiceX launched its own equine supplement label "Max E Glo". In 2004, RiceX entered into a distribution agreement with MannaPro, a national feed distributor. RiceX continued to hold numerous discussions with several major domestic equine feed manufacturers and distributors. However, there can be no assurance that these discussions will be successful.

### **Rice Bran Oils**

Nutrient-rich oil made from RiceX Stabilized Rice Bran has a high flash point, which provides a long fry life and is not readily absorbed into food. The oil also maintains many of the nutritional benefits of whole rice bran products, making it ideally suited for healthy salad and cooking oils. RiceX holds a patent on the process for obtaining micronutrient enriched rice bran oil. There can be no assurance that any of RiceX's Stabilized Rice Bran Oil marketing efforts will be successful.

### **Marketing Methods**

RiceX has an Executive Vice President of Sales and Marketing and two domestic sales representatives. In addition, RiceX has entered into agreements with PRODESA for Central America markets, and Kreglinger Europe for the United Kingdom and Benelux markets, for developing and marketing RiceX Bran products. RiceX also continues to work to develop additional significant alliances in efforts to increase its sales volume.



Pursuant to the Stabilized Rice Bran Processing Sales and Marketing Agreement between Farmers' Rice Cooperative, or Farmers, a cooperative association organized under the California Food and Agriculture Code, and RiceX, dated May 1, 2002, Farmers has an exclusive license to use RiceX's rice bran processing equipment for production of stabilized rice bran for sale to a limited number of Farmers customers.

### **Customers**

RiceX has in excess of 125 active customer accounts. For 2004, RiceX's major customers were Project Concern International, Natural Glo, NutraCea, MannaPro and PGP International. RiceX depended on these customers for approximately 50% of all sales revenue during 2004. Loss of any of these customers could have a material adverse effect on RiceX's business, financial condition and results of operations.

### **Supply and Manufacturing**

RiceX purchases unstabilized rice bran from one major supplier, Farmers. Pursuant to RiceX's agreement with Farmers, RiceX's stabilization machinery is physically attached to Farmers' rice processing plants and the rice bran by-product is directly transferred to RiceX's machinery for stabilization without the need for shipping. The relationship with Farmers is symbiotic, as the rice manufacturer searches for raw rice bran marketing channels while RiceX has ready access to unstabilized bran. Farmers is currently RiceX's only supplier of unstabilized rice bran. RiceX is seeking additional relationships with rice processors, both in the United States and abroad as part of its overall business strategy. RiceX's production capacity currently stands at 1,500 tons per month. RiceX believes suitable alternative supply arrangements are readily available if needed, however, there can be no assurance that RiceX will be successful in securing additional supply agreements.

As required, RiceX ships RiceX Bran from its facility in California to its plant in Dillon, Montana for further processing into RiceX Solubles, Dextrinized Rice Bran and RiceX Fiber Complex. Current monthly production capacity is approximately 50 tons of RiceX Solubles, 50 tons of Dextrinized Rice Bran and 50 tons of RiceX Fiber Complex. Additional equipment could more than double production capacity. RiceX intends to acquire or construct an additional processing facility when and if the demand for RiceX Solubles, Dextrinized Rice Bran and RiceX Fiber Complex justifies expansion.

Every food product that RiceX manufactures is produced under published FDA and USDA regulations for "Good Manufacturing Practices." RiceX's General Manager oversees quality control and quality assurance testing. Product samples for each product code are analyzed for microbiological adherence to a predetermined set of product specifications and each lot is released only when it demonstrates its compliance with specifications.

### **Competition**

RiceX competes with other companies attempting to stabilize rice bran, as well as companies producing other food ingredients and nutritional supplements. RiceX believes that its only significant competitor is Producer's Rice Mill. This competitor may have greater capital resources than RiceX; however, RiceX believe that it has more experience in the rice bran industry. However, there can be no assurance that RiceX will be able to compete successfully in the rice bran industry. RiceX believes that its major nutritional supplement competitors include producers of wheat bran and oat bran, particularly in the functional food ingredients market segment.

## **Research and Development**

Rice bran contains a wide variety of antioxidants, vitamins and other nutrients associated with good health and resistance to disease. RiceX has conducted a preliminary clinical evaluation that indicates RiceX products have efficacy in the nutritional management of certain conditions and diseases, such as diabetes mellitus and coronary vascular disease. Data from this study has been analyzed and the data supports the initiation of clinical trials. RiceX intends to vigorously conduct these trials and, if successful, will develop foods containing the active nutraceutical components of RiceX Bran to manufacture products targeted at specific conditions or suitable for the maintenance of general health and well-being. However, there can be no assurance that the results of additional clinical trials will prove successful or that RiceX will be able to develop additional new products.

RiceX's expenditures for research and development for the years ended December 31, 2004 and 2003 totaled \$224,000 and \$226,000, respectively. RiceX expects to continue research and development expenditures to establish the scientific basis for health claims of existing products and to develop new products and applications.

## MANAGEMENT

Our directors, executive officers and key employees and their ages as of October 21, 2005 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
<b>Directors and Executive Officers:</b>		
Bradley D. Edson	46	Chief Executive Officer, President and Director
Todd C Crow	57	Chief Financial Officer
Ike E. Lynch	60	Chief Operating Officer
Margie D. Adelman	45	Secretary and Senior Vice President
David Bensol	50	Director
Eliot Drell	51	Director
James C. Lintzenich	51	Director
Edward L. McMillan	59	Director
Patricia McPeak	64	Director
Steven W. Saunders	50	Director

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### Biographical information for directors and executive officers:

*Bradley D. Edson*, has served as our Chief Executive Officer since October 2005 and as our President and as one of our directors since December 2004. Mr. Edson was formerly the Chairman and CEO of Vital Living Inc. (OTC BB: VTLV), a company that primarily developed and marketed nutraceuticals. Prior to Vital Living, Mr. Edson spent a decade developing a nationwide insurance agency focused on distribution channels for specialty products for the retail market. Prior to that, Mr. Edson was a former principal and officer of a NASD broker/dealer firm.

*Todd C. Crow*, has served as our Chief Financial Officer since October 2005. Mr. Crow has served as Vice President of Finance and Chief Financial Officer of The RiceX Company since November 1998, and as Secretary of The RiceX Company since January 1999. From September 1997 to November 1998, Mr. Crow was Controller of The RiceX Company and from May 1996 to September 1997, he was The RiceX Company's Chief Financial Officer. Prior to joining The RiceX Company, Mr. Crow held senior financial positions with the Morning Star Group, an agri-business holding company, and Harter, Inc., a food-processing manufacturer.

*Ike E. Lynch* has served as our Chief Operating Officer since October 2005. Mr. Lynch also currently serves as Chief Operating Officer of The RiceX Company. From January 1997 to October 2005, Mr. Lynch served as Chief Executive Officer and Vice President of International Business Development and since January 1997, President and Chief Operating Officer of RiceX Nutrients, Inc. From 1966 through 1982, Mr. Lynch was employed by the H. J. Heinz Company in various management roles, culminating with the President and CEO position of the Hubinger Company, a subsidiary of Heinz. In 1982, Mr. Lynch left Heinz to become President and CEO of Dawn Enterprises LLC, specializing in Ethanol production and marketing. Mr. Lynch left Dawn Enterprises in 1989 to form Centennial Foods, Incorporated, where he served as President and Chief Executive Officer until the acquisition of Centennial Foods by The RiceX Company in 1997.

*Margie D. Adelman*, was appointed Senior Vice President in January 2005 and Secretary of NutraCea in February 2005. From 2000 to 2004 Ms. Adelman owned and operated Adelman Communications a full service public relations firm based in Boca Raton, Florida. From 1994 to 2000 Ms. Adelman was President of TransMedia Group, the largest public relations firm in Florida. Ms. Adelman holds a doctorate in Naturopathic Medicine from the Clayton School of Natural Medicine.





*David Benschol*, has served as one of our directors since March 2005. Mr. Benschol currently is a management consultant. Mr. Benschol was the former CEO of Critical Home Care, which recently merged with Arcadia Resources, Inc. (OTC BB: ACDI). Mr. Benschol was the Executive Vice President and Director of Arcadia Resources from May 2004 until his resignation from those positions in December 2004. In 2000, Mr. Benschol founded what eventually became Critical Home Care, through a series of acquisitions and mergers. From 1979 to 1999 Mr. Benschol founded several companies which became successful companies in the areas of home medical equipment providers, acute care pharmacy providers and specialty support surface providers. Mr. Benschol became a registered pharmacist in 1979.

*Dr. Eliot Drell*, has been on of our directors since February 2004. Dr. Drell has been the Chief of Gastroenterology at Mercy Hospital, Folsom, California since 1984. Dr. Drell's past medical appointments including acting as a Director of the Endoscopic unit at Mercy Hospital of Folsom, California and Marshall Hospital; Chief of Medicine at Mercy Hospital; Member of the Medical Executive Committee at both Mercy Hospital and Marshall Hospital; and Assistant Professor at U.C. Davis Medical Center. Dr. Drell is an active speaker and lecturer for major pharmaceutical companies.

*James C. Lintzenich*, has served as one of our directors since October 2005. Mr. Lintzenich has been a director of The RiceX Company since June 2003. Mr. Lintzenich has been a management consult since April 2001. From August 2000 to April 2001 Mr. Lintzenich served as President and Chief Operating Officer of SLM Corporation (Sallie Mae), an educational loan institution. From December 1982 to July 2000, Mr. Lintzenich held various senior management and financial positions including Chief Executive Officer and Chief Financial Officer of USA Group, Inc., a guarantor and servicer of educational loans. Mr. Lintzenich currently serves on the Board of Directors of the Student Loan Marketing Association (an SLM Corp subsidiary) and the Lumina Foundation for Education.

*Edward L. McMillan*, has served as one of our directors since October 2005. From January 2000 to present Mr. McMillan owns and manages McMillan LLC., a transaction consulting firm which provides strategic consulting services and facilitates mergers and/or acquisitions predominantly to food and agribusiness industry sectors. From July 2004 to October 2005, Mr. McMillan was a director of The RiceX Company. From June 1969 to December 1987 he was with Ralston Purina, Inc. and Purina Mills, Inc. where he held various senior level management positions including marketing, strategic planning, business development, product research, and business segment management. From January 1988 to March 1996, McMillan was President and CEO of Purina Mills, Inc. From August 1996 to July 1997, McMillan presented a graduate seminar at Purdue University. From August 1997 to April 1999 he was with Agri Business Group, Inc. Mr. McMillan currently serves on the boards of directors of Balchem, Inc. (AMEX:BCP); Durvet, Inc.; Newco Enterprises, Inc.; CHB LLC.; and Hintzsche, Inc. Mr. McMillan also serves as Chair of the University of Illinois Research Park, LLC and the University of Illinois Alumni Association.

*Patricia McPeak*, founder, has served as one of our directors since December 2001. From December 2001 to October 2005, Ms. McPeak served as our Chief Executive Office and Board Chairman. She was the founder of NutraStar Technologies Incorporated and was the Chief Executive Officer, President and a director of NutraStar Technologies Incorporated from its formation in February 2000 until the reorganization transaction with NutraCea. From May 1989 until February 2000 she was the President and a director of The RiceX Company, which she co-founded. From 1981 to 1989, Ms. McPeak was an executive officer of Brady International, Inc. a company engaged in providing stabilized rice bran, which she also co-founded. Ms. McPeak has extensive experience in the field of protein and ingredient production, having served as an executive in the industry for 25 years.

*Steven W. Saunders*, has served as one of our directors since October 2005. He was a director of The RiceX Company from August 1998 to October 2005. Mr. Saunders has been President of Saunders Construction, Inc., a commercial construction firm, since February 7, 1991, and President of Warwick Corporation, a business-consulting firm.

All directors are elected annually and serve until the next annual meeting of shareholders or until the election and qualification of their successors. Each of our directors has served continuously since the date indicated above. Directors are elected annually at the meeting of the shareholders to serve a term of one year or until the next annual meeting of shareholders unless they die, resign or are removed. The remaining directors, though less than a quorum, may fill vacancies occurring on the Board of Directors and persons elected to fill vacancies serve until the next annual meeting of shareholders unless they die, resign or are removed. Nutracea's Audit Committee consists of Jim Lintzenich, David Bensol and Ed McMillan. Each of Messrs. Lintzenich, Bensol and McMillan are considered independent directors according to Rule 4200(a)(15) of the NASD's listing standards. The Board of Directors has determined that Mr. Lintzenich meets the requirements of an "audit committee financial expert" within the meaning of Item 401 of Regulation S-B.

All executive officers serve at the discretion of our board of directors. There are no family relationships between any of our directors or executive officers.

Our success, if any, will be dependent to a significant extent upon certain key management employees, including Messrs. Edson, Crow and Lynch and Mesdames McPeak and Adelman. We have entered into employment agreements with them as described under caption "Employment Contracts."

### **Director Compensation**

NutraCea provides compensation to its directors for serving in such capacity in the form of grants of common stock from our 2003 Stock Compensation Plan. NutraCea provides 35,000 shares of restricted common stock to each board member, whether an employee or non-employee, for each year of service on the board plus reimbursement of expenses.

#### **Common Stock Grants to Directors in the Year Ended December 31, 2004**

<b>Name</b>	<b>Shares Acquired</b>	<b>Value Realized</b>
Patricia McPeak	35,000	\$53,200
John Howell *	35,000	\$53,200
Eliot Drell	35,000	\$53,200
Ernie Bodai, MD **	35,000	\$53,200

\* Mr. Howell resigned as President and Director on July 20, 2004.

\*\* Mr. Bodai resigned as Director on September 28, 2005.

## Executive Compensation

The following Summary Compensation Table shows the aggregate compensation paid or accrued by NutraCea during fiscal years 2004, 2003 and 2002 to (i) each person who served as NutraCea's Chief Executive Officer during 2004, and (ii) the four most highly compensated officers other than the Chief Executive Officer who were serving as executive officers at the end of 2004 and whose total annual salary and bonus in such year exceeded \$100,000 (of which there was only one such persons), and (iii) up to two additional individuals for whom disclosures would have been provided in this table but for the fact that such persons were not serving as executive officers as of the end of fiscal 2004 (collectively with the Chief Executive Officer, the "Named Executive Officers").

**Summary Compensation Table  
for Years Ended December 31, 2004, 2003 and 2002**

		Annual Compensation			Long-Term Compensation Awards		
Name and principal position	Year	Salary	Bonus	Other annual compensation	Restricted stock awards	Securities underlying options	All other compensation

Bradley Edson, Chief Executive Officer(1)	2004	\$ 2,000	—	—	—	6,000,000	125,000(2)
	2003	—	—	—	—	—	—
	2002	—	—	—	—	—	—
Patricia McPeak, Chief Executive Officer(4)	2004	\$ 150,000	\$ 100,000	\$ 85,096(5)	\$ 53,200	2,000,000	\$ 8,360,000(3)
	2003	150,000	100,000	12,000	—	—	—
	2002	150,000	100,000	12,000	—	—	—
John Howell, President(6)	2004	106,412	80,000	4,154	—	—	—
	2003	120,000	101,284	6,000	—	1,000,000	—
	2002	—	—	—	—	—	—

- (1) Mr. Edson became President of the Registrant on December 17, 2004 and Chief Executive Officer of the Registrant on October 4, 2005.
- (2) Consists of \$125,000 paid as consulting fees prior to Mr. Edson becoming President.
- (3) Represents the market value at time of issuance of 5,500,000 shares of NutraCea common stock issued to Ms. McPeak for services rendered and stock reimbursements.
- (4) Ms. McPeak resigned as Chief Executive Officer on October 4, 2005.
- (5) Includes \$73,096 paid by NutraCea to purchase an automobile for Ms. McPeak.
- (6) Mr. Howell resigned from NutraCea on July 20, 2004.

## Option Grants in Last Fiscal Year

NutraCea's Board of Directors adopted the 2003 Stock Compensation Plan, or the 2003 Plan, on October 31, 2003. Under the terms of the 2003 Plan, NutraCea may grant up to 10,000,000 warrants, options, restricted common or preferred stock, or unrestricted common or preferred stock to officers, directors, employees or consultants providing services to NutraCea on such terms as are determined by the NutraCea board of directors. The 2003 Plan provides that the NutraCea board of directors may also permit officers, directors, employees or consultants to have their bonuses and/or consulting fees payable in warrants, restricted common stock, unrestricted common stock and other awards, or any combination thereof. In addition, NutraCea has granted options to certain officers, directors and employees outside of the 2003 Plan.



The following table summarizes the options granted by NutraCea to its Named Executive Officers during the year ended December 31, 2004. None of the options granted to the Named Executive Officers during the year ended December 31, 2004 were granted pursuant to the 2003 Plan.

Name	Number of Securities Underlying Options Granted	Individual Grants		
		% of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date
Bradley Edson(1)	6,000,000	75%	\$0.30	12/17/14
Patricia McPeak (2)	2,000,000	25%	\$0.30	12/14/14
John Howell	—	—	—	—

(1) Consists of a warrant to purchase 6,000,000 shares of NutraCea common stock. This warrant is fully vested and exercisable.

(2) Consists of a warrant to purchase 2,000,000 shares of NutraCea common stock. This warrant is fully vested and exercisable.

#### Aggregated Option/SAR Exercises In Last Fiscal Year and Fiscal Year End Option/SAR Values

The following table sets forth information regarding options and warrants to purchase NutraCea common stock held by the Named Executive Officers as of December 31, 2004.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at 12/31/04		Value of Unexercised In-the-Money Options at 12/31/04 (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Bradley Edson	—	—	6,000,000	—	\$ 780,000	—
Patricia McPeak	—	—	2,002,306	576	\$ 260,000	—
John Howell	500,000	\$ 454,500	—	—	—	—

(1) Based on the last reported sales price of NutraCea's common stock as reported on the OTCBB on December 31, 2004 of \$0.43, minus the exercise price (where the exercise price of a given option is greater than \$0.43, the value of such option was calculated as zero).

#### Employment Agreements

On December 17, 2004, NutraCea entered into an employment agreement that expires December 31, 2007 with its current President and Chief Executive Officer, Bradley D. Edson, pursuant to which NutraCea is to pay Mr. Edson a base salary of \$50,000 in year one; a base salary of \$150,000 in year two; and a base salary of \$250,000 in year three. The agreement also provides that Mr. Edson is entitled to an annual incentive bonus based upon performance and to be provided a car allowance of \$600 per month. The incentive bonus is payable annually within 10 days of the completion of NutraCea's annual independent audit. The bonus is one percent of NutraCea's "Gross Sales over \$25,000,000," but only if NutraCea reports a positive EBITDA for the period. The bonus amount is limited to a maximum of \$750,000 in any calendar year. In addition, Mr. Edson was issued warrants to purchase 6,000,000 shares of NutraCea's common stock at an exercise price of \$0.30 per share. The warrants are immediately exercisable and expire ten years from the date of issuance.



On January 25, 2005, NutraCea entered into a three year employment agreement with Margie D. Adelman, NutraCea's Senior Vice President and Secretary, pursuant to which NutraCea is to pay Ms. Adelman a base salary of \$150,000 per year. The agreement also provides that Ms. Adelman is entitled to a one-time initial bonus of \$25,000 and will be eligible for future incentive bonuses based solely on the discretion of NutraCea's Chief Executive Officer or President and the approval of NutraCea's Compensation Committee. Ms. Adelman was issued a warrant to purchase 1,000,000 shares of NutraCea's common stock at an exercise price of \$0.30 per share, 500,000 shares of which vested upon signing and 500,000 shares of which will vest on January 25, 2006, subject to forfeiture under certain terms and conditions. In addition, Ms Adelman was issued warrants to purchase 1,000,000 shares of NutraCea's common stock at an exercise price of \$0.30 that will vest upon the achievement of NutraCea obtaining "Gross Sales over \$25,000,000" and NutraCea reporting a positive EBITDA for the period. All warrants expire ten years from the date of issuance.

In September 2005, we entered into a First Amendment to employment agreement with Todd C. Crow, pursuant to which we assumed the employment agreement between Mr. Crow and The RiceX Company. The employment agreement, as amended, provides that Mr. Crow will serve as Chief Financial Officer of NutraCea and the RiceX Company. Mr. Crow's employment agreement, as amended, provides that Mr. Crow will receive an annual base salary of \$150,000, which salary will be reviewed annually and be adjusted to compensate for cost of living adjustments in the Sacramento metropolitan area. The agreement terminates on October 4, 2008. The term will be automatically extended for an additional one-year term unless either party delivers notice of election not to extend the employment at least 90 days prior to the expiration of the initial term. Mr. Crow's employment may be terminated prior to the expiration of the agreement by the mutual written agreement of the parties or in the event of Mr. Crow's disability. For the purposes of the employment agreement, "disability" means Mr. Crow's inability, due to physical or mental impairment, to perform his duties and obligations, despite reasonable accommodation by us, for a period exceeding three months. Mr. Crow's employment may also terminated in the event of his death, notice by us of termination for cause (as defined in the agreement), or written notice by us of termination without cause, upon fourteen (14) days notice. Mr. Crow is entitled to compensation for early termination. If Mr. Crow is terminated without cause, we will pay to Mr. Crow, as liquidated damages and in lieu of any and all other claims which Mr. Crow may have against us, the amount equal to Mr. Crow's monthly base salary multiplied by the number of months remaining in the term of this agreement, or a payment amount equal to one year of Mr. Crow's base salary, whichever is greater. If Mr. Crow is terminated as the result of a change in control transaction (as defined in the employment agreement, as amended) and Mr. Crow is not employed in the same capacity or being paid the same base salary as he was employed with us, then Mr. Crow will receive a severance payment equal to two (2) years of Mr. Crow's Base Salary, or the balance remaining to be paid under the terms of the agreement, whichever is greater.

In September 2005, we entered into a First Amendment to employment agreement with Ike E. Lynch, pursuant to which we assumed the employment agreement between Mr. Lynch and The RiceX Company. The employment agreement, as amended, provides that Mr. Lynch will serve as Chief Operating Officer of NutraCea, The RiceX Company and RiceX Nutrients, Inc., a subsidiary of The RiceX Company. The employment agreement, as amended, provides that Mr. Lynch will receive an annual base salary of \$150,000, which salary will be reviewed annually and be adjusted to compensate for cost of living adjustments in the Sacramento metropolitan area. The agreement terminates on October 4, 2008. The term will be automatically extended for an additional one-year term unless either party delivers notice of election not to extend the employment at least 90 days prior to the expiration of the initial term. Mr. Lynch's employment may be terminated prior to the expiration of the agreement by the mutual written agreement of the parties or in the event of Mr. Lynch's disability. For the purposes of the employment agreement, "disability" means Mr. Lynch's inability, due to physical or mental impairment, to perform his duties and obligations, despite reasonable accommodation by us, for a period exceeding three months. Mr. Lynch's employment may also terminated in the event of his death, notice by us of termination for cause (as defined in the agreement), or written notice by us of termination without cause, upon fourteen (14) days notice. Mr. Lynch is entitled to compensation for early termination. If Mr. Lynch is terminated without cause, we will pay to Mr. Lynch, as liquidated damages and in lieu of any and all other claims which Mr. Lynch may have against us, the amount equal to Mr. Lynch's monthly base salary multiplied by the number of months remaining in the term of this agreement, or a payment amount equal to one



year of Mr. Lynch's base salary, whichever is greater. If Mr. Lynch is terminated as the result of a change in control transaction (as defined in the employment agreement, as amended) and Mr. Lynch is not employed in the same capacity or being paid the same base salary as he was employed with us, then Mr. Lynch will receive a severance payment equal to one hundred eighty thousand dollars (\$180,000).

On December 10, 2004, Patricia McPeak entered into an employment agreement with us. The employment agreement has a term of three years and provides that Ms. McPeak will be paid a base salary of \$150,000 per year for the first two years of the term and \$250,000 for the third year of the term. The agreement also provides that Ms. McPeak is entitled to an annual incentive bonus based upon performance. The incentive bonus is payable annually within 10 days of the completion of NutraCea's annual independent audit. The bonus is one percent of our "Gross Sales over \$25,000,000," but only if we report a positive EBITDA for the period. The bonus amount is limited to a maximum of \$750,000 in any calendar year. In addition, we issued to Ms. McPeak a warrant to purchase 2,000,000 shares of our common stock at an exercise price of \$0.30 per share. The warrant is immediately exercisable and expires ten years from the date of issuance.

### **Limitation of Liability and Indemnification Matters**

NutraCea's Articles of Incorporation provide that it will indemnify its officers and directors, employees and agents and former officers, directors, employees and agents unless their conduct is finally adjudged as involving intentional misconduct, fraud or a knowing violation of the law and were material to the cause of action. This indemnification includes expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by these individuals in connection with such action, suit, or proceeding, including any appeal thereof, subject to the qualifications contained in California law as it now exists. Expenses (including attorneys' fees) incurred in defending a civil or criminal action, suit, or proceeding will be paid by NutraCea in advance of the final disposition of such action, suit, or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount, unless it shall ultimately be determined that he or she is entitled to be indemnified by NutraCea as authorized in the Articles of Incorporation. This indemnification will continue as to a person who has ceased to be a director, officer, employee or agent, and will benefit their heirs, executors, and administrators. These indemnification rights are not deemed exclusive of any other rights to which any such person may otherwise be entitled apart from the Articles of Incorporation. California law generally provides that a corporation shall have the power to indemnify persons if they acted in good faith in a manner reasonably believed to be in, or not opposed to, the best interests of NutraCea and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. In the event any such person is judged liable for negligence or misconduct, this indemnification will apply only if approved by the court in which the action was pending. Any other indemnification shall be made only after the determination by NutraCea's board of directors (excluding any directors who were party to such action), by independent legal counsel in a written opinion, or by a majority vote of shareholders (excluding any shareholders who were parties to such action) to provide such indemnification.

NutraCea carries Officers and Directors insurance. The aggregate limit of liability for the policy period (inclusive of costs of defense) is \$3,000,000. The policy period ends on October 1, 2006.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of NutraCea pursuant to the foregoing provisions, or otherwise, NutraCea has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Loans from Officer and Related Parties**

At December 31, 2002, NutraCea owed Ms. Patricia McPeak, then Chief Executive Officer of NutraCea, \$175,800 on a demand note payable bearing interest at 10%. NutraCea executed an additional demand note payable in the amount of \$20,422, bearing interest at 10%, to her during 2003. Additionally, Ms. McPeak made short-term advances to NutraCea amounting to \$210,000 during 2003. All of this debt was repaid prior to December 31, 2003. Cash payments retired \$258,335 of the debt, while \$147,887 was retired by conversion to 344,956 shares of common stock.

In November 2004 the Board of Directors resolved to purchase a new automobile from Patricia McPeak in exchange for her waiving a monthly car allowance provided in her employment agreement. At December 31, 2004, NutraCea booked the purchase price of this automobile (\$73,096) as a payable to a related party.

### **Private Placement Transaction**

In October 2005, we sold approximately 7,850 shares of our Series B preferred stock at a price of \$1,000.00 per share, and warrants to purchase an aggregate of 7,850,000 shares of our common stock with an exercise price of \$0.70 per share, to a small number of sophisticated investors in a private placement transactions. Our Series B preferred stock can be converted to shares of our common stock at a conversion rate of 2,000 shares of common stock for each share of Series B preferred Stock. Gross proceeds from the offering were approximately \$7.85 million. The investors included Leonardo, L.P., funds related to Pequot Capital Management, Inc., The Pinnacle Fund, L.P., funds related to Enable Partners, and funds related to Xerion Partners, which purchased 2,500, 1,750, 1,000, 750 and 700 shares of Series B preferred stock, respectively. Information concerning the beneficial ownership of our securities by such persons is set forth below under the heading "Security Ownership of Certain Beneficial Owners and Management."

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding beneficial ownership of our common stock and Series B preferred stock as of October 21, 2005, by (i) each person or entity who is known by us to own beneficially more than 5% of the outstanding shares of that class of our stock, (ii) each of our directors, (iii) each of the Named Executive Officers, and (iv) all directors and executive officers as a group. We have authorized Series A preferred stock, but none of these shares are outstanding.

The table is based on information provided to us or filed with the Securities and Exchange Commission (“SEC”) by our directors, executive officers and principal shareholders. Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting and investment power with respect to shares. Shares of common stock issuable upon conversion of Series B Preferred Stock or issuable upon exercise of options and warrants that are currently exercisable or are exercisable within 60 days after October 21, 2005, are deemed outstanding for purposes of computing the percentage ownership of the person holding such options or warrants, but are not deemed outstanding for computing the percentage of any other shareholder in the first four columns. The shares of common stock issuable upon conversion of Series B Preferred Stock are deemed outstanding for the purposes of computing the percentage ownership of all persons in the last two columns. Unless otherwise indicated, the address for each shareholder listed in the following table is c/o NutraCea, 1261 Hawk’s Flight Court, El Dorado Hills, CA 95762.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned		Shares of Series B Preferred Stock Beneficially Owned		Shares of Common Stock Beneficially Owned (Assuming Preferred Stock Conversion)	
	Number (1)	Percentage (1)	Number (2)	Percentage (2)	Number (3)	Percentage (3)
Patricia McPeak(4)	14,043,557	19.86%	-	*%	14,043,557	17.02%
Leonardo, L.P.(5) 245 Park Avenue, 26 <sup>th</sup> Floor New York, NY 10167	7,500,000	10.09	2,500	31.95	7,500,000	9.09
Bradley D. Edson(6)	6,115,000	8.40	-	*	6,115,000	7.41
Monsanto(7) 800 N. Lindbergh St. Louis, MO 63167	5,498,818	8.23	-	*	5,498,818	6.66
Funds related to Pequot Capital Management, Inc.(8) 500 Myala Farm Road Westport, CT 06880	5,250,000	7.29	1,750	22.29	5,250,000	6.36
The Pinnacle Fund, L.P.(9)	3,000,000	4.30	1,000	12.74	3,000,000	3.64
James C. Lintzenich(10)	2,883,019	4.22	-	*	2,883,019	3.49

Funds related to Enable Partners(11) One Ferry Building, Suite 255 San Francisco, CA 94111	2,250,000	3.26	750	9.55	2,250,000	2.73
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Funds related to Xerion Partners Equity(12)	2,100,000	3.05	700	8.92	2,100,000	2.54
Steven W. Saunders(13)	1,028,788	1.53	-	*	1,028,788	1.25
Eliot Drell(14)	946,655	1.41	-	*	946,655	1.15
John Howell(15)	790,000	1.18	-	*	790,000	*
Edward L. McMillan(16)	158,538	*	-	*	158,538	*
David Bensol	35,000	*	-	*	35,000	*
All directors and executive officers as a group (10 persons)(17)	28,727,466	35.11			28,727,466	28.58

\* less than 1%

- (1) Applicable percentage of ownership is based on 66,815,055 shares of our common stock outstanding as of October 21, 2005, together with applicable options and warrants for such shareholder exercisable within 60 days of October 21, 2005.
- (2) Applicable percentage of ownership is based on 7,850 shares of Series B preferred stock outstanding as of October 21, 2005.
- (3) Applicable percentage of ownership is based on 66,815,055 shares of our capital stock outstanding as of October 21, 2005, 15,700,000 shares of our capital stock issuable upon conversion of all of the Series B Convertible Preferred Stock outstanding as of October 21, 2005, together with applicable options or warrants for such shareholder exercisable within 60 days of October 21, 2005.
- (4) Includes 8,687,202 shares of common stock and 2,002,882 shares issuable upon the exercises of options and warrants. Also includes 1,311,899 shares owned and 1,887,975 shares issuable upon exercise of options held by reporting person's spouse. Also includes 153,598 shares held by a trust controlled by the reporting person and her spouse. The reporting person disclaims beneficial ownership with regard to all shares owned by her spouse.
- (5) Includes 2,500,000 shares issuable upon exercise of warrants and 5,000,000 shares issuable upon conversion of Series B Convertible Preferred Stock. Leonardo Capital Management Inc. ("LCMI") is the sole general partner of Leonardo, L.P. Andelo, Gordon & Co., L.P. ("Angelo, Gordon") is the sole director of LCMI. John M. Angelo and Michael L. Gordon are the principal executive officers of Angelo, Gordon. Each of Angelo, Gordon and Messers. Angelo and Gordon disclaim beneficial ownership of the shares held by Leonardo, L.P.
- (6) Includes 6,000,000 shares issuable upon exercise of warrants.
- (7) The natural person who has voting and dispositive power for the shares held by the reporting person is Charles Burson.
- (8) Shares beneficially owned by Pequot Capital Management, Inc. represent Shares of common stock underlying Series B convertible preferred, of which 2,062,000 shares are held of record by Pequot Scout Fund, L.P. and 1,438,000 shares are held of record by Pequot Mariner Master Fund L.P.. In addition, represents shares of common

stock underlying warrants immediately exercisable of which 1,031,000 shares are held of record by Pequot Scout Fund L.P. and 719,000 shares are held of record by Pequot Mariner Master Fund, L.P. Pequot Capital Management, Inc, which is the Investment Manager/Advisor to the above named funds exercises sole dispositive, investment and voting power for all the shares. Arthur J. Samberg is the sole shareholder of Pequot Capital Management, Inc. and disclaims beneficial ownership of the shares except for his pecuniary interest.

- (9) Shares beneficially owned by The Pinnacle Fund, L.P. represent 2,000,000 shares of common stock underlying Series B convertible preferred stock and 1,000,000 shares of common stock underlying warrants immediately exercisable. Pinnacle Advisers, L.P., which is the investment advisor and general partner of The Pinnacle Fund, L.P., has sole dispositive, investment and voting power for all the shares. Pinnacle Fund Management, L.L.C is the general partner of Pinnacle Advisers, L.P. Barry M. Kitt is the sole member of Pinnacle Fund Management, L.L.C. and disclaims beneficial ownership of the shares except for his pecuniary interest. The address for The Pinnacle Fund, L.P. is 4965 Preston Park Blvd., Suite 240, Plano, Texas 75093.
- (10) Includes 1,396,411 shares and an additional 1,371,411 shares issuable upon exercise of a warrant held by Intermark Group Holdings, LLC of which the filing person is the owner. Also includes 115,197 shares issuable upon exercise of options held by the reporting person.
- (11) Shares beneficially owned by Enable Partners represent shares of common stock underlying Series B convertible preferred stock, of which 1,200,000 shares are held of record by Enable Growth Partners LP and 300,000 shares are held of record by Enable Opportunity Partners LP. In addition, represents shares of common stock underlying warrants immediately exercisable of which 600,000 shares are hold of record by Enable Growth Partners LP and 150,000 shares are held of record by Enable Opportunity Partners LP. The natural person who has voting and dispositive power for the shares held by both funds named above is Mitch Levine, who is Managing Partner of both funds. Mr. Levine disclaims beneficial ownership of the shares except for his pecuniary interest.

(12) Shares beneficially owned by Xerion Partners Equity represent shares of common stock underlying Series B convertible preferred stock, of which 700,000 shares are held of record by Xerion Partners I LLC and 700,000 shares are held of record by Xerion Partners II Master Fund Limited. In addition, represents shares of common stock underlying warrants immediately exercisable of which 350,000 shares are held of record by Xerion Partners I LLC and 350,000 shares are hold of record by Xerion Partners II Master Fund Limited. The natural persons who have voting and dispositive power for the shares held by Xerion Partners I LLC are S. Donald Sussman and Daniel J. Arbess. Messrs. Sussman and Arbess disclaim beneficial ownership of the shares except for their pecuniary interests. The natural person who has voting and dispositive power for the shares held by Xerion Partners II Master Fund Limited is Daniel J. Arbess. Mr. Arbess disclaims beneficial ownership of the shares except for his pecuniary interest. The address for Xerion Partners I LLC is Two American Lane, Greenwich, Connecticut 06836. The address for Xerion Partners II Master Fund Limited is 450 Park Avenue, New York, New York 10022.

(13) Includes 394,396 shares issuable upon exercise of options.

(14) Includes 252,141 shares issuable upon exercise of options and warrants. Also includes 304,282 shares owned and 164,987 shares issuable under options or warrants exercisable by Drell-Pecha Partnership of which the reporting person is a partner.

(15) The reporting person resigned as the Chief Executive Officer of NutraCea on July 20, 2004. Share holdings are as of December 31, 2004.

(16) Includes 140,798 shares issuable upon exercise of options and warrants.

(17) Includes an aggregate of 15,497,077 shares issuable upon exercise of options and warrants.



## DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 200,000,000 shares of common stock, no par value, and 20,000,000 shares of Preferred Stock, no par value, of which 3,000,000 shares are designated Series A Preferred Stock and 25,000 shares are designated Series B Preferred Stock. As of October 21, 2005, there were 66,891,667 shares of common stock outstanding, no shares of Series A Preferred Stock outstanding and 7,850 shares of Series B Preferred Stock outstanding.

### Common Stock

Holders of NutraCea common stock are entitled to receive ratably dividends when, as, and if declared by NutraCea's board of directors out of funds legally available therefor. Upon the liquidation, dissolution, or winding up of NutraCea, the holders of the common stock are entitled to receive ratably the net assets of NutraCea available after the payment of all debts and other liabilities and subject to the prior rights of outstanding NutraCea preferred shares, if any. However, there are no assurances that upon any such liquidation or dissolution, there will be any net assets to distribute to the holders of NutraCea common stock.

The holders of NutraCea common stock are entitled to one vote for each share held on all matters submitted to a vote of NutraCea shareholders. Under certain circumstances, California law permits the holders of NutraCea common stock to cumulate their votes for the election of directors, in which case holders of less than a majority of the outstanding shares of NutraCea common stock could elect one or more of NutraCea's directors. Holders of NutraCea common stock have no preemptive, subscription, or redemption rights. The outstanding shares of NutraCea common stock are fully paid and nonassessable. The rights and privileges of holders of NutraCea common stock are subject to, and may be adversely affected by, the rights of holders of shares of NutraCea preferred stock that NutraCea may designate and issue in the future.

### Preferred Stock

NutraCea's board of directors is authorized to issue preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications, limitations and restrictions thereof, including dividend rights and rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without any vote or action by NutraCea's shareholders. Any preferred stock to be issued could rank prior to the NutraCea common stock with respect to dividend rights and rights on liquidation. NutraCea's board of directors, without shareholder approval, may issue preferred stock with voting and conversion rights which could adversely affect the voting power of holders of NutraCea common stock and discourage, delay or prevent a change in control of NutraCea.

### Series A Preferred Stock

We have authorized a total of 3,000,000 shares of Series A Preferred Stock. No shares of Series A Preferred Stock are outstanding.

### Series B Preferred Stock

We have authorized a total of 25,000 shares of Series B preferred stock, 7,850 of which are issued and outstanding.

*Voting*

Series B preferred stock shall not be entitled to vote unless required by law or unless we take certain actions, which actions will require the affirmative vote of the holders of a majority of the outstanding shares of Series B preferred stock. These actions include, among other things, amending our Certificate of Determination, Rights and Privileges of Series B preferred stock, authorizing or creating any capital stock senior to, or on parity with, the Series B preferred stock, altering the powers, preferences or rights of the Series B preferred stock, issuing additional shares of Series B preferred stock and incurring certain debt.

*Conversion*

Each share of Series B preferred stock is convertible into the number of shares of our common stock equal to \$1,000.00 divided by the conversion price, which is currently \$0.50. The conversion price is subject to anti-dilution protection if we issue our common stock at prices less than the then current conversion price and for stock splits, stock dividends and other similar transactions.

*Liquidation Preference*

Upon occurrence of (1) our liquidation, (2) a merger or consolidation involving us where our existing shareholders do not retain more than 50% of the voting power in us, (3) a sale of all or substantially all of our assets or (4) a tender offer or other business combination involving us where our existing shareholders do not retain more than 50% of the voting power in us, each share of Series B preferred stock will be entitled to receive in preference to holders of our common stock an amount equal to \$1,000, plus any accrued but unpaid dividends, if any. After receiving this preference, the holders of Series B preferred stock will not be entitled to any further distribution of our assets.

**Transfer Agent**

American Stock Transfer & Trust Company, New York, New York, serves as transfer agent for the shares of common stock.

**SELLING SECURITY HOLDERS**

The table below lists the selling shareholders and other information regarding the beneficial ownership of the common stock by each of the selling shareholders. The first column lists the name of each selling shareholder. The second column lists the number of shares of common stock beneficially owned by each selling shareholder as of October 21, 2005. The third column lists the number of shares of common stock that may be resold under this prospectus. The fourth and fifth columns list the number of shares of common stock owned and the percentage of common stock owned after the resale of the common stock registered under this prospectus. The total number of shares of our common stock outstanding as of October 21, 2005 was 66,891,667. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and includes voting and investment power with respect to such shares. Shares of common stock issuable upon conversion of preferred stock and shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days after October 21, 2005 are deemed to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person but are not treated as outstanding for the purpose of computing the percentage ownership of any other shareholder.

<b>Name of Selling Shareholder</b>	<b>Common Shares Beneficially Owned Prior to Offering</b>	<b>Common Shares Offered by this Prospectus</b>	<b>Common Shares Beneficially Owned After Offering Number</b>	<b>Percentage</b>
Leonardo, L.P.(1)	7,500,000	7,500,000	—	*
Pequot Capital Management, Inc.(2)	5,250,000	5,250,000	—	*
The Pinnacle Fund, L.P.(3)	3,000,000	3,000,000	—	*
Enable Growth Partners, L.P.(4)	1,800,000	1,800,000	—	*
SDS Capital Group SPC, Ltd.(5)	1,500,000	1,500,000	—	*
Xerion Partners II Master Fund Limited(6)	1,050,000	1,050,000	—	*
Xerion Partners I LLC(7)	1,050,000	1,050,000	—	*
Richard Gonda	1,000,000	1,000,000	—	*
Nite Capital, L.P.(8)	900,000	900,000	—	*
Halpern Capital, Inc.(9)	879,200	879,200	—	*
Baruch Halpern & Shoshana Halpern WROS(10)	859,900	859,900	—	*
Steven J. Garchick, Trustee(11)	800,000	800,000	—	*
Steven Lee	1,001,123	500,000	501,123	*
SRB Greenway Capital (QP), L.P.(12)	486,000	486,000	—	*
Broadlawn Master Fund, Ltd.(13)	450,000	450,000	—	*
Enable Opportunity Partners, L.P.(4)	450,000	450,000	—	*
Craig & Susan Musick	1,202,851	400,000	802,851	1.2
Presidio Partners(14)	382,500	382,500	—	*
Kirit Kamdar	1,652,138	307,192	1,344,946	2.0
Hookipa Capital Partners(15)	435,000	435,000	—	*
Geary Partners(14)	284,250	284,250	—	*
Danny Lowell	152,180	132,180	—	*
David Kolb(16)	109,900	109,900	—	*
Elaine Johnson	200,693	100,000	100,693	*
Ronnie Kinsey	200,693	100,000	100,693	*
Edwin Bindseil	90,000	90,000	—	*
Gary Loomis	198,489	85,500	112,989	*
Brady Retirement Fund(14)	83,250	83,250	—	*

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SRB Greenway Capital, L.P.(12)	66,000	66,000	—	*
Laurence Smith	110,108	55,000	55,108	*
SRB Greenway Offshore Operating Fund, L.P.(12)	48,000	48,000	—	*
William Suhs	80,079	40,000	40,079	*
Mark Gladden	75,064	25,000	50,064	*
John Bindseil	10,000	10,000	—	*
Wolfe Axelrod Weinberger Associates, LLC(17)	250,000	250,000	—	*

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\* Represents holdings of less than one percent

(1) Leonardo Capital Management Inc. ("LCMI") is the sole general partner of Leonardo, L.P. Angelo, Gordon & Co., L.P. ("Angelo, Gordon") is the sole director of LCMI. John M. Angelo and Michael L. Gordon are the principal executive officers of Angelo