

NUTRACEA
Form 424B3
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Registration No. 333-129839

PROSPECTUS

NutraCea

30,478,872 Shares of Common Stock

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

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

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

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

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

The date of this prospectus is February, 14, 2006.

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ABOUT THIS PROSPECTUS

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

PROSPECTUS SUMMARY

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

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

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

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

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

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

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

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

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

RISK FACTORS

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

Risks Related to Our Business

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

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

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

We have not generated a positive cash flow from operations in any period since commencing operations. While we believe that we have adequate cash reserves and working capital to fund current operations, our ability to meet long term business objectives and debt obligations is dependent upon our ability to raise additional financing through public or private equity financings, establish increasing cash flow from operations, enter into collaborative or other arrangements with corporate sources, or secure other sources of financing to fund long-term operations. There is no assurance that external funds will be available on terms acceptable to us in sufficient amount to finance operations until we do reach positive cash flow or that we will reach positive cash flow. In addition, any issuance of securities to obtain such funds would dilute percentage ownership of our shareholders. Such dilution could also have an adverse impact on our earnings per share and reduce the price of our common stock.

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

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

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

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

- successfully exploiting potential synergies of the two companies.

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

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

- difficulties associated with successfully coordinating our management;

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

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

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

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

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

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

There are significant market risks associated with our business.

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

We rely upon a limited number of product offerings.

All of our products are based on stabilized rice bran. Although we will market rice bran as a dietary supplement, as an active food ingredient for inclusion in our products and in other companies' products, and in other ways, a decline in the market demand for our products, as well as the products of other companies utilizing our products, could have a significant adverse impact on us.

We are dependent upon our marketing efforts.

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

We rely upon an adequate supply of raw rice bran.

Our proprietary technology is used to stabilize rice bran, which is a by-product from milling paddy rice to white rice. We currently have a supply arrangement with one of the largest rice mills in the United States, Farmers Rice Cooperative. We are pursuing other supply sources in the United States and in foreign countries. However, there can be no assurance that we will continue to secure adequate sources of raw rice bran to meet our requirements to produce stabilized rice bran products. Since rice bran has a limited shelf life, the supply of rice bran is affected by the amount of rice planted and harvested each year. If economic or weather conditions adversely affect the amount of rice planted or harvested, the cost of rice bran products that we use may increase. We are not generally able to pass cost increases to our customers and any increase in the cost of stabilized rice bran products would have an adverse effect on our results of operations.

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

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

We face competition.

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

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

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

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

NutraCea has one patent entitled Methods for Treating Joint Inflammation, Pain and Loss of Mobility, which covers both humans and mammals. In addition, RiceX has five United States patents and may decide to file corresponding international applications. RiceX holds patents to the production of Beta Glucan and to a micro nutrient enriched rice bran oil process. RiceX also holds patents to a method to treat high cholesterol, to a method to treat diabetes and to a process for producing Higher Value Fractions from stabilized rice bran. The process of seeking patent protection may be long and expensive, and there can be no assurance that patents will be issued, that we will be able to protect our technology adequately, or that competition will not be able to develop similar technology. There currently are no claims or lawsuits pending or threatened against us or RiceX regarding possible infringement claims, but there can be no assurance that infringement claims by third parties, or claims for indemnification resulting from infringement claims, will not be asserted in the future or that such assertions, if proven to be accurate, will not have a material adverse affect on our business, financial condition and results of operations. In the future, litigation may be necessary to enforce our patents, to protect our trade secrets or know-how or to defend against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of others. Any litigation could result in substantial cost and diversion of our efforts, which could have a material adverse affect on our financial condition and results of operations. Adverse determinations in any litigation could result in the loss of our proprietary rights, subjecting us to significant liabilities to third parties, require us to seek licenses from third parties or prevent us from manufacturing or selling our systems, any of which could have a material adverse affect on our financial condition and results of operations. There can be no assurance that a license under a third party's intellectual property rights will be available to us on reasonable terms, if at all.

We are dependent on key employees and consultants.

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

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

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

Risks Related to Our Stock

Our Stock Price is Volatile.

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

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

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- announcements of new products or product enhancements by us or our competitors;
- fluctuations in our quarterly or annual operating results;
- developments in our relationships with customers and suppliers;
- the loss of services of one or more of our executive officers or other key employees;
- announcements of technological innovations or new systems or enhancements used by us or its competitors;
- developments in our or our competitors intellectual property rights;
- adverse effects to our operating results due to impairment of goodwill;
- failure to meet the expectation of securities analysts' or the public; and
- general economic and market conditions.

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

As of October 21, 2005, NutraCea had approximately 66,891,667 shares of common stock outstanding and 7,850 shares of preferred stock outstanding, which preferred shares are convertible into 15,700,000 shares of our common stock. Additionally, as of October 21, 2005, options and warrants to purchase a total of 29,055,359 shares of our common stock were outstanding. The possibility that substantial amounts of our outstanding common stock may be sold by investors or the perception that such sales could occur, often called "equity overhang," could adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities in the future.

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

We may choose to raise additional funds in debt or equity financings if they are available to us on terms it believes reasonable to increase its working capital, strengthen its financial position or to make acquisitions. Any sales of additional equity or convertible debt securities would result in dilution of the equity interests of our existing shareholders, which could be substantial. Additionally, if we issue shares of preferred stock or convertible debt to raise funds, the holders of those securities might be entitled to various preferential rights over the holders of our common stock, including repayment of their investment, and possibly additional amounts, before any payments could be made to holders of our common stock in connection with an acquisition of the company. Such preferred shares, if authorized, might be granted rights and preferences that would be senior to, or otherwise adversely affect, the rights and the value of our common stock. Also, new investors may require that we and certain of our shareholders enter into voting arrangements that give them additional voting control or representation on our board of directors.

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

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

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

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

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

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

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

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

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

We may, without further action or vote by holders of our common stock, designate and issue shares of our preferred stock. The terms of any series of preferred stock could adversely affect the rights of holders of our common stock and thereby reduce the value of our common stock. The designation and issuance of preferred stock favorable to current management or shareholders could make it more difficult to gain control of the Board of Director or remove our current management and may be used to defeat hostile bids for control which might provide shareholders with premiums for their shares.

We may engage in future acquisitions that dilute our shareholders and cause us to incur debt or assume contingent liabilities.

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

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

These purchases also involve numerous risks, including:

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

We cannot assure you that we will be able to successfully integrate RiceX's business or any businesses, products, technologies or personnel that it might purchase in the future.

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

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

Our officers and directors have limited liability and have indemnification rights

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

USE OF PROCEEDS

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

PRICE RANGE OF COMMON STOCK

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

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

NUTRACEA COMMON STOCK	Low	High
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
Year Ended December 31, 2003		
First Quarter	\$0.60*	\$1.10*
Second Quarter	\$0.50*	\$1.10*
Third Quarter	\$0.70*	\$2.90*
Fourth Quarter	\$0.75	\$1.85

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

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

DIVIDEND POLICY

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

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

NutraCea’s Balance Sheets at September 30, 2005;

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

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

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

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

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

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

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

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

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

At September 30, 2005

(--Cont.)

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

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

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

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

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

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

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

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

Outstanding

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

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NUTRACEA

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

1. Basis of Presentation.

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

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

2. Pro Forma Adjustments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Federal Income Tax Consequences of Merger.

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

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

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

Note Regarding Forward-Looking Statements

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

Recent Developments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

Critical Accounting Policies

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

Revenue recognition

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

Valuation of long-lived assets

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

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

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

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

Marketable securities

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

Inventory

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

Property and equipment

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

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

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

Fair value of financial instruments

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

Stock-based compensation

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

Debt satisfaction

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF