

NUTRACEA
Form 10KSB
March 31, 2006

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

FORM 10-KSB

(Mark one)

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

For the fiscal year ended December 31, 2005

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

For the transition period from _____ to _____

Commission File Number 0-32565

NUTRACEA

(Name of Small Business Issuer in Its Charter)

California
(State of Incorporation)

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

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

95762
(Zip Code)

Issuer's Telephone Number, Including Area Code: **(916) 933-3000**

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

NONE

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

Common Stock, no par value
(Title of Class)

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

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

State issuer's revenues for its most recent fiscal year: \$5,564,000

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within the past 60 days: As of March 3, 2006, the aggregate market value of the Company's common stock held by non-affiliates was \$60,510,630.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of March 3, 2006, shares of common stock outstanding were 68,350,622.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE): Yes No

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FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this annual report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include, but are not limited to:

- increased competitive pressures from existing competitors and new entrants;
- increases in interest rates or our cost of borrowing or a default under any material debt agreements;
- deterioration in general or regional economic conditions;
- adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- loss of customers or sales weakness;
- inability to achieve future sales levels or other operating results;
- the unavailability of funds for capital expenditures; and
- operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see RISK FACTORS AFFECTING NUTRACEA’S BUSINESS beginning at page 18 below.

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PART I

Item 1. DESCRIPTION OF BUSINESS.

GENERAL

NutraCea (“we,” “us,” “our,” or the “Company”) is 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 and is a wholly-owned subsidiary. 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.

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 subsidiary is primarily engaged in the manufacturing of stabilized rice bran at its Sacramento facility for various consumptive uses, and the custom manufacturing of rice 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 rice grain products to cook, convert, isolate, dry and package finished food ingredients used in the formulation of health food and consumer food finished products. 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.

NutraCea is a health science company that has proprietary Intellectual Property that allows us to process and convert Rice Bran, one of the world's largest wasted food resources, into a highly nutritious ingredient that has applications as a value added ingredient in various food products and as a key component of patented and proprietary formulations that have applications for treatment modalities in nutritional supplementation and as stand alone products that can be sold through non-related entities with distribution into the market place, both domestically and internationally. These products include food supplements and medical foods, or "*nutraceuticals*," which provide health benefits for humans and animals based on stabilized rice bran, rice bran derivatives. We believe that stabilized rice bran products can deliver beneficial physiological effects. We have conducted and are continuing to pursue ongoing clinical trials and third party analyses in order to further support the uses for and effectiveness of our products.

Through the acquisition of The RiceX Company by NutraCea on October 4, 2005 the combined company, known as NutraCea, has created a vertically integrated company combining the manufacture, product development and marketing of a variety of products based upon the use of stabilized rice bran and rice bran formulations. We generated approximately \$5,564,000 and \$1,224,000 in revenue for the years ended December 31, 2005 and 2004, respectively. We reported a net loss of \$3,872,000 for the year ended December 31, 2005 and net loss of \$23,583,000 for the year ended December 31, 2004. Our net operating loss, or NOL, carry-forwards expire for federal tax purposes at various dates from 2011 through 2025, and expire for state tax purposes in 2006 through 2015. See Part II — Item 7.

FINANCIAL STATEMENTS.

We occupy approximately 51,644 square feet of executive offices, laboratory, warehouse and production facilities in El Dorado Hills and West Sacramento, California, Burley, Idaho, Dillon, Montana and Scottsdale, Arizona.

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RiceX[®] and RiceX Solubles[®] are our registered trade names. *TheraFoods*[®], *ProCeuticals*[®], *NutraGlo*[®], *NutraBeauticals*[®], *Mirachol*[®], Max "E"[®], Max "E" Glo[®], *StaBran*[®], *RiSolubles*[®] and *RiceMucil*[®], are some of our registered trademarks. In total, we have thirty five registered trademarks. In addition to our trade names and our trademarks, we hold patents to the production of Beta Glucan and a micro nutrient enriched rice bran oil process. We also hold patents to a method to treat high cholesterol, to a method to treat diabetes and the process for producing Higher Value Fractions, or ("HVF") from stabilized rice bran. See PATENTS AND TRADEMARKS below.

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 NutraGlo, 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.

At special meetings of shareholders held on September 28, 2005 the shareholders of NutraCea and RiceX approved various matters relating to the proposed merger between the two companies. 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. 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.

The stockholders of RiceX received 28,272,064 shares of NutraCea common stock in exchange for 100% of the shares of RiceX common stock, and NutraCea assumed the outstanding options and warrants to purchase 11,810,507 shares of RiceX common stock.

PRODUCTS

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, this 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. Our customers include consumer nutrition and healthcare companies, domestic and international food companies, and companion animal feed manufacturers.

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We produce stabilized, nutrient-rich rice bran that may be used in a wide variety of new products. We are pursuing the development of proprietary rice bran products from stabilized rice bran. Our current products include:

RiceX Stabilized Rice Bran: Stable whole rice bran and germ. This is our 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.

We have developed a number of product lines using RiceX Process stabilized rice bran products and proprietary rice bran formulations in various categories.

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OTHER PRODUCTS

On September 13, 2005, we entered into a Production Facility Development and Rice Bran Supply and Purchase Agreement (the “Agreement”) with Food Trading Company Dominicana, S.A., or 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 which 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 initially ship and produce from our United States facilities. 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. The jointly owned company, can at the option of both parties, agree to construct or improve a production facility for the processing of stabilized rice bran into a bulk fiber soluble mixture in the Dominican Republic.

FTCD is responsible for 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 and at least \$4 million monthly for years three and four of the agreement. As of the filing date, we have not sold any product into the Dominican Republic. However, we have received confirmation from FTCD that they have secured an allotment for a minimum of 100,000 servings per day for the coming school year based on meeting the nutritional and packaging requirements of the national school feeding program. 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.

In November 2005 NutraCea signed a Supply and Distribution Agreement with T. Geddes Grant, a Jamaican Corporation. The agreement requires us to deliver a customized formulated and fortified RiSolubles mix to T. Geddes Grant. The agreement requires that T. Geddes Grant purchase a minimum of \$4.5 million 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.

INDUSTRY BACKGROUND

By definition, nutraceuticals are products from natural sources that have biologically therapeutic effects in humans and animals. These compounds include vitamins, antioxidants, polyphenols, phytosterols, as well as macro and trace minerals. The RiceX Process stabilized 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. See section “Benefits of RiceX Stabilized Bran” for additional information.

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. We have developed a method of stabilizing rice bran we believe is superior to other methods, and provides a shelf life greater than one year, which we believe is longer than any other stabilized rice bran. The longer shelf life allows for economical production of nutrition products which incorporate rice bran ingredients.

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As the market becomes more aware of the value of our ingredients and proprietary formulations 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 in certain situations, 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.

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 2005-2006 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. 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, approximately 65% 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 contains over 60% of the nutrients found in each kernel of rice. (See Juliano, B.O., 1985 Rice: Chemistry and Technology, American Association 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. We believe 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.

Index**THE NUTRACEA/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.

Our 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 we designed. The loop conveyor system immediately carries the fresh, unstabilized rice bran to the RiceX Company stabilizer. Stabilization is achieved by feeding the fresh rice bran into a specially designed and proprietary technological process. The result is a selectively deactivated lipase enzyme and reduced microbiological load. Process controllers that maintain process conditions within the prescribed pressure/temperature regime control the system. In case of power failure or interruption of the flow of fresh bran into the system, the electronic control system is designed to purge our equipment of materials in process and safely shut down.

Bran leaving our stabilization system is further tempered through an additional proprietary technological process that further tempers and reduces the moisture. We call this bran “RiceX Bran”. This RiceX Bran is then discharged onto the cooling unit. A further proprietary process involving specifically controlled air pressure and humidity. The cooled RiceX Bran is then loaded into one ton shipping containers for transportation to other processing facilities or is transported by pneumatic conveyor to a bagging unit for packaging in 30, 40, 50 and 2,000 pound sacks. 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. The processing conditions created by the RiceX Process are unique. 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 RiceX Company units sharing a common conveyor and stage system, which can handle the output of the world’s largest rice mills. We have 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.

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

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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.) In July 2005 we entered into a consulting agreement with an individual to assist in the research and validation of our products in the medical foods market.

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.)

We have been assigned five U.S. patents relating to the production or use of nutraceutical HVF products. See PATENTS AND TRADEMARKS below.

BUSINESS STRATEGY

Our 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. We produce stabilized rice bran and related products in manufacturing facilities we own or through joint venture arrangements. See SUPPLY AND MANUFACTURING below. We intend to protect our process and products through both trade secret protection and through patent and trademark protection. See PATENTS AND TRADEMARKS below.

We believe that clinical support for stabilized rice bran products will further enhance the value of our products as nutraceuticals and functional food ingredients. Finally, we intend to aggressively market our 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, we have focused and will continue to focus our 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, our 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, we have continued relationships with Korean, German and other European companies to introduce our products into these regions. Although there can be no assurance that our products will be successfully introduced into these regions, we believe that interest of this type validates the potential opportunity. In addition, we believe that the relationship reflects the strategy for our foreign ventures. We intend 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

Our strategic development, using the RiceX model, has been focused on making our nutrient-dense stabilized rice bran products available to developing countries where nutritional deficiencies are a major concern, particularly among

school-aged children. We remain on the cutting edge in developing nations by reducing malnutrition and enhancing nutritional growth potential school-aged children. The school nutritional and diet upgrading programs in developing countries worldwide represent a multi-billion dollar market opportunity for us. 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”.

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RiceX's first international strategic alliance was established in December 2000 with PRODESA and the Christian Children's Fund in Guatemala. Under this alliance, we supplied nutritionally dense ingredients throughout Guatemala over a twelve-month period starting in January 2001. As a result, our stabilized rice bran product, RiceX Solubles, has been used as a base for a 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 in the year ended December 31, 2001. In 2002 and following the similar program of Guatemala, 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. RiceX had similar programs in the region in 2003 and 2004.

We are in the process of broadening our presence in the international markets. Building on our 2001 successful proof-of-concept program in Guatemala, we continue to develop and expand international market development activities in Central and South America. 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.

We continue 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. We have 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.

We also intend 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. We plan to introduce our 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 we are able to expand into these areas, the installation of 100 RiceX processing systems has the capacity to provide up to 500 nutritionally dense calories to over 100 million people daily on an ongoing basis. The diet supplement provided by the locally grown and stabilized rice bran would help those people approach U.S. levels of nutrition.

We continue to hold discussions regarding the demonstration of our system and the end products for our technology with a number of companies and governments including countries in Central America, India, China, Argentina, Brazil, Malaysia and certain African countries. We currently have signed binding letters of intent with companies in the food processing business and rice milling business in Central and South America countries as well as the Far East. See Part II - Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION - "International Initiatives", for additional discussions. However, there can be no assurance that these agreements and discussions will lead to implementation of the RiceX Process with these companies or governments.

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SALES AND MARKETING

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

Our 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. Our ingredient products are sold to consumer nutrition and healthcare companies, national nutritional retailers, multi-level personal product marketers, and an infomercial company.

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. We are marketing RiceX Stabilized 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 we estimate that this represents more than a several \$100 million annual market share opportunity for us. Premium ingredient manufacturers are in high demand and we are strategically positioned to take advantage of this growing and sustainable market opportunity. Our proprietary technology and product patents represent extremely valuable assets for achieving strategic leverage in this industry segment.

Performance Feed and Companion Pet Food Supplements

We also market RiceX Bran as a feed supplement for animals. RiceX Stabilized 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 more than a \$100 million annual market share opportunity for our 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. We continued to hold numerous discussions with several major domestic equine feed manufacturers and distributors.

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. We hold a patent on the process for obtaining

micronutrient enriched rice bran oil. There can be no assurance that any of our Stabilized Rice Bran Oil marketing efforts will be successful.

MARKETING METHODS

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As of March 3, 2006, we have a Senior Vice-President of Sales and Marketing and one domestic sales representative. In addition, we have one equine market consultant and an agreement with a European Brokerage firm for the United Kingdom and Benelux markets, for developing and marketing RiceX Bran products. In addition, we have retained a firm to provide and assist in potential qualified customer introductions. We also have a non-exclusive agreement with a firm granting rights to advertise, promote, market, sell and distribute some of our products world-wide. We continue to work to develop additional significant alliances in efforts to increase our sales volume.

Pursuant to the Stabilized Rice Bran Processing Sales and Marketing Agreement between NutraCea and Farmers' Rice Cooperative, or Farmers, a cooperative association organized under the California Food and Agriculture Code, and us, dated September 1, 2005, Farmers has an exclusive license to use our rice bran processing equipment for production of stabilized rice bran for sale to a limited number of Farmers customers.

Our Nutrition Supplements are currently marketed domestically through various distribution channels. In addition, we distribute products under the names FlexProtex™, Rice'n Shine™, Flex Protex Cream™, 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. Pursuant to this agreement, ITV will market and sell our products through infomercials. These infomercials will feature our former Chief Executive Officer, Patricia McPeak, for which she will receive a royalty of \$1.00 per unit sold through these infomercials. In 2005, we generated \$3,012,000 in sales from these infomercials. 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. The contracts have specific unit and dollar minimums in order for them to maintain limited exclusivity.

Our nutraceutical 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 nutraceutical animal products, which we are seeking to distribute, subject to certain limited rights of first refusal 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.

CUSTOMERS

Our major customers were ITV Global, Inc., W.F. Young, Natural Glo, Land O' Lakes Purina Feed and PGP International. We depended on these customers for approximately 85% of all sales revenue during 2005. Loss of any of these customers could have a material adverse effect on our revenues and results of operations.

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SUPPLY AND MANUFACTURING

We purchase unstabilized rice bran from one major supplier, Farmers. Pursuant to our agreement with Farmers, our stabilization machinery is physically attached to Farmers rice processing plants and the rice bran by-product is directly transferred to our 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 we have ready access to unstabilized bran. Farmers is currently our only supplier of unstabilized rice bran. We have recently entered into a new supply agreement with Louisiana Rice Mill which will more than triple our existing capacity. We are continuing to seek additional relationships with rice processors, both in the United States and abroad as part of our overall business strategy. We believe suitable alternative supply arrangements are readily available if needed. Our production capacity, prior to the new Louisiana facility coming on line, stands at 1,500 tons per month.

As required, we ship RiceX Bran from our facility in California to our plant in Dillon, Montana for further processing into RiceX Solubles, Dextrinized Rice Bran and RiceX Fiber Complex. We have currently ordered additional equipment and are in the process of expanding the Dillon Montana facility. Additional equipment should increase our RiceX Solubles and RiceX Fiber Complex by more than 50%. We intend 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. Additionally, we have entered into an agreement with an individual to assist us in forming a joint operating agreement with a rice mill in either Ecuador or Columbia

Every food product that we manufacture is produced under published FDA and USDA regulations for “Good Manufacturing Practices.” Our Chief Operating Officer 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.

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. NutraCea has 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 phytosterols, as well as beneficial macro and trace minerals, in NutraCea’s 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 NutraCea’s 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, NutraCea® 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, NutraCea has relationships with several medical institutions and practicing physicians who may continue to conduct clinical trials and beta work for its 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.

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

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Our program managed by Christian Childrens Fund, or CCF, of Guatemala in 2001 was highly successful in reducing malnutrition in school age children and enhancing their nutritional growth potential. Our stabilized rice bran product, RiceX Solubles, was used as a base for a nutritionally enhanced drink for school breakfast and lunch programs to over 67,000 children in rural communities throughout Guatemala. CCF randomly selected 150 children from the group and evaluated their nutritional condition. Thirty-seven percent (37%) of the children were classified as having acute or chronic malnutrition at the start of the test. At the end of six months, no acute malnutrition existed and only 5% chronic malnutrition remained.

PATENTS AND TRADEMARKS

Through our subsidiary NTI, we 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 have entered into an agreement with a consulting firm to provide patent and license analysis.

Through our subsidiary RiceX, we 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. NutraCea currently has several additional patents filed and pending formal review, and we intend 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 affect 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.

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GOVERNMENT REGULATIONS

The Federal Food, Drug, and Cosmetic Act, or FFDCFA, and the U.S. Food and drug Administration, or FDA, 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 trademarks TheraFoods® and ProCeutical®.

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 FFDCFA 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 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 FFDCFA 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 it predict the effect of such laws or regulations on its operations. We may be required to reformulate certain of its 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 its

relationship with its 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.

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COMPETITION

Although we believe that we are the only company to use non-chemical methods to stabilize all natural rice bran so that the bran has a shelf life of over one year, we compete with other companies attempting to stabilize rice bran, as well as companies producing other food ingredients and nutritional supplements. We believe that our only significant competitor is Producer's Rice Mill. This competitor may have greater capital resources than us; however, we believe that the product it is offering is inferior in many ways including the inclusion of certain additives in the process that markets the finished product more unpalatable for the animal recipients. However, there can be no assurance that we will be able to compete successfully in the rice bran industry. We believe that our major nutritional supplement competitors include producers of wheat bran and oat bran, particularly in the functional food ingredients market segment.

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.

RESEARCH AND DEVELOPMENT EXPENDITURES

During fiscal years 2005 and 2004, we spent \$191,000 and \$127,000, respectively, on product research and development.

EMPLOYEES

As of March 3, 2006, we had a total of 25 full time employees and two part time employees. Our employee count may change periodically. From year to year we experience normal variable labor fluctuation at our production facility in Dillon Montana. In addition, we have three independently contracted staff members. We consider that our relations with our employees are good.

FACTORS AFFECTING NUTRACEA'S BUSINESS

Developing and Marketing New Products

Our business is subject to any or all of the problems, expenses, delays and risks inherent in the establishment of a new business enterprise, including limited capital resources, possible delays in product development, possible cost overruns due to price and cost increases in raw product and manufacturing processes, uncertain market acceptance, and inability to respond effectively to competitive developments and attract, retain and motivate qualified employees. Therefore, there can be no assurance that our business or products will be successful, that we will be able to achieve or maintain profitable operations, or that we will not encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated.

We Have Not Yet Achieved Positive Cash Flow

We have not generated a positive cash flow from operations in any period since commencing operations. We raised approximately \$8,000,000 in the form of equity in the October 2004, and paid off all short and long term debt obligations, strengthening our balance sheet and positioning us for the growth in sales we are anticipating. While we believe that we have adequate cash reserves and working capital to fund current operations, our ability to meet long term business objectives may be dependent upon our ability to raise additional financing through public or private equity financings, establish increasing cash flow from operations, enter into collaborative or other arrangements with corporate sources, or secure other sources of financing to fund long-term operations. There is no assurance that external funds will be available on terms acceptable to us in sufficient amount to finance operations until we do reach sufficient positive cash flow to fund our capital expenditures. 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. Incurring additional debt may involve restrictive covenants and increased interest costs and demand on future cash flow. Our inability to obtain sufficient financing may require us to delay, scale back or eliminate some or all of our product development and marketing programs.

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RiceX Integration

Although we feel the integration of the RiceX operations is proceeding as planned, without any significant issues affecting the successful implementation to date, it is important to note that if we fail to continue to meet the challenges involved in further 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 operating 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.

Market Risk of a New 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.

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Reliance on Adequate Supply of Raw Rice Bran

All of our current products depend on our proprietary technology using stabilized rice bran, which is a by-product from milling paddy rice to white rice. Our ability to manufacture rice bran raw materials is currently limited to the production capability of our facility at Farmers and our single plant in Dillon, Montana. Between the Dillon, Montana plant and the facility at Farmers, we currently are capable of producing all of our required rice bran raw materials. The current production capacity will meet our immediate supply needs, but that capacity may not be sufficient to meet all of our needs for the year ahead. We have initiated an expansion of the Dillon, Montana facility which should be completed in the first half of 2006 and entered into a new supply agreement in Louisiana, involving the construction of a new facility which should be operating by the end of the third quarter of 2006. These facilities should meet our needs for 2006 and early 2007, but are not anticipated to be sufficient to meet our longer term supply needs. Therefore, we anticipate building new facilities to meet the forecasted demand for our products and envision we will be able to execute on this initiative. In the event we are unable to create additional production capacity to produce more stabilized rice bran products to fulfill our current and future requirements this could materially and adversely affect our business, results from operations, and financial condition.

We are pursuing other supply sources in the United States and in foreign countries and anticipate being able to secure alternatives and back-up sources of rice bran, although we have not entered into any definitive agreements other than what we have publicly announced to date. 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.

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.

Government Regulations

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.

Patents, Licenses and Other Intellectual Property Claims

There currently are no claims or lawsuits pending or threatened against us or RiceX regarding possible infringement claims relating to any of our patents, 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 methods, any of which could have a material adverse affect on our financial condition and results of operations. There can be no assurance that a license under a third party's intellectual property rights will be available to us on reasonable terms, if at all.

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Dependence on Key Employees

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 and Margie D. Adelman, our Secretary and Senior Vice President. Although we have written employment 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.

Clinical Trials

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.

Item 2. DESCRIPTION OF PROPERTY.

We currently lease 15,680 square feet of office, laboratory and warehouse space located at 1241 and 1261 Hawk's Flight Court, El Dorado Hills, California, a 2,000 square foot office facility at 1901 Conant Avenue, Burly, Idaho, a 1264 square foot office facility at 6991 East Camelback Road, Scottsdale, Arizona and a 17,000 square foot warehouse facility at 1755 Enterprise Boulevard, West Sacramento, California. Our subsidiary, RiceX Nutrients, Inc., 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 our offices in Burley, Idaho expires in May 2009 and the lease for our West Sacramento, California warehouse facility is on a month to month basis. We have aggregate annual lease payments for all the facilities approximating \$111,406

We believe that our facilities are adequate for our anticipated needs through 2006 and that the properties are adequately covered by insurance.

Item 3. 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 management, no such lawsuits either individually or in the aggregate, are expected to have a material effect on our financial position or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to our security holders for a vote during the quarter ended December 31, 2005.

PART II

Index**Item MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL
5. BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.**

On September 17, 1998, our common stock was approved for quotation on the National Association of Securities Dealers' Over-the-Counter, or 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. 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
Year Ending December 31, 2005		
Fourth Quarter	\$ 0.65	\$ 1.17
Third Quarter	\$ 0.39	\$ 1.81
Second Quarter	\$ 0.39	\$ 0.65
First Quarter	\$ 0.30	\$ 0.67
Year Ended December 31, 2004		
First Quarter	\$ 0.85	\$ 2.14
Second Quarter	\$ 0.83	\$ 1.33
Third Quarter	\$ 0.29	\$ 1.16
Fourth Quarter	\$ 0.32	\$ 0.56

As of March 3, 2006, there were approximately 418 holders of record of our common stock.

DIVIDENDS

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 March 3, 2006, 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 \$362,500.

STOCK COMPENSATION PLANS

On October 30, 2003, the Board of Directors approved and adopted the 2003 Stock Compensation Plan and authorized the President of NutraCea to execute a registration statement under the Securities Act of 1933 for 10,000,000 shares of common stock. Under the plan, the Board of Directors or a committee thereof may grant warrants, options, restricted common shares, unrestricted common shares and other awards to directors, employees and consultants of NutraCea for services rendered. As of December 31, 2005, 9,966,208 shares of common stock have been issued under the 2003 Stock Compensation Plan.

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Other equity compensation plans not approved by shareholders include options and warrants issued in connection with employment agreements (18,537,465 options) and options and warrants issued to consultants in exchange for services rendered (19,745,894) totaling 38,283,359 at December 31, 2005.

RESENT SALES OF UNREGISTERED SECURITIES

The following issuances of stock, warrants, and other equity securities were made without any public solicitation to a limited number of investors or related individuals or entities in separately negotiated transactions. Each investor represented to us that the securities were being acquired for investment purposes only and not with an intention to resell or distribute such securities. The individuals or entities had access to information about our business and financial condition and was deemed capable of protecting their own interests. The stock, warrants and other securities were issued pursuant to the private placement exemption provided by Section 4(2) or Section 4(6) of the Securities Act of 1933. These are deemed to be "restricted securities" as defined in Rule 144 under the 1933 Act and the warrant certificates and the stock certificates bear a legend limiting the resale thereof.

During 2004 we issued an aggregate of 168,626 shares of our common stock to three vendors in payment of \$57,944 in accounts payable for goods and services.

During 2004 we issued an aggregate of 280,000 shares of our common stock to two consultants in settlement of \$477,816 of contractual payments.

In January 2004, the Company sold an aggregate of 1,897,143 shares of its common stock to eight individuals for total proceeds to the Company of \$656,221.

In February 2004, the Company sold an aggregate of 616,452 shares of its common stock to four individuals for total proceeds to the Company of \$272,614.

In March 2004, the Company sold an aggregate of 1,539,262 shares of its common stock to five individuals for total proceeds to the Company of \$810,143.

On March 24, 2004, we issued 5,500,000 shares of common stock to our then Chief Executive Officer, Ms. Patricia McPeak, in exchange for services rendered.

In April 2004, the Company sold an aggregate of 1,347,299 shares of its common stock to four individuals for total proceeds to the Company of \$514,973.

In May 2004, the Company sold an aggregate of 125,000 shares of its common stock to two individuals for total proceeds to the Company of \$12,475.

In September 2004, the Company sold an aggregate of 25,000 shares of its common stock to one individual for total proceeds to the Company of \$4,500.

On September 8, 2004, the Company and Langley Park Investments PLC ("Langley") signed a Stock Purchase Agreement under which the Company agreed to sell 7,000,000 shares of its common stock to Langley. The transaction will close at the time that Langley's shares are trading on the London Stock Exchange for anticipated consideration to NutraCea (i) immediately following the closing of approximately \$1,190,000 in Langley stock, and (ii) additional consideration of that number of Langley shares which, as of the closing, will have a value of approximately \$1,190,000.

In December 2004, the Company sold an aggregate of 25,000 shares of its common stock to one individual for total proceeds to the Company of \$5,000. There were no underwriting discounts or commissions associated with this sale.

In December 2004, the Company issued warrants to purchase an aggregate of 2,400,000 shares of the Company's common stock in connection with a Promissory Note and Warrant Purchase Agreement entered into with three investors for an aggregate purchase amount of \$2,400,000. A commission of \$242,846 as paid to Sandgrain Securities upon consummation of the financing and a finder's fee of \$25,000 was paid.

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During 2004, we issued 3,048,315 shares of our common stock to 15 consultants in lieu of contractual payments in the amount of \$2,192,013 pursuant to consulting contracts.

During 2004, we issued warrants to purchase 9,598,493 shares of our common stock valued at \$7,761,516 to 14 consultants pursuant to consulting agreements. The warrants are exercisable at prices between \$.01 and \$5.00 per share and expire at varying times between six months and five years from the date of issuance.

During the quarter ended June 30, 2005, NutraCea issued 29,786 shares of its common stock valued at \$15,000 to a web design consultant in respect of unpaid fees.

During the year ended December 31, 2005 NutraCea:

- (1) issued 70,000 shares of common stock to two officers and directors, valued at \$30,100;
- (2) issued a total of 30,000 shares of common stock to two consultants under the Patent Incentive Plan, valued at \$12,600;
- (3) issued 97,000 shares of common stock, valued at \$97,655, to Faraday, which was the last required payment to Faraday under the Settlement Agreement dated December 10, 2003; and
- (4) issued 33,000 shares of common stock to three consultants, valued at \$21,800.

In 2005, NutraCea issued 1,222,222 and 166,667 shares of its common stock to repurchase technology and marketing rights valued at \$550,000 and \$75,000, to a customer and the limited liability company they formed.

In 2005, NutraCea issued 359,183 shares of common stock to a consulting company for patent and license analysis. 224,489 shares, valued at \$110,000, vested upon signing of the agreement while the balance vested upon certain milestones achieved and were valued at \$61,959.

In 2005, NutraCea issued options to purchase 360,000 shares of its common stock to a technology firm for assistance in developing an internet marketing system for NutraCea. The options have an exercise price of \$0.60 per share, exercisable over 21 months, and expire in five years. The contract was terminated on August 31, 2005 with 105,000 option shares vested, valued at \$47,851.

On August 24, 2005, NutraCea entered into a Private Label Supply Agreement and Strategic Alliance (“Supply Agreement”). In connection with the Supply Agreement and in return for an agreement to purchase a minimum of \$500,000 per quarter in NutraCea products, NutraCea issued to ITV Global, Inc. an option to acquire up to 250,000 shares of the Company’s common stock, contingent upon quarterly payment performances.

In 2005, we issued 700,000 options and warrants to purchase common stock to seven consultants, valued at \$301,598.

The following issuances of stock were made without any public solicitation to holders of options, warrants. Each holder of an option or warrant represented to us that the securities were being acquired for investment purposes only and not with an intention to resell or distribute such securities. The individuals or entities had access to information about our business and financial condition and was deemed capable of protecting their own interests. As such, the stock was issued pursuant to the private placement exemption provided by Section 4(2) of the Securities Act of 1933. These are deemed to be “restricted securities” as defined in Rule 144 under the 1933 Act and the stock certificates bear a legend limiting the resale thereof.

During 2004, we issued an aggregate of 509,323 shares of our common stock upon exercise of outstanding options and warrants.

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During 2005, we issued 531,000 shares of our common stock upon exercise of outstanding options and warrants for cash, and 66,666 common shares for the cashless exercise of 100,000 options.

In 2005, we issued 2,200,000 options to 3 employees, valued at \$130,000, exercisable between \$.30 and \$.46 per share, expiring in ten years;

On October 4, 2005, NutraCea completed a private placement of its securities to certain investors for aggregate gross proceeds of approximately \$7,850,000. NutraCea issued an aggregate of 7,850 shares of Series B Convertible Preferred Stock at a price of \$1,000 per share, which may be converted to shares of NutraCea common stock at a conversion rate of 2,000 shares of commons stock for each Preferred Share. Additionally, NutraCea issued warrants to purchase an aggregate of 7,850,000 share of NutraCea common stock at an exercise price of \$0.70 per share. The placement agent for the transaction was paid a commission consisting of \$549,500 and warrants to purchases up to an aggregate of 1,099,000 shares of NutraCea common stock at an exercise price of \$0.50 per share.

From January 1, 2006 to March 3, 2006, we issued 42,576 shares of our common stock upon the cashless exercise of outstanding options and warrants.

In January and February 2006, we issued 410,000 options and warrants to purchase common stock to four consultants and one director, valued at \$168,394.

In February of 2006, we issued 530,000 options to purchase common stock to two employees valued at \$10,000.

The following issuances of stock, warrants, and other equity securities were exchanged by us with our existing security holders exclusively in transactions in which no commission or other remuneration was paid or given directly or indirectly to any person. As such, the issuance of the following securities was exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended.

During 2004, the Company issued 5,759 shares of common stock in payment of preferred dividends in the amount of \$5,986.

During 2004, we issued an aggregate of 540,000 shares of our common stock pursuant to the conversion provisions of 630,000 shares of our Series A Preferred Stock.

In February and March of 2006, six preferred shareholders converted 600 shares of preferred stock into 1,200,000 shares of common stock.

The following issuances of stock and assumption of options and warrants were made pursuant to an exemption provided by Section 3(a)(10) of the Securities Act of 1933 after a fairness hearing before the California Department of Corporations.

On October 4, 2005, NutraCea completed its merger with The RiceX Company. In connection with the merger, NutraCea issued 28,272,064 shares of its 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.

RECENT SALES OF REGISTERED SECURITIES

In 2004, the Company issued 719,635 shares of common stock to six consultants, valued at \$353,800.

In 2005, NutraCea issued 93,948 shares of common stock to one consultant, valued at \$73,000.

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In the first quarter of 2006, NutraCea issued 15,967 shares of common stock to the same consultant for services rendered, valued at \$15,000.

PURCHASE OF EQUITY SECURITIES BY COMPANY

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
January 1, 2005 - December 31, 2005	-0-	\$0.00	-0-	-0-

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following is a summary discussion of our consolidated financial condition as of December 31, 2005 and the results of operations for quarters ended December 31, 2005 and 2004. The quarter presentation is made because of the fourth quarter 2005 significant event, merger with The RiceX Company, or RiceX, and its effect on our quarter operating results.

Also following is a detailed discussion of our consolidated financial condition as of December 31, 2005 and the results of operations for fiscal years ended December 31, 2005 and 2004, which should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and notes thereto included elsewhere in this report. The consolidated financial statements see Part II - Item 7. FINANCIAL STATEMENTS represents annual results for NutraCea and three months of operations for RiceX which was acquired by NutraCea on October 4, 2005.

Merger with The RiceX Company

At special meetings of shareholders held on September 28, 2005 the shareholders of NutraCea and RiceX approved various matters relating to the proposed merger between the two companies.

On October 4, 2005, NutraCea merged with RiceX, with RiceX surviving the Merger as a wholly-owned subsidiary of NutraCea. 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.

The stockholders of RiceX received 28,272,064 shares of NutraCea common stock in exchange for 100% of the shares of RiceX common stock, and NutraCea assumed the outstanding options and warrants to purchase 11,810,507 shares of RiceX common stock. No dissenters' rights were paid.

Quarterly Summary

The follow chart summarizes selected financial information for fourth quarter ending December 31, 2005 and 2004 for our combined Company.

Selected Financial Summary

Quarter Ended December 31, 2005 and 2004
(in thousands except share data)

Consolidated Operating Results	Fourth Quarter 2005	Fourth Quarter 2004
Revenue	\$ 4,504	\$ 561
Gross margin	2,331	358
Percent of revenue	52%	64%
Selling, general and administrative expenses	1,952	2,594
EBITDA*	379	(2,236)
Depreciation and amortization	263	14
Other income (expense)	\$ (269)	(27)
Net income (loss)	(153)	(2,277)
Net income (loss) per share	\$ 0.00	(\$0.11)
Weighted average common shares outstanding at quarter end December 31,	38,615,344	19,905,965

*EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States. For a quantitative reconciliation of the differences between EBITDA and net income (loss), as net income (loss) is calculated in accordance with generally accepted accounting principles, see the "EBITDA Reconciliation" table below.

Gross revenues for the fourth quarter 2005 were \$4,504,000 compared to gross revenues of \$561,000 for the fourth quarter of 2004, an increase of over 700%. Our improved revenues and financial performance on a quarterly comparative basis have primarily resulted from the merger with RiceX and the successful launch of our products into the infomercial market segment during quarter ended December 31, 2005. We had a net loss of \$153,000 for the fourth quarter of 2005, compared to a net loss of \$2,277,000 for the same period in 2004. In addition, we report positive earnings before interest, taxes, depreciation and amortization EBITDA of \$379,000 in the fourth quarter of 2005 compared to a negative EBITDA of \$2,236,000 in the fourth quarter of 2004, an improvement of \$2,615,000. The net loss for the fourth quarter of 2005 includes charges associated with the merger totaling in excess of \$740,000.

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EBITDA represents net income (loss) before interest, taxes, depreciation and amortization. EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States. The following table presents EBITDA amounts for the three month periods ended December 31, 2004 and 2005. The table also sets forth for these periods a quantitative reconciliation of the differences between EBITDA and net loss, as net loss is calculated in accordance with generally accepted accounting principles:

	Three Month Period ended December 31,	
	2005	2004
Net loss	\$ (153,000)	\$ (2,277,000)
Add back non-EBITDA items included in net loss		
Depreciation and amortization	263,000	14,000
Interest expense, net of interest income	269,000	27,000
EBITDA	\$ 379,000	\$ (2,236,000)

We have included data with respect to EBITDA because we evaluate and project the performance of our Company's business using several measures, including EBITDA. Management considers EBITDA to be an important supplemental indication of our operating performance because this measure eliminates some recurring non-cash and non-recurring items. Management believes that consideration of EBITDA should be supplemental, because EBITDA has limitations as an analytical measure. These limitations include the following:

- EBITDA does not reflect our Company's cash expenditures, or our future requirements for capital expenditures, or contractual commitments;
- EBITDA does not reflect the interest expense, or cash requirements necessary to service interest or principle payments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, an EBITDA does not reflect any cash requirements for such replacements; and
- EBITDA does not reflect the effects of earnings or charges resulting from matters the Company's management considers not to be indicative of our ongoing operations.

The Company's management compensates for these limitations by relying primarily on its results under generally accepted accounting principles to evaluate our operating performance and by considering independently the economic effects of the foregoing items that are not reflected in the EBITDA. EBITDA should not be considered as an alternative to net income (loss), as calculated in accordance with generally accepted accounting principles, as a measure of operating performance, nor should it be considered as an alternative to cash flows, as calculated in accordance with generally accepted accounting principles, as a measure of liquidity.

Annual Summary

Due to the acquisition of The RiceX Company on October 4, 2005, the following represents annual results for NutraCea and three months of operations for RiceX for 2005 information..

Selected Financial Summary
Years End December 31, 2005 and 2004
(in thousands except share data)

Consolidated Operating Results	2005	2004
Revenue	\$ 5,564	\$ 1,224
Gross margin	2,686	624

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Percent of revenue	48%	51%
Research and development expenses	191	127
Selling, general and administrative expenses	2,993	1,928
Share-based compensation	1,511	20,998
Professional and investor relations fees	991	1,122
Other income (expense)	(878)	32
Net (loss) income	\$ (3,872)	(23,583)
(Loss) earnings per share	(\$0.10)	(\$1.18)

Weighted average number of shares outstanding	38,615,344	19,905,965
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Consolidated Balance Sheets	2005	2004
Cash	\$ 3,491	\$ 1,928
Total assets	48,558	3,338
Accounts payable and accrued liabilities	1,255	2,171
Deferred revenue, advance payments	5	-
Shareholders' equity	\$ 38,894	1,167
Number of common shares outstanding at December 31,	67,102,079	36,130,544

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We have developed a strategic and financial business plan to meet our ongoing liquidity needs for the year ended December 31, 2005 and thereafter. These current year changes in strategic plans related to marketing efforts, production efficiencies, spending controls and our recent acquisition of RiceX are expected to facilitate increased liquidity. For a complete understanding of these activities, this Management's Discussion and Analysis should be read in conjunction with Part I - Item 1. DESCRIPTION OF BUSINESS and Part II - Item 7. FINANCIAL STATEMENTS of this Annual Report on Form 10-KSB.

YEAR ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

Due to the recent merger of NutraCea with RiceX which occurred in the fourth quarter of 2005, the results of operations discussed below may not be comparable to future operations of the combined entity.

Consolidated revenues for the year ended December 31, 2005 were \$5,564,000, an increase of \$4,340,000, or 355% on a comparative basis to the year ended December 31, 2004. The 355% increase was primarily a result of new sales in the infomercial market of \$3,012,000 which began in September 2005. We had sales in the nutraceutical equine market of \$1,071,000, sales in other nutraceutical markets of \$323,000, and technology income of \$100,000 in 2005. Also contributing to our revenue increase was fourth quarter sales included in the merger with The RiceX Company of approximately \$1,058,000.

Cost of goods sold increased from \$600,000 in 2004 to \$2,878,000 in 2005 due primarily to the significant increase in product sold in 2005. Gross margins increased \$2,062,000 to \$2,686,000 in 2005, from \$624,000 in 2004. This 330% increase was due to new sales in the infomercial market, increased sales in the equine market and nutraceutical markets, and the addition of gross margins related to the merger of The RiceX Company in the fourth quarter of 2005.

Research and Development (R&D) expenses increased \$64,000 in 2005 to \$191,000 due to increased product development costs.

Sales, General and Administrative (SG&A) expenses increased \$1,059,000 from \$1,928,000 in 2004 to \$2,993,000 in 2005. The increase was mostly due to added employee related, travel, office, commission, and other general operating expenses resulting from the merger with RiceX.

Share-based compensation decreased \$19,487,000 from \$20,998,000 in 2004 to \$1,511,000 in 2005. These non-cash charges are related to issuances of common stock and common stock warrants and options awarded in 2005 compared to 2004. During 2004, these non-cash expenses relating to the issuance of 5.5 million restricted shares of common stock to the Company's former Chief Executive Officer for services rendered and repayment of debt; the value of restricted shares and shares covered by the Company's S-8 registration statement issued to officers, directors and consultants for services; and the value of options and warrants issued to various employees and consultants. 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.

Professional and investor relations fees decreased \$131,000 from \$1,122,000 in 2004 to \$984,000 in 2005. In 2005, professional expenses primarily legal expenses, were associated with non recurring charges of \$612,000 incurred by RiceX. Also in 2005, we incurred investor relations costs of \$262,000 associated with an investor relations firm and professional fees associated with quarterly and annual SEC filing requirements. In 2004, we incurred significantly higher professional fees due to non cash expenses for consultants for services.

Interest expense increased by \$868,000 to \$896,000 in 2005 due to interest and discount related to a note payable of \$2,400,000 at 7% interest compounded quarterly. On October 4, 2005, principle of \$2,400,000 and \$137,000 interest

was paid in full. A non-cash discount in the amount of \$759,000 was amortized in 2005.

We had a net loss of \$3,872,000 for the year ended December 31, 2005, or \$0.10 loss per share, compared to a net loss of \$23,583,000 for 2004, or \$1.18 loss per share. The net loss reduction of \$19,711,000 was primarily due to the reduction of non-cash stock options and warrants issued, increased total revenues, and new business development in the infomercial market. There were positive trends in our domestic animal product lines primarily sold to the equine market and our domestic functional foods and nutraceutical product lines.

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The provision of income taxes for the years ended December 31, 2005 and 2004 consists of the \$2,226 for minimum state income taxes.

Deferred taxes arise from temporary differences in the recognition of certain expenses for tax and financial statement purposes. At December 31, 2005, 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, 2005, net operating loss carryforwards were approximately \$23,000,000 for federal tax purposes that expire at various dates from 2011 through 2025 and \$19,700,000 for state tax purposes that expire in 2010 through 2015.

Utilization of net operating loss carryforwards may be subject to substantial annual limitations due to the “change in ownership” provisions of the Internal Revenue Code and similar state regulations. The annual limitation may result in expiration of net operating loss carryforwards before utilization.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred significant operating losses since our inception, and, as of December 31, 2005 we had an accumulated deficit of \$48,800,000. We used approximately \$3,378,000 of cash to fund operations during the twelve months ended December 31, 2005 leaving a cash balance of \$3,491,000 at December 31, 2005 and working capital of \$5,566,000.

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 twelve months ended December 31, 2005, we have issued a total of 30,972,000 shares of common stock of which 1,975,000 shares valued at \$934,000 were issued as compensation to officers and consultants in lieu of cash. The bulk of the 2005 issuance was 28,272,000 shares of common stock issued to RiceX shareholders resulting from the merger on October 4, 2005.

On October 4, 2005, certain 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. This private placement of securities generated aggregate gross proceeds of approximately \$7,850,000 (approximately \$7,300,000 million after offering expenses). 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 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. This sale of securities will provide additional operating capital to be utilized over at least the next 12 months.

During December 2004, we borrowed \$2,400,000 in notes payable to help finance future operations. The notes were for a one year term, bear interest at 7% interest compounded quarterly and were secured by all of our assets. The holders were issued warrants to purchase a total of 2,400,000 shares of our common stock at an exercise price of \$0.30 per share. The warrants are immediately exercisable and expire in seven years from the date of issuance. Debt discount expense of \$786,370 was recorded in connection with issuance of these warrants and is being amortized over the life of the notes payable. These notes were paid off on October 4, 2005. Subsequent to the completion of the October 4, 2005 private placement transaction mentioned above, we retired the \$2,400,000 notes payable borrowed in December 2004.

In addition to the capital raised on October 4, 2005, we believe that we may need to raise additional capital to continue to develop, promote and conduct our operations. Such additional capital may be raised through public or private financing as well as borrowing from other sources.

For the year ended December 31, 2005, our cash balance increased by \$1,562,000, compared to the same period last year. Our cash balance at December 31, 2005 was \$3,491,000. Our cash position has not required cash from financing activities in order to fund operations since retiring all of our long term debt in October 2005. Management believes our cash reserve is adequate to meet future operating requirements.

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Domestic Initiatives

We began an initiative to expand our Dillon, Montana plant to increase production capacity to meet the growing market demand for our products made from stabilized Rice Bran derivatives. During most of the fourth quarter of 2005, since the NutraCea/RiceX merger closing on October 4, 2005, we have been consistently utilizing at or close to 100% of the manufacturing capacity of our Dillon, Montana facility. This represents an increase of daily average production during the period following the closing of the merger by more than 400% when compared to the average daily production capacity during the 9 months prior to the merger. The Dillon facility expansion is anticipated to be completed during the 2nd quarter of 2006, and should result in more than a 50% increase in production capability of our Stabilized Rice Bran derivative products. Building and key equipment contracts have been awarded with construction now underway. We have existing financial liquidity from cash on hand and current cash flow to complete the expansion. Strong market interest in our proprietary stabilized Rice Bran derivatives has prompted the need for increased manufacturing capability and is consistent with our goal of meeting growing customer demands and a new awareness of our products' value. This increase in manufacturing capacity is the most efficient and economical means of boosting capacity as quickly as possible to meet the increasing demands of the marketplace.

We have entered into a raw rice bran supply agreement with Louisiana Rice Mill LLC, or LRM. The agreement triples our capacity to produce our proprietary Stabilized Rice Bran production in the United States. In addition, we announced the construction of our stabilization facility at the LRM rice milling facility in Mermentau, Louisiana. Under the terms of the agreement, LRM will supply raw rice bran from its rice milling operations to NutraCea. The supply agreement is intended to triple our current supply of raw bran, which will be processed through our exclusive proprietary stabilization system to produce stabilized rice bran and other value added-products for both the human and animal nutrition markets. The stabilization process will be implemented at LRM with the construction of a facility, which retrofits our proprietary engineering process to the equipment at LRM. We have the ability to fund this project with existing cash resources. The new facility is expected to be completed prior to the end of the 3rd quarter of this year.

International Initiatives

On September 13, 2005, we entered into an agreement with a Dominican Republic rice mill whereby the two companies will form a joint venture. The agreement allows us the option to install equipment to annually produce at least 5,000 metric tons of stabilized rice bran in the Dominican Republic, or in the alternative produce the product in the United States and ship the raw ingredients to the Dominican Republic and package it in final form there. 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.

On October 25, 2005, we signed an agreement with an industrial consortium in Colombia to study the creation of a joint entity to share equally in the profits generated from sales of our products in the Colombian market. The agreement includes provisions for the Colombian consortium to provide 50% of all the financing necessary to construct the plants (with us providing the remaining 50% of the financing) and to be responsible for providing all the necessary land and space required for the implementation of the plants to be constructed. The Colombian consortium would be responsible for providing all of the sales and distribution as part of its contribution to the joint entity. We continue efforts to execute a formal definitive agreement.

On October 28, 2005, we agreed with an Ecuadorian company to study arriving at a definitive agreement for a working arrangement that will allow the Ecuadorian company the right to utilize our proprietary ingredients and value-added processing in their multi-faceted food business, which includes animal feed, poultry and cereals.

In November 2005, NutraCea signed a Supply and Distribution Agreement with T. Geddes Grant, a Jamaican Corporation. The agreement requires us 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.

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There can be no assurance that these international initiatives will be achieved in part or whole, however management continues its efforts to formalize its relationship within these countries to further its business activities.

While we believe we can increase our production capacity to meet sales demand, significant additional capital could be required to meet such expansion requirements. We have sufficient cash reserves to meet all anticipated short-term operating requirements. However, the timing and amount of any long-term capital requirements cannot be predicted at this time.

CRITICAL ACCOUNTING POLICIES

A summary of our significant accounting policies is included in Note 2, Part II - Item 7, FINANCIAL STATEMENTS. We believe the application of these accounting policies on a consistent basis enables us to provide timely and reliable financial information about our earnings results, financial condition and cash flows.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts presented and disclosed in the financial statements. Our management reviews these estimates and assumptions based on historical experience, changes in business conditions and other relevant factors that they believe to be reasonable under the circumstances. In any given reporting period, actual results could differ from the estimates and assumptions used in preparing our financial statements.

Critical accounting policies are those that may have a material impact on our financial statements and also require management to exercise significant judgment due to a high degree of uncertainty at the time the estimate is made. Our management has discussed the development and selection of our accounting policies, related accounting estimates and the disclosures set forth below with the Audit Committee of our Board of Directors. We believe our critical accounting policies include those addressing revenue recognition, allowance for doubtful accounts, and inventories.

Revenue Recognition

Revenues from product sales are recognized when products are shipped and when the risk of loss has transferred to the buyer. Deposits are deferred until either the product has shipped or conditions relating to the sale have been substantially performed.

Allowance for Doubtful Accounts

We continuously monitor collections from our customers and maintain an allowance for doubtful accounts based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically not exceeded our expectations and the provisions established, there is a risk that credit losses in the future will exceed those that have occurred in the past, in which case our operating results would be adversely affected.

Valuation of long-lived assets

Long-lived assets, consisting primarily of property and equipment, patents and trademarks, and goodwill, comprise a significant portion of our 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 we consider 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

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- (c) significant negative industry or economic trends.

When we determine 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. While we have an inventory of these products, any significant prolonged shortage of these ingredients or of the supplies used to enhance these ingredients could materially adversely affect the our results of operations.

Property and Equipment

Property and equipment are stated at cost. We provide 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	2.4-7 years
Property and equipment	7-10 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 our 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 note 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, we recognize as compensation expense the fair value of such grants as calculated pursuant to SFAS No. 123, recognized over the related service period. SFAS No. 148 requires companies to disclose 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.

Off Balance Sheet Arrangements

None

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Item 7.

FINANCIAL STATEMENTS.

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**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

Board of Directors
NutraCea and subsidiaries
El Dorado Hills, California

We have audited the accompanying consolidated balance sheet of NutraCea as of December 31, 2005, and the related statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the two years then ended. These financial statements are the responsibility of NutraCea's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NutraCea as of December 31, 2005, and the results of its operations and its cash flows for each of the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

MALONE & BAILEY, PC
www.malone-bailey.com
Houston, Texas

March 15, 2006

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Index**NUTRACEA AND SUBSIDIARIES****Consolidated Balance Sheets**

The financial statements and accompanying notes comprise twelve months of operations for NutraCea and three months of operations for the recently-acquired subsidiary, The RiceX Company, or RiceX.

NUTRACEA AND SUBSIDIARIES**Consolidated Balance Sheet****December 31, 2005****ASSETS****Current assets**

Cash	\$	3,490,556
Marketable securities	\$	144,947
Accounts receivable		2,514,961
Inventory		594,614
Prepaid expenses		82,400
Total current assets		6,827,478

Restricted marketable securities		144,947
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Property and equipment, net		5,493,036
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Patents and trademarks, net		2,417,815
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Goodwill		32,581,007
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Total assets	\$	47,464,283
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LIABILITIES AND SHAREHOLDERS' DEFICIT**Current liabilities**

Accounts payable	\$	998,706
Accrued expenses		248,282
Due to related parties		2,897
Note payable, current portion		6,069
Deferred revenue		5,147
Total current liabilities		1,261,101

Long term liabilities

Note payable, net of current portion		8,906
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Total liabilities		1,270,007
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Commitments and contingencies

Convertible, series B preferred stock, no par value, \$1000 stated value 20,000,000 shares authorized 7,850 shares issued and outstanding		7,300,500
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Shareholders' equity

		89,783,817
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Common stock, no par value 200,000,000 shares authorized 67,102,079 shares issued and outstanding		
Accumulated deficit		(48,799,935)
Accumulated other comprehensive income, unrealized loss on marketable securities		(2,090,106)
Total shareholders' equity		38,893,776
Total liabilities and shareholders' equity	\$	47,464,283

The accompanying notes are an integral part of these financials

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Index**NUTRACEA AND SUBSIDIARIES**
Consolidated Statement of Operations**NUTRACEA AND SUBSIDIARIES**
Consolidated Statement of Operations

	For the years ended December 31,	
	2005	2004
Revenues		
Net product sales	\$ 5,564,151	\$ 1,009,729
Licensing fees	-	214,500
Total revenues	5,564,151	1,224,229
Cost of goods sold	2,877,801	600,129
Gross profit	2,686,350	624,100
Operating expenses:		
Sales, general and administrative	2,993,466	1,927,970
Research and development	191,374	127,124
Share-based compensation	1,511,417	20,998,118
Investor relations	307,172	306,001
Professional fees	677,339	816,249
Total operating expenses	5,680,768	24,175,462
Loss from operations	(2,994,419)	(23,551,362)
Other income (expense)		
Interest income	18,299	4,497
Interest expense	(896,021)	(27,602)
Total other income (expense)	(877,721)	(23,105)
Net loss	(3,872,140)	(23,574,467)
Cumulative preferred dividends	-	8,373
Net loss available to common shareholders	\$ (3,872,140)	\$ (23,582,840)
Basic and diluted loss per share	\$ (0.10)	\$ (1.18)
Basic and diluted weighted-average shares outstanding	38,615,344	19,905,965

The accompanying notes are an integral part of these financials

Index**NUTEACEA AND SUBSIDIARIES**
Consolidated Statements of Comprehensive Loss

	For the years ended December 31	
	2005	2004
Net loss	\$ (3,872,140)	\$ (23,574,467)
Other comprehensive loss		
Unrealized loss on marketable Securities	(2,090,106)	(2,012,398)
Comprehensive loss	\$ (5,962,246)	\$ (25,586,865)

The accompanying notes are an integral part of these financials

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Index**NUTEACEA AND SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity**

For the Years Ended December 31, 2005 and 2004

	Convertible, Redeemable Series A Preferred Stock		Common Stock		Other		Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Deferred Compensation	Loss		
Balance, December 31, 2003	670,000	\$ 351,790	11,773,842	\$ 20,979,874	\$ (122,192)	-	\$ (21,344,955)	\$ (487,273)
Amortization of deferred Compensation					57,648			57,648
Common stock cancelled			(50,000)					-
Common stock issued for accounts payable			168,626	57,944				57,944
for marketable securities			7,000,000	2,380,000				2,380,000
for patent incentive plan			180,000	239,100				239,100
for services rendered			4,407,950	3,470,100				3,470,100
for settlements			5,780,000	8,837,816				8,837,816
Common stock repurchased			(344,956)	(230,000)				(230,000)
Other comprehensive loss						(2,012,398)		(2,012,398)
Preferred dividends converted to common stock		(5,986)	5,759	5,986				5,986
Preferred stock converted to common stock	(540,000)	(348,351)	630,000	348,351				348,351
Preferred stock dividend		8,373					(8,373)	(8,373)
Preferred stock dividend paid		(48,004)						

Preferred stock repurchased	(130,000)		
Reclass of options to preferred stock	62,651	(62,651)	(62,651)

The accompanying notes are an intergral part of these financials

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Index**NUTEACEA AND SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity**

For the Years Ended December 31, 2005 and 2004

Amortization of deferred compensation				80,954			80,954
Common stock issued							
for Consultants	1,904,805		906,759				906,759
for Officers/Directors	70,000		30,100				30,100
for Patent Incentive Plan	30,000		12,600				12,600
for Settlement	97,000		97,655				97,655
Preferred Stock issued to Investors	7,850	7,850,000					7,850,000
RiceX Acquisition	(20,473)	28,272,064	40,028,539				40,028,539
Stock options/warrants exercised							
for Cash	531,000		105,432				105,432
for Cashless	66,666						0
Stock options/warrants issued							
for Consultants			349,449				349,449
for Employees			130,000	(65,000)			65,000
for Commissions	(549,500)						(549,500)
Net Loss				(77,708)	(3,872,140)	(3,949,848)	
Balance @ 12/31/2005	7,850	7,300,500	67,102,079	\$ 89,783,817	\$ 0	\$ (2,090,106)	\$ (48,799,935) 46,194,277

The accompanying notes are an intergral part of these financials

Index**NUTEACEA AND SUBSIDIARIES**
Consolidated Statements of Cash Flows**NUTRACEA AND SUBSIDIARIES**
Consolidated Statements of Cash Flow

	For the Year Ended December 31,	
	2005	2004
Cash flows from operating activities		
Net loss	\$ (3,872,140)	\$ (23,574,467)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,091,390	38,057
Non-cash issuances of common stock	1,017,014	12,365,859
Non-cash issuances of stock options & warrants	509,549	9,306,234
Modifications of options and warrants, non-employees	-	62,651
Modifications of options and warrants, employees		