

NUTRACEA
Form 10-Q
November 14, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2011

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

(Exact Name of Registrant as Specified in its Charter)

California
(State or other jurisdiction of incorporation or
organization)

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

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

85253
(Zip Code)

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

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

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

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

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of November 1, 2011, 201,129,624 shares of the registrant's common stock were outstanding.

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Cautionary Note about Forward-Looking Statements

This quarterly report on Form 10-Q 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, liquidity 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,” “contingent,” “believe,” “expect” or “anticipate” or other similar words. The forward-looking statements contained herein reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Actual results may differ materially from those projected in such forward-looking statements due to a number of factors, risks and uncertainties, including the factors that may affect future results set forth in this Current Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2010. We disclaim any obligation to update any forward looking statements as a result of developments occurring after the date of this quarterly report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

NutraCea
Condensed Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2011 and 2010
(Unaudited) (in thousands, except per share amounts)

| | Three Months | | Nine Months | |
|--|--------------|-------------|-------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | \$ 8,586 | \$ 8,403 | \$ 26,229 | \$ 23,126 |
| Cost of goods sold | 6,663 | 6,269 | 19,508 | 17,788 |
| Gross profit | 1,923 | 2,134 | 6,721 | 5,338 |
| Operating expenses: | | | | |
| Selling, general and administrative | 3,666 | 3,929 | 11,004 | 11,800 |
| Professional fees | 610 | 668 | 2,118 | 1,632 |
| Settlement with former customer | - | - | (800) | - |
| Impairment of property, plant and equipment | - | - | - | 1,000 |
| Loss on disposal of property, plant and equipment | - | 540 | - | 943 |
| Total operating expenses | 4,276 | 5,137 | 12,322 | 15,375 |
| Loss from operations | (2,353) | (3,003) | (5,601) | (10,037) |
| Other income (expense): | | | | |
| Interest income | 25 | 26 | 105 | 43 |
| Interest expense | (302) | (416) | (1,114) | (997) |
| Warrant liability income | 916 | 250 | 775 | 63 |
| Loss on acquisition of additional interests in Rice Rx | - | - | (140) | - |
| Gain on extinguishment of debt | - | - | 265 | - |
| Foreign currency exchange, net | (321) | (23) | (268) | (30) |
| Other income | 46 | 54 | 119 | 261 |
| Other expense | (24) | (10) | (281) | (31) |
| Total other income (expense) | 340 | (119) | (539) | (691) |
| Reorganization expenses - professional fees | - | 111 | - | 847 |
| Loss before income taxes | (2,013) | (3,233) | (6,140) | (11,575) |
| Income tax benefit | 244 | 143 | 252 | 687 |
| Net loss | (1,769) | (3,090) | (5,888) | (10,888) |
| Net loss attributable to noncontrolling interest in Nutra SA | 276 | - | 315 | - |
| Net loss attributable to NutraCea shareholders | \$ (1,493) | \$ (3,090) | \$ (5,573) | \$ (10,888) |

Loss per share attributable to NutraCea
shareholders

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | \$ (0.01) | \$ (0.02) | \$ (0.03) | \$ (0.06) |
| Diluted | \$ (0.01) | \$ (0.02) | \$ (0.03) | \$ (0.06) |

Weighted average number of shares
outstanding

| | | | | |
|---------|---------|---------|---------|---------|
| Basic | 199,381 | 193,028 | 197,651 | 193,016 |
| Diluted | 199,381 | 193,028 | 197,651 | 193,016 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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NutraCea
Condensed Consolidated Statements of Comprehensive Income (Loss)
Three and Nine Months Ended September 30, 2011 and 2010
(Unaudited) (in thousands)

| | Three Months | | Nine Months | |
|--|--------------|------------|-------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net loss attributable to NutraCea shareholders | \$(1,493) | \$(3,090) | \$(5,573) | \$(10,888) |
| Other comprehensive income (loss) - foreign currency translation, net of tax | (2,630) | 751 | (1,576) | 204 |
| Comprehensive loss, net of tax | (4,123) | (2,339) | (7,149) | (10,684) |
| Comprehensive loss attributable to the noncontrolling interest, net of tax | 276 | - | 315 | - |
| Total comprehensive loss attributable to NutraCea shareholders | \$(3,847) | \$(2,339) | \$(6,834) | \$(10,684) |

See Notes to Unaudited Condensed Consolidated Financial Statements

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NutraCea

Condensed Consolidated Balance Sheets
September 30, 2011 and December 31, 2010
(Unaudited) (in thousands, except share amounts)

| | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 167 | \$ 537 |
| Restricted cash | 2,397 | 1,917 |
| Accounts receivable, net | 3,864 | 3,502 |
| Inventories | 2,904 | 2,994 |
| Note receivable, current portion | 900 | 1,200 |
| Deferred tax asset | 283 | 292 |
| Deposits and other current assets | 2,506 | 2,255 |
| Assets held for sale - property, plant and equipment | - | 3,598 |
| Total current assets | 13,021 | 16,295 |
| Long-term assets: | | |
| Note receivable, net of current portion | - | 600 |
| Property, plant and equipment, net | 28,562 | 24,054 |
| Intangible assets, net | 5,068 | 6,296 |
| Goodwill | 5,345 | 5,835 |
| Other long-term assets | 49 | 144 |
| Total assets | \$ 52,045 | \$ 53,224 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,120 | \$ 2,573 |
| Accrued expenses | 4,082 | 4,266 |
| Pre-petition liabilities | 2,198 | 6,406 |
| Long-term debt, current portion | 5,569 | 3,235 |
| Total current liabilities | 13,969 | 16,480 |
| Long-term liabilities: | | |
| Long-term debt, net of current portion | 4,140 | 7,365 |
| Deferred tax liability | 3,614 | 4,361 |
| Warrant liability | 853 | 1,628 |
| Other long-term liabilities | 1,000 | 1,000 |
| Total liabilities | 23,576 | 30,834 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interest in Nutra SA | 11,310 | - |
| Equity: | | |
| Equity attributable to NutraCea shareholders: | | |
| Preferred Stock, 20,000,000 authorized and none issued | - | - |
| Common stock, no par value, 500,000,000 shares authorized, 201,129,624 and 195,359,109 shares issued and outstanding | 209,194 | 207,432 |

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| | | |
|--|------------|------------|
| Accumulated deficit | (190,385) | (184,812) |
| Accumulated other comprehensive loss | (1,650) | (74) |
| Total equity attributable to NutraCea shareholders | 17,159 | 22,546 |
| Noncontrolling interest in Rice Science | - | (156) |
| Total equity | 17,159 | 22,390 |
| Total liabilities and equity | \$ 52,045 | \$ 53,224 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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NutraCea
Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2011 and 2010
(Unaudited) (in thousands)

| | 2011 | 2010 |
|---|------------|-------------|
| Cash flows from operating activities: | | |
| Net loss | \$(5,888) | \$(10,888) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 3,827 | 3,471 |
| Provision for doubtful accounts | 96 | 209 |
| Impairment of property, plant and equipment | - | 1,000 |
| Loss on disposal of property, plant and equipment | - | 943 |
| Stock and share-based compensation | 1,118 | 872 |
| Warrant liability income | (775) | (63) |
| Deferred tax benefit | (441) | (691) |
| Reorganization expenses | - | 847 |
| Settlement with former officer | (267) | - |
| Gain on extinguishment of debt | (265) | - |
| Other | 445 | 31 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (656) | 11 |
| Inventories | (102) | 332 |
| Other current assets | (361) | 178 |
| Accounts payable and accrued expenses | 812 | (911) |
| Pre-petition liabilities | (4,807) | - |
| Net cash used in operating activities, before reorganization items | (7,264) | (4,659) |
| Reorganization items: | | |
| Reorganization expenses | - | (847) |
| Change in accounts payable for reorganization items | - | 109 |
| Net cash used for reorganization items | - | (738) |
| Net cash used in operating activities | (7,264) | (5,397) |
| Cash flows from investing activities: | | |
| Receipts on note receivable | 900 | 900 |
| Purchases of property, plant and equipment | (5,216) | (415) |
| Restricted cash | (480) | - |
| Proceeds from sale of property, plant and equipment | - | 8,872 |
| Acquisition of additional interests in Rice Science and Rice Rx | (150) | - |
| Other | (49) | (16) |
| Net cash provided by (used in) investing activities | (4,995) | 9,341 |
| Cash flows from financing activities: | | |
| Proceeds from sale of membership interests in Nutra SA, net of costs | 11,625 | - |
| Proceeds from (payments of) debt, net | (175) | (3,595) |
| Proceeds from issuance of warrants and note conversion feature | 444 | - |
| Net cash provided by (used in) financing activities | 11,894 | (3,595) |
| Effect of exchange rate changes on cash and cash equivalents | (5) | (28) |

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| | | |
|--|--------|---------|
| Net change in cash and cash equivalents | (370) | 321 |
| Cash and cash equivalents, beginning of period | 537 | 952 |
| Cash and cash equivalents, end of period | \$167 | \$1,273 |

Supplemental disclosures:

| | | |
|------------------------|-------|-------|
| Cash paid for interest | \$723 | \$812 |
| Cash paid for taxes | 14 | - |

See Notes to Unaudited Condensed Consolidated Financial Statements

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Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION

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

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2010.

The interim results reported in these condensed consolidated financial statements are not necessarily indicative of the results to be expected for the full fiscal year or any other future period and have been prepared assuming we will continue as a going concern based on the realization of assets and the satisfaction of liabilities in the normal course of business. We have experienced recurring losses and negative cash flows from operations. In 2011, we issued shares of common stock and warrants to satisfy certain obligations, in an effort to conserve cash. In 2011, we also obtained funds from issuances of convertible notes. The equity markets, however, have not been a significant source of funds during 2011 and 2010 due to our financial position, the state of the equity markets and the bankruptcy filing discussed below. Improving financial performance and equity market conditions, may allow us to raise equity funds in the near future. We intend to provide the necessary cash to continue operations through the monetization of certain assets, improved profitability and possible equity and/or debt financing transactions.

Certain reclassifications have been made to amounts reported for the prior year to achieve consistent presentation with the current year.

Recent Accounting Pronouncement

Accounting pronouncements that are applicable to us and could potentially have a material impact on our consolidated financial statements, are discussed below.

The FASB has issued guidance clarifying the criteria for separating revenue between multiple deliverables. This guidance applies to new revenue arrangements or arrangements materially modified in periods subsequent to adoption. We were required to adopt this standard effective January 1, 2011. Adoption of the standard had no impact on our consolidated financial statements.

In May 2011, the FASB amended guidance on fair value measurement and expanded the required disclosures related to fair value. The amendments, among other things, clarify that the highest and best use concept applies only to nonfinancial assets and addresses the appropriate premiums and discounts to consider in fair value measurement. We are required to adopt the guidance prospectively, effective January 1, 2012. We do not expect adoption to have a significant impact on our financial position or results of operations.

In September 2011, the FASB amended guidance on goodwill impairment testing. The amendments permit us to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill

impairment test. Previous guidance required us to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments, we are not required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that its fair value is less than its carrying amount. We are required to adopt the amendments effective for annual and interim goodwill impairment tests (if required) performed after January 1, 2012. Early adoption is permitted. We do not expect adoption to have a significant impact on our financial position or results of operations.

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Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 2. CHAPTER 11 REORGANIZATION, LIQUIDITY AND MANAGEMENT'S PLAN

Chapter 11 Reorganization

On November 10, 2009, NutraCea (Parent Company) filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (Bankruptcy Code) in the United States Bankruptcy Court for the District of Arizona (Bankruptcy Court), in the proceeding entitled In re: NutraCea, Case No. 2:09-bk-28817-CGC (Chapter 11 Reorganization). None of the Parent Company's subsidiaries, including its Brazilian rice oil operation, were included in the bankruptcy filing. The Parent Company continued to manage its assets and operate its business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. Under the Bankruptcy Code, certain claims against the Parent Company in existence prior to the filing of the bankruptcy petition were stayed during the pendency of the Chapter 11 Reorganization.

On August 10, 2010, the Parent Company and the official unsecured creditors committee filed with the Bankruptcy Court an amended plan of reorganization (Amended Plan) in accordance with the Bankruptcy Code. The Amended Plan called for the payment in full of all allowed claims. Creditors voted overwhelmingly in favor of the Amended Plan and, on October 27, 2010, the Bankruptcy Court entered its order confirming the Amended Plan. The confirmation order became final on November 10, 2010, and the Amended Plan became effective on November 30, 2010.

The Parent Company intends to discharge its obligation to pay the pre-petition liabilities by selling non-core assets, equity financing transactions, collecting outstanding receivables, and borrowing on a secured basis. To secure a portion of these payment obligations, unsecured creditors were granted a lien in all of the Parent Company's assets. The lien is administered and may be enforced by a plan agent, who was jointly selected by the Parent Company and the official unsecured creditors committee. The plan agent may, among other things, sell specified assets if the payment benchmarks set forth in the Amended Plan are not met.

Under the Amended Plan, if we fail to meet certain benchmarks for payment to our Class 6 general unsecured creditors as described in the Amended Plan, the plan agent may direct and control the sale of pledged assets as follows:

| Benchmark Date | Required Cumulative Payment | Pledged Assets Subject to Sale by Plan Agent, if Benchmark Not Met | Net Proceeds Plan Agent Retains for the General Unsecured Creditors |
|------------------|-----------------------------|--|---|
| July 15, 2011 | 50% | Dillon, Montana facility and all loose equipment | 75% of proceeds from the sale of the facility and up to 100% of the proceeds from the sale of loose equipment |
| October 15, 2011 | 75% | Dillon, Montana facility and all loose equipment | 75% of proceeds from the sale of the facility and up to 100% of the proceeds from the sale of loose equipment |
| January 15, 2012 | 100% | Lake Charles, Louisiana facility and any remaining pledged assets | Up to 100% of net proceeds from the sale |

Since we will not be able to control the sale of the above assets if we do not meet a payment benchmark, we cannot guarantee that the assets will be sold at a value satisfactory to us. Interest accrues on the unpaid pre-petition liabilities at an annual rate of 8.25%. In 2011, cumulatively through the third quarter, we distributed to the Class 6 general unsecured creditors \$4.2 million plus accrued interest. In October 2011, we distributed an additional \$0.5 million plus accrued interest and, as a result, we have met our October 15, 2011 payment benchmark. Cumulatively through October 2011, we have distributed to the Class 6 general unsecured creditors \$4.7 million plus \$0.3 million in accrued interest, or approximately 75.0% of the amounts owed.

Under the Amended Plan, the items listed below must be paid to the Class 6 general unsecured creditors, if and when received. Until distributed to the Class 6 general unsecured creditors, amounts received for these items, if any, are classified as restricted cash:

- 75% of the net proceeds from the sale of the Dillon, Montana facility;
- the greater of (i) \$2.2 million or (ii) 40% of the first \$5.0 million in net proceeds we receive from the monetization of our interest in Nutra SA, LLC (Nutra SA) plus 50% of any net proceeds over \$5.0 million;
 - 50% of the net proceeds from the sale of our interest in Rice Science, LLC or Rice Rx LLC;
 - 100% of the net proceeds from the sale of any loose (uninstalled) equipment;

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- 75% of any prepayments received on the note receivable from Ceautamed Worldwide, LLC (Ceautamed), if any, and all receipts on the note beginning April 1, 2011;
- 75% of the net proceeds from the sale or monetization of the Lake Charles, Louisiana improvements or Mermentau, Louisiana facility, after payment of professional fees;
 - 75% of the net proceeds from the sale or monetization of any other pledged assets;
 - 100% of any recoveries from avoidance actions or actions against former officers and directors.

Liquidity and Management's Plans

Although we have made significant improvements in the past year, we continue to experience losses and negative cash flows from operations which raises substantial doubt about our ability to continue as a going concern. Although we believe that we will be able to obtain the funds necessary to continue as a going concern there can be no assurances that our efforts will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have taken steps in 2011 and 2010 to improve profitability and liquidity by reducing our U.S. based employee headcount at both the corporate and plant operations level. In the ongoing effort to improve profitability, significant emphasis will be placed on growing revenues. The growth of revenues is expected to include the following:

- growth in existing markets, including bulk processed rice bran (SRB) and rice oil;
- aligning with strategic partners who can provide channels for additional sales of our products including rice oil extraction; and
- implementing price increases.

In 2011, we issued shares of common stock and warrants to satisfy certain obligations in an effort to conserve cash. In 2011, we also obtained funds from issuances of convertible notes. The equity markets, however, have not been a significant source of funds during 2011 and 2010 due to our financial position, the state of the equity markets and our November 2010 emergence from bankruptcy. Improving financial performance and equity market conditions may allow us to raise equity funds in the near future. We intend to provide the necessary cash to continue operations through the monetization of certain assets, improved profitability and possible equity and/or debt financing transactions. Some of these monetizations could result in additional impairment of asset values. Asset monetization may include some or all of the following:

- sale or a sale-lease back of certain facilities;
- sale of a noncontrolling interest in one or more subsidiaries; or
- sale of surplus equipment.

NOTE 3. GENERAL BUSINESS

We are a food ingredient and health science company focused on bio-refining rice bran into numerous derivative products. We have proprietary intellectual property that allows us to process and convert rice bran, one of the world's most underutilized food resources, into highly nutritious ingredients including rice oil, processed rice bran (SRB), defatted rice bran (DRB) and their derivative products, that have applications in various food products and nutraceutical applications. Our target markets are food, nutraceutical and animal nutrition manufacturers and distributors. Rice oil and SRB are also used as stand-alone products that can be sold through non-related entities with distribution into the marketplace, both domestically and internationally. We believe that products containing rice oil,

SRB, DRB, and their derivative products, can deliver beneficial physiological effects. We continue to pursue both internal and independent research and development along with third party analyses in order to further support the uses for and effectiveness of our products.

We have three reportable business segments: (i) Corporate; (ii) SRB, which manufactures and distributes SRB in various granulations along with products derived from bran via patented enzyme treatment processes including a fat and protein rich water soluble fraction and a fiber rich insoluble fraction; and (iii) Bio-Refining, which separates rice bran into rice oil and defatted rice bran which are then further processed into a number of valuable food and feed products. Bio-Refining operations currently consist of our operations in Brazil. The Corporate segment includes general and administrative expenses, legal settlements and other expenses not directly attributable to other segments. No corporate allocations are made to the other segments. Interest incurred at the Corporate level is not allocated.

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Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 4. LOSS PER SHARE (EPS)

Basic EPS is computed by dividing net income (loss) attributable to NutraCea shareholders by the weighted average number of common shares outstanding during all periods presented. Options, warrants and shares issuable upon conversion of convertible notes payable are excluded from the basic EPS calculation and are considered in calculating the diluted EPS.

Diluted EPS is computed by dividing net income (loss) attributable to NutraCea shareholders by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been outstanding if the impact of assumed exercises and conversions is dilutive. The dilutive effect of outstanding options and warrants is calculated using the treasury stock method. The dilutive effect of outstanding convertible notes payable is calculated using the "if converted" method.

Below are reconciliations of the numerators and denominators in the EPS computations for the three months and nine months ended September 30, 2011.

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| NUMERATOR (in thousands): | | | | |
| Basic and diluted - net loss attributable to NutraCea shareholders | \$(1,493) | \$(3,090) | \$(5,573) | \$(10,888) |
| DENOMINATOR: | | | | |
| Basic EPS - weighted average number of shares outstanding | 199,380,838 | 193,027,680 | 197,650,794 | 193,015,812 |
| Effect of dilutive securities outstanding | - | - | - | - |
| Diluted EPS - weighted average number of shares outstanding | 199,380,838 | 193,027,680 | 197,650,794 | 193,015,812 |
| Number of shares of common stock which could be purchased with weighted average outstanding securities not included in diluted EPS because effect would be antidilutive: | | | | |
| Stock options (average exercise price for the three and nine months ended September 30, 2011 of \$0.29 and \$0.29) | 39,557,171 | 30,996,197 | 40,342,313 | 28,089,581 |
| Warrants (average exercise price for the three and nine months ended September 30, 2011 of \$1.10 and \$1.17) | 42,950,415 | 39,578,506 | 41,721,527 | 39,666,418 |
| Convertible notes payable | 6,286,935 | - | 3,230,007 | - |

The impact of potentially dilutive securities outstanding at September 30, 2011 and 2010, were not included in the calculation of diluted EPS in 2011 and 2010 because to do so would be antidilutive. Those securities which were antidilutive in 2011 and 2010, which remain outstanding, could potentially dilute EPS in the future.

NOTE 5. REDEEMABLE NONCONTROLLING INTEREST IN NUTRA SA

In December 2010, we entered into a membership interest purchase agreement (MIPA) with AF Bran Holdings-NL LLC and AF Bran Holdings LLC (Investors). The transaction closed in January 2011. The Investors agreed to purchase units in Nutra SA for an aggregate purchase price of \$7.7 million. Prior to the transaction, Nutra SA was a wholly owned subsidiary. Nutra SA owns 100% of Irgovel Industria Riograndense De Oleos (Irgovel). Initially after the closing, effective in January 2011, we owned a 64.4% interest in Nutra SA, and the Investors owned a 35.6% interest in Nutra SA. The Parent Company received \$4.0 million of the January 2011 proceeds. The remaining \$3.7 million, less \$0.5 million retained by Nutra SA for administrative expenses, was invested in Irgovel for capital improvements and working capital needs.

The Parent Company agreed to use \$2.2 million of the funds received from the January 2011 transaction closing to repay amounts owed to the Class 6 general unsecured creditors in accordance with the Amended Plan. The remaining \$1.8 million was used for general corporate purposes, other unsecured creditor claims and administrative expenses associated with the Chapter 11 Reorganization.

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We received in the second quarter of 2011 an additional \$3.0 million from the Investors - \$1.0 million for the purchase of existing units in Nutra SA from the Parent Company, which was used by the Parent Company for working capital, and \$2.0 million for the purchase of new units in Nutra SA, which will be used by Irgovel to fund a capital expansion. We received in the third quarter of 2011 an additional \$0.9 million from the Investors for the purchase of existing units in Nutra SA from the Parent Company, which was used by the Parent Company for working capital. These purchases increased the Investors' interest in Nutra SA to a 49.0% interest as of September 30, 2011.

We determined that we continued to control Nutra SA after each of the transactions and therefore we continued to consolidate Nutra SA. We treated each transaction similar to an equity transaction, with no gain or loss recognized in consolidated net income or comprehensive income. The Investors' share of Nutra SA's net income or loss after the January 2011 closing is recorded in redeemable noncontrolling interest.

A summary of changes in redeemable noncontrolling interest follows (in thousands):

| | Investors' Ownership Interest After Transaction | | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 |
|---|---|---|--|---|
| Redeemable noncontrolling interest in Nutra SA, beginning of period | | | \$ 10,686 | \$ - |
| Investors' purchase of initial units - first quarter 2011 | 35.6 | % | - | 7,725 |
| Investors' purchase of additional units - second quarter 2011 | 45.2 | % | - | 3,000 |
| Investors' purchase of additional units - third quarter 2011 | 49.0 | % | 900 | 900 |
| Investors' interest in net loss of Nutra SA | | | (276 |) (315 |
| Redeemable noncontrolling interest in Nutra SA, end of period | | | \$ 11,310 | \$ 11,310 |

Redeemable noncontrolling interest in Nutra SA is recorded in temporary equity, above the equity section and after liabilities on our consolidated balance sheets, because the Investors have the right to force a sale of Nutra SA assets in the future (see Drag Along Rights described below). We have assessed the likelihood of the Investors exercising these rights as less than probable at September 30, 2011, in part because it is more likely the Investors will exercise other rights prior to January 2015. We will continue to evaluate the probability of the Investors exercising their Drag Along rights each reporting period. We will begin to accrete the redeemable noncontrolling interest up to fair value if and when it is probable the Investors will exercise these rights.

We are restricted from competing with Nutra SA and Irgovel in Brazil as further described in the MIPA.

In the third quarter of 2011, in connection with the Investors' purchase of additional units for \$0.9 million, we entered into a waiver agreement to the MIPA and an amendment to the limited liability company agreement for Nutra SA, LLC (LLC agreement). Under the waiver and amendment the Investors have the right to purchase additional units in Nutra SA at \$2.00 per unit if we are unable, by December 15, 2011, to obtain binding loan documentation from Brazilian financial institution(s) for a loan(s) totaling at least R\$9.0 million, at 10.5% annual interest or less, which matures in no less than 5 years. This purchase right only applies to the extent that such purchases are required to fund the first phase of the Irgovel capital expansion project and Irgovel's operations. In addition, until the later of (i) the date the first phase of the project is completed or (ii) August 31, 2013, the Investors have the right to purchase additional units in Nutra SA at \$2.00 per unit if (i) there are inadequate funds available from a Brazilian institution(s) to complete the first phase of the project or to operate Irgovel, creating a cash shortfall, and (ii) we are unable to fund

the first \$0.9 million of this shortfall, or our prorata share of any additional cash shortfall above the first \$0.9 million, by purchasing additional units in Nutra SA at \$2.00 per unit.

Under the LLC agreement, the business of Nutra SA is to be conducted by the manager, NutraCea's CEO, subject to the oversight of the management committee. The management committee is comprised of three NutraCea representatives and two Investors' representatives. Upon an event of default or a qualifying event, the management committee will no longer be controlled by NutraCea, and will include three Investors representatives and two NutraCea representatives. In addition, following an event of default or a qualifying event, a majority of the members of the management committee may replace the manager of Nutra SA.

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As of September 30, 2011, there have been no events of default. Events of default, as defined in the MIPA, are:

- A Nutra SA business plan deviation, defined as the occurrence, in either 2012, 2013 or 2014, of a 20% unfavorable variation in two out of three of the following: (i) revenue, (ii) earnings before interest, taxes, depreciation and amortization (EBITDA) or (iii) debt,
- A Nutra SA EBITDA default, which is defined as the failure to achieve 85% of planned EBITDA for three consecutive quarters, beginning with the quarter ended March 31, 2011, or
- A material problem, which is defined as a material problem in a facility (unrelated to changes in law, weather, etc.) likely to cause a Nutra SA business plan deviation or Nutra SA EBITDA default, which results in damages not at least 80% covered by insurance proceeds.

As of September 30, 2011, there have been no qualifying events. The LLC agreement, as amended in the third quarter of 2011, defines a qualifying event as any event prior to September 16, 2014, which results, or will result, (i) in a person or group of persons exercising the right to appoint members to our board of directors holding one third or more of the votes of all board members, (ii) the sale, exchange, pledge or use as guarantee of one half of our ownership interest in Nutra SA to a third party (iii) the bankruptcy of NutraCea or Nutra SA or (iv) the Investor's purchase of additional units in Nutra SA under the waiver to the MIPA, such that the Investor's ownership interest in Nutra SA exceeds 49%.

In evaluating whether we maintain control over Nutra SA, we considered the matters which could be put to a vote of the members. Until there is an event of default or a qualifying event, the Investors' rights and abilities, individually or in the aggregate, do not allow them to substantively participate in the operations of Nutra SA. The Investors do not currently have the ability to dissolve Nutra SA or otherwise force the sale of all its assets. They do have such rights in the future (Drag Along Rights as described below). We will continue to evaluate our ability to control Nutra SA each reporting period.

The Investors have certain rights, summarized below, under an investor rights agreement and the LLC agreement, as further defined in the agreements.

- Conversion Rights – The Investors may exchange units in Nutra SA for equity interests in Irgovel beginning in July 2011. After any exchange, the Investors would possess the same rights and obligations with respect to the securities of Irgovel, as they have in Nutra SA.
- Global Holding Company (GHC) Roll-Up – If we form an entity, GHC, to hold our bio-refining segment assets, the Investors may exchange units in Nutra SA for equity interests in GHC. The investors may exercise this right after the second anniversary of the formation of GHC or, if an event of default has occurred, after the later of January 2013 and the GHC formation date. The appraised fair value of the Investors' interest in Nutra SA would be used to determine the amount of ownership interest the Investors would receive in GHC.
- NutraCea Roll-Up – The Investors may exchange units in Nutra SA for NutraCea common stock.. This right is available upon the earlier of January 2014 or, if an event of default has occurred, January 2013. We may elect to postpone our obligation to complete the NutraCea roll-up to January 2015 if the roll-up would result in over 25% of our common stock being owned by the Investors. The appraised fair value of the Investors' interest in Nutra SA and the market price of our stock would be used to determine the amount of ownership interest the Investors would receive in NutraCea.
- Drag Along Rights – The Investors have the right to force the sale of all Nutra SA assets after the earlier of (i) January 2015, (ii) January 2013 if an event of default occurs, (iii) February 2014 if we make a NutraCea roll-up postponement election or (iv) the date of a qualifying event. The right terminates upon the occurrence of certain events (a \$50 million Nutra SA initial public offering or a change of control, as defined). We may elect to exercise a right of first refusal to purchase the Investors' interest instead of proceeding to a sale.

NOTE 6. SETTLEMENT WITH HERBAL SCIENCE

In March 2010, Herbal Science Singapore Pte. Ltd. (HS) filed a proof of claim against the Parent Company in the amount of \$1.5 million in the Chapter 11 Reorganization. In November 2010, we entered into a stipulated settlement agreement with HS and certain affiliates, which was subsequently approved by the Bankruptcy Court. The stipulation, as amended, provided that we would pay HS \$0.9 million.

During the first quarter of 2011, we paid \$0.4 million of our obligation to HS. In the second quarter of 2011, HS sold their receivable due from us to a third party (Buyer). In settlement of our remaining \$0.5 million obligation to Buyer we issued to Buyer 2,576,775 shares of common stock and a warrant to purchase 605,730 shares, at \$0.23 per share, expiring in November 2016, in a noncash transaction. The fair value of the common stock and warrant issued to Buyer exceeded our obligation to the Buyer by \$0.2 million. This excess is recorded as a transaction cost in other expense in the second quarter of 2011. The stock had a fair value, based on the closing price of our stock, of \$0.6 million. The warrant had a fair value of \$0.1 million, determined using Black-Scholes valuation methodology.

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As a result of the settlement of our obligation to HS in the second quarter of 2011, we became the sole member of Rice Rx, LLC (RRX) and Rice Science, LLC (RS). Our ownership interest in RRX, increased from 50% to 100% and our ownership interest in RS increased from 80% to 100%. In addition, we were assigned all interests in the patentable pharmaceuticals, SRB isolates and related intellectual property derived from the preliminary research and development activities of RRX and RS.

The \$0.9 million settlement was comprised of \$0.6 million for the satisfaction of liabilities RRX and RS had payable to HS, \$0.1 million for interest expense on those liabilities, \$0.1 million for reimbursement of HS attorney fees, and \$0.1 million for the additional ownership interests in RRX and RS. We used cash to satisfy our obligation to pay the \$0.1 million for the ownership interests and \$0.3 million of the liabilities to RRX and RS and settled the remainder with issuance of the shares of common stock and the warrant to the Buyer.

We had a controlling interest in RS prior to the transaction, therefore no gain or loss was recorded with the purchase of the additional RS ownership interests. We recorded the indicated loss, representing the cash paid for the RS ownership interests and the noncontrolling interest derecognized with the transaction, of \$0.3 million in equity in the second quarter of 2011.

We increased our interest in RRX from a noncontrolling interest to a controlling interest. Consequently, in the second quarter of 2011, we recorded a loss on the transaction, equal to the cash paid for the RRX ownership interests and the net RRX liabilities assumed, of \$0.1 million. The \$0.1 million loss on acquisition of the additional interest in RRX is included in other income (expense).

NOTE 7. INVENTORIES

Inventories are composed of the following (in thousands):

| | September 30, 2011 | December 31, 2010 |
|--------------------|-----------------------|----------------------|
| Finished goods | \$ 969 | \$ 553 |
| Work in process | 1,134 | 1,076 |
| Raw materials | 625 | 1,119 |
| Packaging supplies | 176 | 246 |
| Total inventories | \$ 2,904 | \$ 2,994 |

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (in thousands):

| | September 30, 2011 | December 31, 2010 |
|-------------------------|-----------------------|----------------------|
| Land | \$ 424 | \$ 208 |
| Furniture and fixtures | 1,459 | 1,461 |
| Plant | 16,889 | 13,369 |
| Computer and software | 1,608 | 1,628 |
| Leasehold improvements | 189 | 189 |
| Machinery and equipment | 16,569 | 15,239 |

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| | | |
|------------------------------------|-----------|-----------|
| Construction in progress | 6,759 | 2,081 |
| Property, plant and equipment | 43,897 | 34,175 |
| Less accumulated depreciation | 15,335 | 10,121 |
| Property, plant and equipment, net | \$ 28,562 | \$ 24,054 |

In October 2009, as part of evaluating non-core assets and businesses, management determined that the Dillon facility (which included land, building and equipment) would be offered for sale. Throughout 2010, we aggressively marketed the facility. The facility continued to be classified as held for sale through December 31, 2010. While classified as held for sale, no depreciation was recorded on the Dillon assets. In the fourth quarter of 2010, we recognized an impairment loss of \$0.9 million based on an evaluation of market conditions and a discounted cash flow analysis.

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In February 2011, we ceased actively marketing the facility. We continue to operate the facility and are evaluating ways to utilize excess capacity. As a result, in the first quarter of 2011, we reclassified \$3.6 million for the Dillon facility from assets held for sale to property, plant and equipment in use, and restarted depreciation.

Property, plant and equipment also increased in the nine months ended September 30, 2011, by \$5.1 million for the capital expansion project at Irgovel.

NOTE 9. SETTLEMENT WITH FORMER CUSTOMER

In March 2011, pursuant to a settlement agreement with a former customer, we received \$0.8 million in connection with a 2007 transaction with that customer. We shipped products in 2007 to the customer and no revenue was recognized for the transaction under revenue recognition rules. The customer had not remitted payment prior to the settlement. The \$0.8 million received is recorded as settlement with former customer in the statements of operations for the nine months ended September 30, 2011.

NOTE 10. DEBT

The following table summarizes current and long-term portions of debt (in thousands):

| | September 30, 2011 | December 31, 2010 |
|---------------------------------|-----------------------|----------------------|
| Domestic: | | |
| Customer list purchase | \$ 590 | \$ 993 |
| Supplier note | 84 | 177 |
| Convertible notes payable | 1,493 | - |
| | 2,167 | 1,170 |
| Foreign: | | |
| Equipment financing | 247 | 290 |
| Working capital lines of credit | 3,780 | 4,404 |
| Special tax programs | 3,379 | 4,470 |
| Other obligations | 136 | 266 |
| | 7,542 | 9,430 |
| Total debt | 9,709 | 10,600 |
| Current portion | 5,569 | 3,235 |
| Long-term portion | \$ 4,140 | \$ 7,365 |

Convertible Notes Payable

The terms of the convertible notes payable outstanding as of September 30, 2011, and related warrants (vested and exercisable at issuance), are summarized below.

| Date of Note and Warrant | Principal Creditor's Note Amount of Note (in thousands) | Conversion Right | Stated Annual Interest Rate on | Maturity Date of Note | Shares Under Warrant | Exercise Price of Warrant | Expiration Date of Warrant |
|--------------------------|---|------------------|--------------------------------|-----------------------|----------------------|---------------------------|----------------------------|
|--------------------------|---|------------------|--------------------------------|-----------------------|----------------------|---------------------------|----------------------------|

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| | | Note | | | | | |
|-------------|--------|---|------|---|---------|---------|---------------|
| June 2011 | \$ 739 | Convertible immediately at \$0.21 per share | 10 % | June 2014 | 730,000 | \$ 0.23 | December 2014 |
| July 2011 | 270 | Convertible immediately at \$0.21 per share | 10 % | June 2014 | 270,000 | 0.23 | December 2014 |
| August 2011 | 730 | Convertible immediately at \$0.21 per share | 10 % | June 2014, unless accelerated by creditor to March 2013, or later | 730,000 | 0.23 | June 2015 |

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In October 2011, we entered into an agreement under which the convertible notes described above were terminated and the related warrants were cancelled in connection with the holder of the convertible note lending us an addition \$0.6 million. The carrying amount of the old notes on the date of cancellation was \$1.8 million. New convertible notes and a warrant were issued to the creditor. The terms of the October 2011 convertible notes payable and related warrant (vested and exercisable at issuance), are summarized below.

| Date of Note and Warrant | Principal Amount of Note (in thousands) | Creditor's Note Conversion Right | Stated Annual Interest Rate on Note | Maturity Date of Note | Number of Shares Under Warrant | Exercise Price of Warrant | Expiration Date of Warrant |
|--------------------------|---|---|-------------------------------------|--|--------------------------------|---------------------------|----------------------------|
| October 2011 | \$ 1,773 | Convertible immediately at \$0.20 per share | 10 % | October 2014, unless accelerated by creditor to March 2013, or later | 1,773,186 | \$ 0.22 | June 2015 |
| October 2011 | 550 | Same as above | 10 % | October 2014, unless accelerated by creditor to January 2012, or later | 550,000 | 0.22 | June 2015 |

Interest accrues monthly on the notes. Accrued interest from October 2011 through January 2012 is payable in January 2012. Interest accruing after January 2012 is payable monthly. All unpaid principal and interest is due at maturity. The convertible notes are secured by substantially all of our personal property, except for equity interests in subsidiaries and joint ventures. Beginning in January 2012, or the date the general unsecured creditors are paid in full, if earlier, the notes will be secured by our Dillon, Montana and Mermentau, Louisiana real estate as well.

With each funding we determined the fair value of each convertible note as the total of (i) the discounted cash flows of the payments due under the note related to that advance, discounted at 25%, plus (ii) the fair value of the related conversion feature, determined using the Black-Scholes methodology. We determined the fair value of the warrants using the Black-Scholes valuation methodology. Based on the relative fair values, we allocated a portion of the proceeds to the convertible note and a portion to equity for the warrant. We then determined if any of the amount allocated to the convertible note should be recorded to equity for the conversion feature. If there was a beneficial conversion feature based on the effective conversion price, that amount was recorded in equity for the conversions feature, and the remainder was recorded in debt.

During the first nine months of 2011, we received \$1.7 million in cash from the issuance of the convertible notes and related warrants. We recorded in equity \$0.4 million for the warrants and the note conversion features, \$0.1 million to other assets and the remainder to debt. During the first nine months of 2011, we recognized \$0.1 million in accreted interest expense. As of September 30, 2011, the carrying amount of the notes is \$1.5 million.

We recognized no gain or loss as a result of the October 2011 refinancing of the convertible notes. Beginning in October 2011, interest expense is being recognized on the \$1.8 million note, related to the refinanced balance outstanding on the old notes, at a 22.9% effective rate to accrete the \$1.5 million October 2011 carrying amount up to the principal and interest due as of the accelerated maturity date in March 2013. Prior to the refinancing, interest

expense was being recognized on the old notes at an average effective interest rate of 18.7%. Interest expense is being recognized on the \$0.6 million note at a 48.8% effective rate to accrete the initial \$0.5 million carry amount up to the principal and interest due as of the accelerated maturity date in January 2012.

Factoring Agreement

In January 2011, we entered into a domestic factoring agreement which provides for a \$1.0 million credit facility with a bank. We may only borrow to the extent we have qualifying accounts receivable as defined in the agreement. The facility expires on December 31, 2011, and renews automatically for another year unless proper termination notice is given. The bank will charge the greater of \$2,000 per month or a 2.0% fee on any borrowing. The 2.0% fee increases incrementally for any qualified account with a balance that remains outstanding in excess of 45 days. In the three and nine months ended September 30, 2011, average borrowings under this agreement were less than \$0.2 million and \$0.1 million.

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Special Tax Programs

Irgovel qualified for a modification of one of its special tax program debts and as a result we recorded a \$0.3 million gain on extinguishment of debt in other income (expense) in the second quarter of 2011. Certain maturities of the debt, carried at \$3.2 million as of September 30, 2011, were extended. Prior to the modification the debt maturities ranged from 2011 through 2017. As modified, debt maturities range from 2011 through 2021 and interest is payable monthly at an annual rate of 11.3%.

NOTE 11. EQUITY, SHARE-BASED COMPENSATION AND WARRANT LIABILITY

A summary of equity activity for the nine months ended September 30, 2011 (in thousands, except share data) follows.

| | NutraCea Shareholders | | | | Non-controlling Interest in Rice Science | Total Equity |
|--|------------------------|-----------|------------------------|--|--|-----------------|
| | Common Stock Shares | Amount | Accumulated Deficit | Accumulated Other Comp- rehensive Loss | | |
| Balance, January 1, 2011 | 195,359,109 | \$207,432 | \$ (184,812) | \$ (74) | \$ (156) | \$22,390 |
| Cancelled shares and options -settlements with former officers | (44,666) | (267) | - | - | - | (267) |
| Share-based employee and director compensation - options | - | 585 | - | - | - | 585 |
| Share-based consultant compensation -options | - | 9 | - | - | - | 9 |
| Beneficial conversion feature of convertible note | - | 165 | - | - | - | 165 |
| Warrants issued for convertible note | - | 279 | - | - | - | 279 |
| Acquisition of additional interests in Rice Science | - | (254) | - | - | 156 | (98) |
| Warrants issued to Buyer (Note 6) | - | 103 | - | - | - | 103 |
| Common stock issued to Buyer (Note 6) | 2,576,775 | 618 | - | - | - | 618 |
| Common stock issued for vendor services | 2,031,357 | 359 | - | - | - | 359 |
| Common stock issued to directors | 1,207,049 | 165 | - | - | - | 165 |
| Foreign currency translation | - | - | - | (1,576) | - | (1,576) |
| Net loss | - | - | (5,573) | - | - | (5,573) |
| Balance, September 30, 2011 | 201,129,624 | \$209,194 | \$ (190,385) | \$ (1,650) | \$ - | \$17,159 |

In lieu of paying cash to non-employee board members for board retainer fees for the last three quarters of 2011, we issued shares of common stock. The number of shares issued equaled the \$0.2 million cash compensation to which the directors are entitled, divided by \$0.20. We issued in the third quarter of 2011 a total of 1,207,049 shares for 2011 retainer fees. As of September 30, 2011, 336,250 of these shares were unvested. Directors will continue to be paid cash for meeting attendance fees.

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A summary of stock option and warrant activity for the nine months ended September 30, 2011 follows.

| | Options | | | Equity and Liability Warrants | | |
|---------------------------------|----------------------|---------------------------------|---|-------------------------------|---------------------------------|---|
| | Shares Under Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Shares Under Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
| Outstanding, January 1, 2011 | 45,485,111 | \$0.30 | 6.9 | 40,429,577 | \$1.28 | 2.1 |
| Granted | 4,904,224 | 0.22 | | 2,835,730 | 0.23 | |
| Impact of anti-dilution clauses | - | | | 4,328,701 | | |
| Exercised | - | | | - | | |
| Forfeited, expired or cancelled | (11,816,539) | (0.34) | | (3,372,387) | 1.00 | |
| Outstanding, September 30, 2011 | 38,572,796 | \$0.28 | 6.6 | 44,221,621 | \$1.10 | 1.7 |
| Exercisable, September 30, 2011 | 24,926,077 | \$0.32 | 5.9 | 44,221,621 | \$1.10 | 1.7 |

Options

In December 2010, we reached an agreement to settle all potential claims associated with the employment of Mr. Brad Edson, our former chief executive officer. The agreement was subject to the approval of the Bankruptcy Court and became effective upon court approval in January 2011. Mr. Edson agreed to return to NutraCea \$0.4 million, representing a bonus earned in 2008. We recorded a receivable for the return of the bonus. The corresponding income reduced selling, general and administrative expenses in the first quarter of 2011. As partial payment of the receivable, Mr. Edson forfeited 6,000,000 options granted in 2004 and returned 35,000 shares of common stock in payment of \$0.3 million of his obligation. The options had an exercise price of \$0.30 per share and were outstanding and exercisable as of December 31, 2010. We reduced the receivable from Mr. Edson, reduced equity by \$0.3 million, and cancelled the options in the first quarter of 2011, when the Bankruptcy Court approved the agreement. The remaining \$0.1 million receivable remains unpaid and reserved for due to uncertainty with regard to the collectability of the receivable as of September 30, 2011.

In March 2011, we reached an agreement to settle all potential claims associated with the employment of Mr. Todd Crow, our former chief financial officer. As part of the settlement, Mr. Crow was required to forfeit 1,662,942 options and return 9,666 shares of common stock held. The agreement was subject to the approval of the Bankruptcy Court and became effective upon court approval in April 2011. We canceled the stock and options in the second quarter of 2011. The options had an average exercise price of \$0.37 per share and were outstanding and exercisable as of December 31, 2010. No value was assigned to the cancelled stock or options because we transferred no cash or other assets in exchange. In connection with the settlement, Mr. Crow agreed to withdraw his \$0.2 million bankruptcy claim.

On July 15, 2011, we entered into amendments to employment agreements with each of our four executive officers. Twenty percent of each officer's salary for the last six months of 2011 will be paid in stock options instead of in cash. The options will vest and become exercisable in twelve equal installments commencing on July 15, 2011 and

ending on December 31, 2011. Under the amendments we issued options to purchase 2,116,726 shares of common stock, at an average exercise price of \$0.20, and an average initial term of 1.6 years.

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Warrants

We have outstanding warrants classified as equity (equity warrants) and as warrant liability (liability warrants).

| | Equity Warrants | | | Liability Warrants | | |
|---|------------------------------|---------------------------------|---|---------------------------------|---------------------------------|---|
| | Shares Under Equity Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Shares Under Liability Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
| Outstanding, January 1, 2011 | 545,454 | \$0.69 | 2.8 | 39,884,124 | \$1.28 | 2.1 |
| Granted | 2,835,730 | 0.23 | | - | | |
| Impact of antidilution clauses | - | | | 4,328,701 | | |
| Exercised | - | | | - | | |
| Forfeited, expired or cancelled | (500,000) | 0.25 | | (2,872,387) | 1.13 | |
| Outstanding and Exercisable, September 30, 2011 | 2,881,184 | \$0.32 | 3.6 | 41,340,438 | \$1.16 | \$ 1.6 |

As of September 30, 2011, we have outstanding liability warrants to purchase 21,591,715 shares of common stock that expire in August 2012.

We have certain warrant agreements in effect for outstanding liability warrants that contain antidilution clauses. Under the antidilution clauses, in the event of equity issuances, we may be required to lower the exercise price on liability warrants and increase the number of shares underlying liability warrants. Equity issuances may include issuances of our common stock, certain awards of options to employees, issuances of warrants and/or other convertible instruments below a certain exercise price.

The table below summarizes the equity issuances in 2011, through the date of this filing, which triggered the antidilution clauses in certain liability warrants.

| Triggering Event | Shares Under Equity Warrants | Exercise Price of Warrants |
|--|------------------------------|----------------------------|
| Common stock issuance to Buyer and related warrant (Note 6): | | |
| Second quarter 2011 | 605,730 | \$ 0.23 |
| Convertible note issuances and related warrants (Note 10): | | |
| First quarter 2011 | (1) 500,000 | 0.25 |
| Second quarter 2011 | (2) 730,000 | 0.23 |
| Third quarter 2011, event A | (2) 270,000 | 0.23 |
| Third quarter 2011, event B | (2) 730,000 | 0.23 |
| | 2,835,730 | \$ 0.23 |

Convertible note issuances and related warrants (Note 10):

| | | | |
|---------------------|-----------|----|------|
| Fourth quarter 2011 | 2,323,186 | \$ | 0.22 |
|---------------------|-----------|----|------|

- (1) The warrant to purchase 500,000 shares of common stock, issued to the holder of the convertible note in the first quarter of 2011, was cancelled in the second quarter of 2011.
- (2) Warrants to purchase 1,730,000 shares of common stock, issued to the holder of the convertible note in the second and third quarters of 2011, were cancelled in the fourth quarter of 2011.

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The table below summarizes the impact of the equity issuances, listed above which triggered the antidilution clauses in certain liability warrants.

| Triggering Event | | Before Event | | After Event | | Increase in Shares Under Liability Warrants |
|--|-----|--|--|--|--|---|
| | | Shares Under Liability Warrants | Weighted Average Exercise Price | Shares Under Liability Warrants | Weighted Average Exercise Price | |
| Common stock issuance to Buyer and related warrant (Note 6): | | | | | | |
| Second quarter 2011 | (1) | 40,735,768 | \$ 1.25 | 41,707,143 | \$ 1.22 | 971,375 |
| Convertible note issuances and related warrants (Note 10): | | | | | | |
| First quarter 2011 | (1) | 39,884,124 | 1.28 | 40,735,768 | 1.25 | 851,644 |
| Second quarter 2011 | (1) | 38,834,756 | 1.23 | 39,721,515 | 1.20 | 886,759 |
| Third quarter 2011, event A | | 39,721,515 | 1.20 | 40,362,227 | 1.19 | 640,712 |
| Third quarter 2011, event B | | 40,362,227 | 1.19 | 41,340,438 | 1.16 | 978,211 |
| | | | | | | 4,328,701 |
| Convertible note issuances and related warrants (Note 10): | | | | | | |
| Fourth quarter 2011 | | 41,340,438 | 1.16 | 43,314,994 | 1.10 | 1,974,554 |

(1) During the third quarter of 2011, the calculations of the impact of the triggering events were revised. The revised figures are reflected above. The impact was immaterial to the financial statements and less than \$0.1 million.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Lease Commitments

In November 2011, we amended our corporate office space lease which was to expire in January 2012. Under the terms of the amendment, rent is abated for the period from November 2011 through March 2012. Future minimum payments under the lease, as amended, are as follows: \$0.2 million for 2012; \$0.2 million for 2013, \$0.3 million for 2014; \$0.3 million for 2015; \$0.3 million for 2016, and \$0.1 million for 2017.

Purchase and Supply Commitments

In January 2011, Irgovel entered into a commitment to supply \$0.4 million of rice oil each month from April 2011 to December 2011 to an existing customer. The commitment represents approximately 50% of Irgovel's current rice oil production capacity.

As of September 30, 2011, Irgovel has outstanding equipment purchase commitments totaling approximately \$1.5 million. The equipment is part of a capital project to expand production capacity and improve operational efficiency. We expect to pay for this equipment through the second quarter of 2012.

Litigation

In addition to the matters discussed below, from time to time we are involved in litigation incidental to the conduct of our business. When applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position or results of operations. Defense costs are expensed as incurred and are included in professional fees.

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Irgovel Stockholders Lawsuit

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

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

On February 6, 2009, the Sellers filed a collection lawsuit against us seeking payment of the second installment of the purchase price under the Purchase Agreement, which the Sellers allege is approximately \$1 million. We have withheld payment of the second installment pending resolution of the Resyng lawsuit noted above. The Parent Company has not been served with any formal notices in regard to this matter so far. To date, only Irgovel has received formal legal notice. In addition, the Purchase Agreement requires that all disputes between us and the Sellers be adjudicated through arbitration. As part of the Purchase Agreement, \$2.0 million was deposited into an escrow account to cover contingencies with the net remaining funds payable to the Sellers upon resolution of all contingencies. We believe any payout due to the lawsuit will be made out of the escrow account. As of September 30, 2011, and December 31, 2010, the balance in the escrow account was \$1.9 million and is included in restricted cash in the consolidated balance sheets. There is an offsetting liability in accrued expenses in our consolidated balance sheets as of September 30, 2011 and December 31, 2010. We believe that there is no additional material exposure as any amounts determined to be owed as a result of the above noted litigation and contingencies will be covered by the escrow account.

SEC Enforcement Investigation

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

On January 13, 2011, the SEC filed a complaint in the United States District Court for the District of Arizona alleging that we violated Section 17(a) of the Securities Act of 1933 (Securities Act), 15 U.S.C. § 77q(a), Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act of 1934 (the Exchange Act), 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, and 240.13a-13 (the SEC Action). We have settled these allegations with the SEC, without admitting or denying them, and have consented to the entry of a final judgment of permanent injunction (Consent

Judgment), which, among other things, permanently restrains and enjoins us from violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, and 240.13a-13. The final Consent Judgment was entered in the SEC action on February 14, 2011. No financial penalty was assessed by the SEC against us.

Farmers' Rice Milling

Farmers' Rice Milling (FRM) contended that we defaulted by failing to pay rentals due under two leases between the parties: (i) the March 15, 2007, ground lease, as amended on November 1, 2008, and (ii) the April 15, 2007, warehouse lease. FRM filed suit against us to terminate the leases and recover damages thereunder. This suit was filed in the 14th Judicial District Court on June 24, 2009, and was timely removed to the United States District Court, Western District of Louisiana, Lake Charles division. We filed an answer and counterclaim and deposited into the registry of the court \$0.1 million constituting the rentals due under the leases, a late fee due under the warehouse lease plus accrued interest. As part of the Chapter 11 Reorganization, the leases were assumed under Section 365 of the Bankruptcy Code. Arrearages due under the leases were paid in January 2011 and the lawsuit was dismissed. FRM also asserted a claim for monetary damages for breach of a supply agreement, but that claim was dismissed from the lawsuit and allowed as a general unsecured claim in the Chapter 11 Reorganization.

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NOTE 13. SEGMENT INFORMATION

We have three reportable segments: (i) Corporate; (ii) SRB, which manufactures and distributes SRB in various granulations along with products derived from bran via patented enzyme treatment processes including a fat and protein rich water soluble fraction and a fiber rich insoluble fraction; and (iii) Bio-Refining, which separates rice bran into rice oil and defatted rice bran which are then further processed into a number of valuable food and feed products. The Bio-Refining segment consists of our Irgovel operations in Brazil. The Corporate segment includes general and administrative expenses, legal settlements and other expenses not directly attributable to segments. No corporate allocations are made to the other segments. Interest incurred at the Corporate level is not allocated.

The tables below present segment information for the periods identified and provide reconciliations of segment information to total consolidated information (in thousands).

| | Three Months Ended September 30, 2011 | | | |
|--|---------------------------------------|----------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Revenues | \$- | \$2,528 | \$ 6,058 | \$ 8,586 |
| Cost of goods sold | - | 1,784 | 4,879 | 6,663 |
| Gross profit | - | 744 | 1,179 | 1,923 |
| Depreciation and amortization (in selling, general and administrative) | (42) | (313) | (315) | (670) |
| Intersegment fees | 102 | - | (102) | - |
| Other operating expense | (1,520) | (933) | (1,153) | (3,606) |
| Loss from operations | \$(1,460) | \$(502) | \$(391) | \$(2,353) |
| Net loss attributable to NutraCea shareholders | \$(634) | \$(535) | \$(324) | \$(1,493) |
| Interest expense | (114) | (34) | (154) | (302) |
| Depreciation (in cost of goods sold) | - | (279) | (366) | (645) |
| Purchases of property, plant and equipment | - | 12 | 703 | 715 |

| | Nine Months Ended September 30, 2011 | | | |
|--|--------------------------------------|----------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Revenues | \$- | \$7,919 | \$ 18,310 | \$ 26,229 |
| Cost of goods sold | - | 5,153 | 14,355 | 19,508 |
| Gross profit | - | 2,766 | 3,955 | 6,721 |
| Depreciation and amortization (in selling, general and administrative) | (154) | (933) | (942) | (2,029) |
| Settlement with former customer | - | 800 | - | 800 |
| Intersegment fees | 307 | - | (307) | - |
| Other operating expense | (4,904) | (2,881) | (3,308) | (11,093) |
| Loss from operations | \$(4,751) | \$(248) | \$(602) | \$(5,601) |
| Net loss attributable to NutraCea shareholders | \$(4,680) | \$(383) | \$(510) | \$(5,573) |
| Interest expense | (430) | (136) | (548) | (1,114) |
| Depreciation (in cost of goods sold) | - | (712) | (1,086) | (1,798) |
| Purchases of property, plant and equipment | - | 94 | 5,122 | 5,216 |

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| | Three Months Ended September 30, 2010 | | | |
|--|---------------------------------------|----------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Revenues | \$- | \$2,761 | \$ 5,642 | \$ 8,403 |
| Cost of goods sold | - | 1,501 | 4,768 | 6,269 |
| Gross profit | - | 1,260 | 874 | 2,134 |
| Depreciation and amortization (in selling, general and administrative) | (90) | (320) | (310) | (720) |
| Impairment of property, plant and equipment | - | - | - | - |
| Loss on disposal of property, plant and equipment | - | (540) | - | (540) |
| Other operating expense | (2,003) | (1,023) | (851) | (3,877) |
| Loss from operations | \$(2,093) | \$(623) | \$(287) | \$(3,003) |
| Net loss attributable to NutraCea shareholders | \$(2,181) | \$(657) | \$(252) | \$(3,090) |
| Interest expense | (228) | (24) | (164) | (416) |
| Depreciation (in cost of goods sold) | - | (97) | (414) | (511) |
| Purchases of property, plant and equipment | 8 | 41 | 222 | 271 |

| | Nine Months Ended September 30, 2010 | | | |
|--|--------------------------------------|------------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Revenues | \$- | \$9,298 | \$ 13,828 | \$ 23,126 |
| Cost of goods sold | - | 5,582 | 12,206 | 17,788 |
| Gross profit | - | 3,716 | 1,622 | 5,338 |
| Depreciation and amortization (in selling, general and administrative) | (280) | (930) | (860) | (2,070) |
| Impairment of property, plant and equipment | - | (1,000) | - | (1,000) |
| Loss on disposal of property, plant and equipment | - | (943) | - | (943) |
| Other operating expense | (5,516) | (3,403) | (2,443) | (11,362) |
| Loss from operations | \$(5,796) | \$(2,560) | \$(1,681) | \$(10,037) |
| Net loss attributable to NutraCea shareholders | \$(6,891) | \$(2,684) | \$(1,313) | \$(10,888) |
| Interest expense | (389) | (116) | (492) | (997) |
| Depreciation (in cost of goods sold) | - | (348) | (1,053) | (1,401) |
| Purchases of property, plant and equipment | 23 | 49 | 343 | 415 |

The tables below presents segment information for selected balance sheet accounts (in thousands).

| | Corporate | SRB | Bio-Refining | Consolidated |
|-------------------------------|-----------|--------|--------------|--------------|
| As of September 30, 2011 | | | | |
| Inventories | \$ - | \$ 780 | \$ 2,124 | \$ 2,904 |
| Property, plant and equipment | 536 | 13,055 | 14,971 | 28,562 |
| Goodwill | - | - | 5,345 (1) | 5,345 |
| Intangible assets, net | - | 2,519 | 2,549 | 5,068 |
| Total assets | 4,457 (2) | 17,508 | 30,080 | 52,045 |
| As of December 31, 2010 | | | | |
| Inventories | - | 596 | 2,398 | 2,994 |
| Property, plant and equipment | 1,996 | 9,337 | 12,721 | 24,054 |

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| | | | | |
|------------------------|-----------|--------|-----------|--------|
| Assets held for sale | - | 3,598 | - | 3,598 |
| Goodwill | - | - | 5,835 (1) | 5,835 |
| Intangible assets, net | - | 2,901 | 3,395 | 6,296 |
| Total assets | 7,143 (2) | 17,308 | 28,773 | 53,224 |

(1) All changes in goodwill between September 30, 2011 and December 31, 2010, relate to foreign currency translation.

(2) Corporate segment total assets include cash, restricted cash, note receivable, property and other assets.

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The following table presents revenue by geographic area for the three months and nine months ended September 30 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---------------------|--------------------|----------|-------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| United States | \$ 2,068 | \$ 2,459 | \$ 6,727 | \$ 7,253 |
| Brazil | 5,263 | 4,318 | 13,324 | 12,496 |
| Other international | 1,255 | 1,626 | 6,178 | 3,377 |
| Total revenues | \$ 8,586 | \$ 8,403 | \$ 26,229 | \$ 23,126 |

The following table presents property, plant and equipment by geographic area (in thousands):

| | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| United States | \$ 13,591 | \$ 11,333 |
| Brazil | 14,971 | 12,721 |
| Total property, plant and equipment, net | \$ 28,562 | \$ 24,054 |

NOTE 14. FAIR VALUE MEASUREMENT

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain assets and liabilities are presented in the financial statements at fair value. Assets and liabilities measured at fair value on a recurring basis include warrant liabilities. Assets and liabilities measured at fair value on a non-recurring basis include held-for-sale property, plant and equipment.

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

Level 1 – inputs include quoted prices for identical instruments and are the most observable.

Level 2 – inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates and yield curves.

Level 3 – inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

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

The following table summarizes the fair values by input hierarchy of items measured at fair value on a recurring basis on our consolidated balance sheets (in thousands):

| | | As of September 30, 2011 | | | Total |
|---------------------------------|-----|--------------------------|---------|---------|--------|
| | | Level 1 | Level 2 | Level 3 | |
| Warrant liability | (1) | \$ - | \$ - | \$ 853 | \$ 853 |
| Total liabilities at fair value | | \$ - | \$ - | \$ 853 | \$ 853 |

As of December 31, 2010

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| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|----------|---------|----------|----------|
| Warrant liability | (1) \$ - | \$ - | \$ 1,628 | \$ 1,628 |
| Total liabilities at fair value | \$ - | \$ - | \$ 1,628 | \$ 1,628 |

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(1) We have certain warrant agreements in effect that contain antidilution clauses. Under the antidilution clauses, in the event of equity issuances, we may be required to lower the exercise price on liability warrants and increase the number of shares underlying liability warrants. Equity issuances may include issuances of our common stock, certain awards of options to employees, issuances of warrants and/or other convertible instruments below a certain exercise price. We account for the warrants with these antidilution clauses as liability instruments. These warrants are valued using the Lattice Model each reporting period and the resultant change in fair value is recorded in the statements of operations as warrant liability income (expense).

The following tables summarize the changes in level 3 items measured at fair value on a recurring basis (in thousands):

| | Nine Months Ended September 30, 2011 | | | | | Change in Unrealized Gains (Losses) on Instruments Still Held |
|--------------------------|--|---|--------------------------------|--|------------------------------------|--|
| | Fair Value as of Beginning of Period | Total Realized and Unrealized Gains (Losses) (1) | Issuance of New Warrants | Net Transfers Into (Out of) Level 3 | Fair Value, at End of Period | |
| Warrant liability | \$1,628 | \$775 | \$- | \$ - | \$853 | \$775 |
| Total Level 3 fair value | \$1,628 | \$775 | \$- | \$ - | \$853 | \$775 |

| | Nine Months Ended September 30, 2010 | | | | | Change in Unrealized Gains (Losses) on Instruments Still Held |
|--------------------------|--|---|--------------------------------|--|------------------------------------|--|
| | Fair Value as of Beginning of Period | Total Realized and Unrealized Gains (Losses) (1) | Issuance of New Warrants | Net Transfers Into (Out of) Level 3 | Fair Value, at End of Period | |
| Warrant liability | \$1,279 | \$63 | \$- | \$ - | \$1,216 | \$63 |
| Total Level 3 fair value | \$1,279 | \$63 | \$- | \$ - | \$1,216 | \$63 |

(1) Included in warrant liability income in the consolidated statements of operations.

The following tables summarize the fair values by input hierarchy of items measured at fair value in our consolidated balance sheets on a non-recurring basis (in thousands):

| | As of December 31, 2010 | | | Total |
|--|-------------------------|---------|----------|----------|
| | Level 1 | Level 2 | Level 3 | |
| Assets held for sale - property, plant and equipment | (1) \$ - | \$ - | \$ 3,598 | \$ 3,598 |
| Total assets at fair value | \$ - | \$ - | \$ 3,598 | \$ 3,598 |

(1)

Represents land, building and equipment at our Dillon, Montana facility carried at fair value, based on an evaluation of market conditions and discounted cash flow analyses, less cost to sell (see Note 8).

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NOTE 15. EMPLOYEE BONUS PLAN

In July 2010, the Board approved a cash incentive bonus plan for a total of \$1.0 million to be paid to employees, employed at the time of payment, if all of the following conditions are met: (i) court approval of our Plan of Reorganization and successfully exiting the Chapter 11 bankruptcy process, (ii) being cash flow positive, defined by our board as earnings before interest, taxes, depreciation, amortization and certain non-cash charges, and (iii) cash availability as determined by our board at its sole discretion. Under the Plan of Reorganization, we are prohibited from paying bonuses in an amount that exceeds the percentage paid to Class 6 general unsecured creditors with regard to their pre-petition liabilities. Because the consolidated operating cash flow condition and cash availability condition were not met as of September 30, 2011 or December 31, 2010, the Board has not approved payments and no accruals have been recorded.

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

The following discussion and analysis addresses material changes in the results of operations and financial condition of NutraCea and subsidiaries ("we", "us", "our" or the "Company,") for the periods presented. This discussion and analysis should be read in conjunction with the consolidated financial statements, the related notes thereto, and management's discussion and analysis of results of operations and financial condition included in our Annual Report on Form 10-K, for the year ended December 31, 2010.

We are a food ingredient and health science company focused on bio-refining rice bran into numerous derivative products. We have proprietary intellectual property that allows us to process and convert rice bran, one of the world's most underutilized food resources, into highly nutritious ingredients including rice oil, processed rice bran (SRB), defatted rice bran (DRB) and their derivative products, that have applications in various food products and nutraceutical applications. Our target markets are food, nutraceutical and animal nutrition manufacturers and distributors. Rice oil and SRB are also used as stand-alone products that can be sold through non-related entities with distribution into the marketplace, both domestically and internationally. We believe that products containing rice oil, SRB, DRB, and their derivative products, can deliver beneficial physiological effects. We continue to pursue both internal and independent research and development along with third party analyses in order to further support the uses for and effectiveness of our products.

We have three reportable business segments: (i) Corporate; (ii) processed rice bran (SRB), which manufactures and distributes SRB in various granulations along with products derived from bran via patented enzyme treatment processes including a fat and protein rich water soluble fraction and a fiber rich insoluble fraction; and (iii) Bio-Refining, which separates rice bran into rice oil and defatted rice bran which are then further processed into a number of valuable food and feed products. The Corporate segment includes general and administrative expenses, legal settlements and other expenses not directly attributable to other segments. No corporate allocations are made to the other segments. Interest incurred at the Corporate level is not allocated.

The SRB segment consists of locations in California and Louisiana that produce SRB. The manufacturing facilities included in our SRB segment have specialized processing equipment and techniques for the treatment of rice grain products to cook, convert, isolate, dry and package finished food ingredients used in the formulation of health food and consumer food finished products. In addition, we have the capability to custom manufacture various grain based products for human food ingredient companies at our Dillon facility.

The Bio-Refining segment consists of our Irgovel operations in Brazil. Irgovel manufactures rice oil and DRB products for both the human and animal food markets in Brazil and internationally. Irgovel owns the largest rice bran processing facility in South America and is the only Brazilian company to produce edible rice oil for human consumption. In refining rice oil to an edible grade several co-products are obtained, including distilled fatty acids, a valuable raw material for the detergent industry. DRB is compounded with a number of other ingredients to produce complex animal feeds which are packaged and sold under Irgovel brands in the Brazilian market.

Results of Operations

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

Consolidated net loss attributable to NutraCea shareholders for the three months ended September 30, 2011, was \$1.5 million, or \$0.01 per share, compared to \$3.1 million, or \$0.02 per share, for the three months ended September 30, 2010. The improvement of \$1.6 million between periods was primarily due to (i) a \$0.9 million improvement in operating expenses, partially due to the impact of a \$0.5 million loss on disposal of the Phoenix, Arizona facility in the prior year three months and (ii) an improvement in warrant liability income of \$0.7 million.

Revenue and Gross Profit

Revenues (in thousands):

| | Three Months Ended September 30 | | | | | |
|-------------------------|---------------------------------|---------------------------|----------|---------------------------|-----------|-------------|
| | 2011 | % of Total Revenues | 2010 | % of Total Revenues | Change | % Change |
| SRB segment | \$ 2,528 | 29.4 | \$ 2,761 | 32.9 | \$ (233) | (8.4) |
| Bio-Refining segment | 6,058 | 70.6 | 5,642 | 67.1 | 416 | 7.4 |
| Total revenues | \$ 8,586 | 100.0 | \$ 8,403 | 100.0 | \$ 183 | 2.2 |

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Consolidated revenues for the three months ended September 30, 2011, were \$8.6 million compared to \$8.4 million in the prior year period, an increase of \$0.2 million, or 2.2%. The \$0.4 million, or 7.4 %, increase in Bio-Refining segment revenues offset the \$0.2 million, or 8.4%, decline in SRB segment revenues.

In the SRB segment, a \$0.1 million increase in human nutrition product revenues, which benefited from increased existing customer revenue volumes and the impact of price increases which took effect in the middle of the first quarter of 2011, was more than offset by (i) a \$0.2 million decline in tolling and cereal product revenues due to the March 2010 sale of the cereal product related assets, and (ii) a \$0.1 million decrease in animal feed product revenues, as a result of decreased volumes.

Bio-Refining segment revenues were impacted by the continued overall favorable pricing environment and increased volume in animal feed and oil products. Animal feed revenues benefited from higher prices in other commodity products like soy and corn, which are traditional animal feed sources. Rice bran based products provide an alternative source of animal feed. Oil revenues continue to benefit from the current higher pricing trend in vegetable oil markets.

Gross profit (in thousands):

| | Three Months Ended September 30 | | | | | |
|----------------------|---------------------------------|----------------|----------|----------------|-----------|--------------------------|
| | 2011 | Gross Profit % | 2010 | Gross Profit % | Change | Change in Gross Profit % |
| SRB segment | \$ 744 | 29.4 | \$ 1,260 | 45.6 | \$ (516) | (16.2) |
| Bio-Refining segment | 1,179 | 19.5 | 874 | 15.5 | 305 | 4.0 |
| Total gross profit | \$ 1,923 | 22.4 | \$ 2,134 | 25.4 | \$ (211) | (3.0) |

Consolidated gross profit for the three months ended September 30, 2011, was \$1.9 million compared to \$2.1 million in the prior year period, a decrease of \$0.2 million, or 3.0 percentage points.

The SRB gross profit percentage was negatively impacted by higher 2011 raw bran prices and the impact of additional depreciation on the Dillon, Montana facility. Raw bran prices have continued to rise throughout 2011 and as of September 30, 2011, were approximately 45% higher, on average, than prices as of the end of 2010. These higher bran prices resulted in approximately an 11 percentage point decline in our SRB segment gross profit. To offset the higher raw bran cost, we implemented a price increase in the first quarter of 2011 for certain customers which improved margins approximately 1 percentage point over the prior year period. Additional sales price increases will be implemented in the fourth quarter 2011 to offset higher bran costs. We also experienced SRB margin erosion of 6 percentage points from the \$0.2 million increase in depreciation expense recognized on the Dillon, Montana facility in 2011. No depreciation was recognized on the facility in 2010 while the facility was an asset held for sale.

The Bio-Refining segment gross profit percentage improved from 15.5% to 19.5%. Bio-Refining segment cost of goods sold increased by \$0.1 million, or 2.3%, while revenues increased 7.4%. The improvement in cost of goods sold as a percentage of revenue was due to plant efficiencies associated with a shift in sales mix from fully refined oil to crude oil and higher plant production throughput driven by volume. Crude oil requires less production costs than refined oil.

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Operating Expenses (in thousands):

| | Three Months Ended September 30, 2011 | | | |
|---|---------------------------------------|---------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Selling, general and administrative | \$1,272 | \$1,243 | \$ 1,151 | \$ 3,666 |
| Professional fees | 290 | 3 | 317 | 610 |
| Intersegment fees | (102) | - | 102 | - |
| Loss on disposal of property, plant and equipment | - | - | - | - |
| Total operating expenses | \$1,460 | \$1,246 | \$ 1,570 | \$ 4,276 |

| | Three Months Ended September 30, 2010 | | | |
|---|---------------------------------------|---------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Selling, general and administrative | \$1,556 | \$1,319 | \$ 1,054 | \$ 3,929 |
| Professional fees | 537 | 24 | 107 | 668 |
| Intersegment fees | - | - | - | - |
| Loss on disposal of property, plant and equipment | - | 540 | - | 540 |
| Total operating expenses | \$2,093 | \$1,883 | \$ 1,161 | \$ 5,137 |

| | Favorable (Unfavorable) Change | | | |
|---|--------------------------------|-------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Selling, general and administrative | \$284 | \$76 | \$ (97) | \$ 263 |
| Professional fees | 247 | 21 | (210) | 58 |
| Intersegment fees | 102 | - | (102) | - |
| Loss on disposal of property, plant and equipment | - | 540 | - | 540 |
| Total operating expenses | \$633 | \$637 | \$ (409) | \$ 861 |

Consolidated operating expenses were \$4.3 million for the third quarter of 2011, compared to \$5.1 million for the third quarter of 2010, a decrease of \$0.9 million. The decrease is composed primarily of the \$0.3 million net decrease in Corporate selling, general and administrative (SG&A) expenses and the favorable impact from incurring no loss on disposal in 2011. The \$0.5 million third quarter 2010 loss on disposal primarily related to the disposition of the Phoenix, Arizona facility.

Corporate segment selling, general and administrative expenses (SG&A) improved \$0.3 million because of a \$0.1 million reduction in payroll and related costs and a \$0.2 million reduction in share-based employee and director compensation.

Bio-Refining segment SG&A increased \$0.1 million. Payroll expenses increased as a result of government mandated annual cost of living adjustments that were effective beginning June 2010, general merit raises and expenses associated with a newly implemented management bonus plan. Customs and handling charges also increased with the rise in export revenues.

Corporate professional fees were \$0.3 million for the third quarter of 2011, compared to \$0.5 million for the third quarter of 2010. Professional fees are primarily expenses associated with consultants, accounting, auditing, tax compliance, SOX 404 compliance, and outside legal counsel. In 2010, we incurred significant audit and other service fees related to preparing to file our 2009 and 2010 filings Form 10-Qs and Form 10-Ks, which were delayed. Legal fees related to general corporate matters and litigation settled in early 2011 were higher in 2010 as well.

Bio-Refining segment professional fees increased \$0.2 million. Management and meeting attendance fees payable to the Investors, who own a noncontrolling interest in Nutra SA beginning in January 2011 (see Note 5 to the

consolidated financial statements) totaled \$0.1 million in the third quarter of 2011. There was no comparable expense in the prior year period. Legal fees associated with ongoing litigation were also higher in 2011.

Intersegment fees relate to Bio-Refining segment fees payable to the Corporate segment beginning in January 2011 under the agreements with the Investors (see Note 5 to the consolidated financial statements). The charges are intended to compensate the Corporate segment for management time spent on Irgovel operations.

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Other Income (Expense) (in thousands):

| | Three Months Ended September 30, 2011 | | | |
|--------------------------------|---------------------------------------|---------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Interest income | \$14 | \$- | \$ 11 | \$ 25 |
| Interest expense | (115) | (33) | (154) | (302) |
| Warrant liability income | 916 | - | - | 916 |
| Foreign currency exchange, net | - | - | (321) | (321) |
| Other | 11 | - | 11 | 22 |
| Other income (expense) | \$826 | \$(33) | \$(453) | \$ 340 |

| | Three Months Ended September 30, 2010 | | | |
|--------------------------------|---------------------------------------|---------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Interest income | \$1 | \$- | \$ 25 | \$ 26 |
| Interest expense | (228) | (24) | (164) | (416) |
| Warrant liability income | 250 | - | - | 250 |
| Foreign currency exchange, net | - | - | (23) | (23) |
| Other | (10) | - | 54 | 44 |
| Other income (expense) | \$13 | \$(24) | \$(108) | \$(119) |

| | Favorable (Unfavorable) Change | | | |
|--------------------------------|--------------------------------|--------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Interest income | \$13 | \$- | \$(14) | \$(1) |
| Interest expense | 113 | (9) | 10 | 114 |
| Warrant liability income | 666 | - | - | 666 |
| Foreign currency exchange, net | - | - | (298) | (298) |
| Other | 21 | - | (43) | (22) |
| Other income (expense) | \$813 | \$(9) | \$(345) | \$ 459 |

Consolidated other income was \$0.3 million for the third quarter of 2011, compared to other expense of \$0.1 million for the third quarter of 2010, an improvement of \$0.5 million. Warrant liability income increased \$0.7 million and other line items net to an additional expense of \$0.2 million.

Warrant liability income for the quarter ended September 30, 2011, was \$0.9 million compared to warrant liability income of \$0.3 million for the quarter ended September 30, 2010. We have certain outstanding warrant agreements in effect that contain antidilution clauses. Under the antidilution clauses, in the event of equity issuances, we may be required to lower the exercise price on liability warrants and increase the number of shares underlying liability warrants. Warrant liability is carried at fair value which is determined at the end of each reporting period. The change in fair value is recorded as warrant liability income or expense. The valuation method used to calculate fair value requires us to assess the probability of future issuance of equity instruments at a price lower than the current exercise price of the warrants that contain antidilution clauses. We must also make other assumptions related to our projected cash needs and our likelihood of successfully concluding an equity fund raising transaction.

The other \$0.2 million net expense is comprised of:

- a Corporate segment interest expense reduction of \$0.1 million offset by
- a Bio-Refining segment \$0.3 million increase in foreign exchange loss on Irgovel contracts denominated in U.S. dollars.

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

Consolidated net loss attributable to NutraCea shareholders for the nine months ended September 30, 2011, was \$5.6 million, or \$0.03 per share, compared to \$10.9 million, or \$0.06 per share, for the nine months ended September 30, 2010. The improvement of \$5.3 million between periods was primarily due to (i) a \$1.4 million improvement in gross profit primarily as a result of higher revenues in the Bio-Refining segment and associated plant efficiencies gained, (ii) the impact of incurring no reorganization expenses in the current year as compared to \$0.9 million in the prior year period, and (iii) a \$3.1 million improvement in operating expenses due in part to the impact of:

- incurring no impairment charge in 2011 as compared to the \$1.0 million impairment charge related to the Phoenix, Arizona facility in 2010,
- a \$0.9 million loss related primarily to the disposal of the Phoenix, Arizona facility, and the infant cereal manufacturing equipment located at that facility, in the prior year nine months, and
 - a \$0.8 million favorable settlement with a former customer in the nine months ended September 30, 2011.

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Revenue and Gross Profit

Revenues (in thousands):

| | Nine Months Ended September 30 | | | | | |
|-------------------------|--------------------------------|---------------------------|-----------|---------------------------|-------------|-------------|
| | 2011 | % of Total Revenues | 2010 | % of Total Revenues | Change | % Change |
| SRB segment | \$ 7,919 | 30.2 | \$ 9,298 | 40.2 | \$ (1,379) | (14.8) |
| Bio-Refining segment | 18,310 | 69.8 | 13,828 | 59.8 | 4,482 | 32.4 |
| Total revenues | \$ 26,229 | 100.0 | \$ 23,126 | 100.0 | \$ 3,103 | 13.4 |

Consolidated revenues for the nine months ended September 30, 2011, were \$26.2 million compared to \$23.1 million in the prior year period, an increase of \$3.1 million, or 13.4%. The \$4.5 million, or 32.4%, increase in Bio-Refining segment revenues offset the \$1.4 million, or 14.8%, decline in SRB segment revenues.

The SRB segment revenue decline of \$1.4 million is comprised of the following:

- a decline in cereal product revenues and other revenues of \$1.3 million due to the March 2010 sale of the cereal product related assets,
- a decline in animal nutrition product revenues of \$0.4 million on lower volume due to competitive pressures, offset by
- an increase in human nutrition product revenues of \$0.3 million, due to increased volumes from existing customers and the impact of price increases which took effect in the middle of the first quarter of 2011.

The Bio-Refining segment revenues increased by \$4.5 million, or 32.4%. The increase is attributable to the overall favorable pricing environment and increased volume in animal feed and oil products. Animal feed revenues benefited from higher prices in other commodity products like soy and corn, which are traditional animal feed sources. Rice bran based products provide an alternative source of animal feed. Oil revenues continue to benefit from current higher pricing trend in vegetable oil markets that began in the last quarter of 2010.

Gross profit (in thousands):

| | Nine Months Ended September 30 | | | | | |
|-------------------------|--------------------------------|-------------------|----------|-------------------|-----------|--------------------------------|
| | 2011 | Gross Profit % | 2010 | Gross Profit % | Change | Change in Gross Profit % |
| SRB segment | \$ 2,766 | 34.9 | \$ 3,716 | 40.0 | \$ (950) | (5.0) |
| Bio-Refining segment | 3,955 | 21.6 | 1,622 | 11.7 | 2,333 | 9.9 |
| Total gross profit | \$ 6,721 | 25.6 | \$ 5,338 | 23.1 | \$ 1,383 | 2.5 |

Consolidated gross profit for the nine months ended September 30, 2011, was \$6.7 million, compared to \$5.3 million in the prior year period, an increase of \$1.4 million, or 2.5 percentage points.

The nine months SRB gross profit percentage was negatively impacted by higher 2011 raw bran prices and the impact of recording depreciation on the Dillon, Montana facility in 2011. Raw bran prices have continued to rise throughout 2011 and as of September 30, 2011, were approximately 45% higher, on average, than prices as of the end of 2010. These higher bran prices resulted in approximately a 5 percentage point decline in our SRB segment gross

profit. To offset the higher raw bran cost, we implemented a price increase in the first quarter of 2011 for certain customers which improved margins approximately 1 percentage point over the prior year period. Additional sales price increases will be implemented in the fourth quarter of 2011 to offset higher bran costs. We also experienced SRB margin erosion of 4 percentage points from the \$0.3 million increase in depreciation expense recognized on the Dillon, Montana facility in 2011. No depreciation was recognized on the facility in 2010 while the facility was an asset held for sale.

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Bio-Refining segment gross profit percentage improved from 11.7% to 21.6%. The Bio-Refining segment cost of goods sold increased 17.6%, while revenues increased 32.4%. The improvement in cost of goods sold as a percentage of revenue was due to plant efficiencies associated with a shift in sales mix from fully refined oil to crude oil and higher plant production throughput driven by volume. Crude oil requires less production costs than refined oil.

Operating Expenses (in thousands):

| | Nine Months Ended September 30, 2011 | | | |
|---|--------------------------------------|---------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Selling, general and administrative | \$3,771 | \$3,778 | \$ 3,455 | \$ 11,004 |
| Professional fees | 1,287 | 36 | 795 | 2,118 |
| Intersegment fees | (307) | - | 307 | - |
| Impairment of property, plant and equipment | - | - | - | - |
| Settlement with former customer | - | (800) | - | (800) |
| Loss on disposal of property, plant and equipment | - | - | - | - |
| Total operating expenses | \$4,751 | \$3,014 | \$ 4,557 | \$ 12,322 |

| | Nine Months Ended September 30, 2010 | | | |
|---|--------------------------------------|---------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Selling, general and administrative | \$4,605 | \$4,240 | \$ 2,955 | \$ 11,800 |
| Professional fees | 1,191 | 93 | 348 | 1,632 |
| Intersegment fees | - | - | - | - |
| Impairment of property, plant and equipment | - | 1,000 | - | 1,000 |
| Settlement with former customer | - | - | - | - |
| Loss on disposal of property, plant and equipment | - | 943 | - | 943 |
| Total operating expenses | \$5,796 | \$6,276 | \$ 3,303 | \$ 15,375 |

| | Favorable (Unfavorable) Change | | | |
|---|--------------------------------|---------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Selling, general and administrative | \$834 | \$462 | \$ (500) | \$ 796 |
| Professional fees | (96) | 57 | (447) | (486) |
| Intersegment fees | 307 | - | (307) | - |
| Impairment of property, plant and equipment | - | 1,000 | - | 1,000 |
| Settlement with former customer | - | 800 | - | 800 |
| Loss on disposal of property, plant and equipment | - | 943 | - | 943 |
| Total operating expenses | \$1,045 | \$3,262 | \$ (1,254) | \$ 3,053 |

Consolidated operating expenses were \$12.3 million for the first nine months of 2011 compared to \$15.4 million for the first nine months of 2010, a decrease of \$3.1 million. The \$3.1 million improvement included \$2.7 million in decreased SRB segment charges relative to:

- a \$1.0 million 2010 impairment charge related to the Phoenix, Arizona facility,
- a \$0.8 million favorable settlement with a former customer in 2011 in connection with a 2007 transaction (see Note 9 to the consolidated financial statements), and
- a \$0.9 million 2010 loss related primarily to the disposal of the Phoenix facility and the infant cereal manufacturing equipment located at that facility.

The \$0.8 million Corporate segment decline in SG&A included:

-

a decline of \$0.4 million as a result of an expense recovery recognized for the 2011 settlement with Mr. Edson, a former officer,

- a \$0.1 million decline in interim management fees which ceased in July 2010,
- a \$0.4 million decline in share-based employee and director compensation expenses,
- a \$0.1 million decline in bank fees related to the credit agreement with Wells Fargo, which was paid in full in September 2010, offset by
 - an increase of \$0.2 million in other expenses, primarily outside consulting services.

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The \$0.5 million decrease in SRB segment SG&A included a \$0.1 million reduction in operating expenses related to our Phoenix facility, which was sold in September 2010, a reduction in payroll-related costs of \$0.2 million and \$0.2 million from other cost management initiatives.

Bio-Refining segment SG&A increased \$0.5 million. Payroll expenses increased as a result of government mandated annual cost of living adjustments that were effective beginning June 2010, general merit raises and expenses associated with a newly implemented management bonus program. Customs and handling charges also increased with the rise in export revenues.

Bio-Refining professional fees were \$0.8 million for the first nine months of 2011 compared to \$0.3 million for first nine months of 2010. Professional fees are primarily expenses associated with consultants, accounting, auditing, tax compliance, SOX 404 compliance, and outside legal counsel. The increase in professional fees is primarily due to management and meeting attendance fees payable to the Investors, who own a noncontrolling interest in Nutra SA beginning in January 2011 (see Note 5 to the consolidated financial statements). There was no comparable expense in the prior year period.

Intersegment fees relate to Bio-Refining segment fees payable to the Corporate segment beginning in January 2011 under the agreements with the Investors (see Note 5 to the consolidated financial statements). The charges are intended to compensate the Corporate segment for management time spent on Irgovel operations.

Other Income (Expense) (in thousands):

| | Nine Months Ended September 30, 2011 | | | |
|--|--------------------------------------|----------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Interest income | \$43 | \$- | \$ 62 | \$ 105 |
| Interest expense | (430) | (136) | (548) | (1,114) |
| Warrant liability income | 775 | - | - | 775 |
| Loss on acquisition of additional interests in RRX | (140) | - | - | (140) |
| Gain on extinguishment of debt | - | - | 265 | 265 |
| Foreign currency exchange, net | - | - | (268) | (268) |
| Other | (176) | - | 14 | (162) |
| Other income (expense) | \$72 | \$(136) | \$ (475) | \$ (539) |

| | Nine Months Ended September 30, 2010 | | | |
|--|--------------------------------------|----------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Interest income | \$13 | \$- | \$ 30 | \$ 43 |
| Interest expense | (389) | (116) | (492) | (997) |
| Warrant liability income | 63 | - | - | 63 |
| Loss on acquisition of additional interests in RRX | - | - | - | - |
| Gain on extinguishment of debt | - | - | - | - |
| Foreign currency exchange, net | - | - | (30) | (30) |
| Other | 57 | - | 173 | 230 |
| Other income (expense) | \$(256) | \$(116) | \$ (319) | \$(691) |

| | Favorable (Unfavorable) Change | | | |
|--------------------------|--------------------------------|-------|--------------|--------------|
| | Corporate | SRB | Bio-Refining | Consolidated |
| Interest income | \$30 | \$- | \$ 32 | \$ 62 |
| Interest expense | (41) | (20) | (56) | (117) |
| Warrant liability income | 712 | - | - | 712 |

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| | | | | |
|--|--------|---------|-----------|--------|
| Loss on acquisition of additional interests in RRX | (140) | - | - | (140) |
| Gain on extinguishment of debt | - | - | 265 | 265 |
| Foreign currency exchange, net | - | - | (238) | (238) |
| Other | (233) | - | (159) | (392) |
| Other income (expense) | \$328 | \$(20) | \$ (156) | \$ 152 |

Consolidated other expense was \$0.5 million for the first nine months of 2011, compared to \$0.7 million for the first nine months of 2010, a decrease in other expense of \$0.2 million.

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Warrant liability income for the nine months ended September 30, 2011, was \$0.8 million compared to warrant liability income of \$0.1 million for the nine months ended September 30, 2010. We have certain outstanding warrant agreements in effect that contain antidilution clauses. Under the antidilution clauses, in the event of equity issuances, we may be required to lower the exercise price on liability warrants and increase the number of shares underlying liability warrants. Warrant liability is carried at fair value which is determined at the end of each reporting period. The change in fair value is recorded as warrant liability income or expense. The valuation method used to calculate fair value requires us to assess the probability of future issuance of equity instruments at a price lower than the current exercise price of the warrants that contain antidilution clauses. We must also make other assumptions related to our projected cash needs and our likelihood of successfully concluding an equity fund raising transaction. Warrant liability decreased during 2011, in part, because our stock price has declined during the nine months ended September 30, 2011.

The following factors contributed to the offsetting \$0.6 million increase in other expense:

- a Corporate segment loss in 2011 of \$0.1 million from the acquisition of additional interests in RRX as a result of a settlement with HS, our former joint venture partner (see Note 6 to the consolidated financial statements),
- a Corporate segment expense of \$0.2 million in 2011 for transaction costs incurred in the settlement with HS (see Note 6 to the consolidated financial statements),
 - an increase in Bio-Refining segment foreign currency exchange losses of \$0.2 million, and
- a Bio-Refining segment \$0.3 million gain on extinguishment of debt in 2011 related to the modification of an Irgovel special tax program debt (see Note 10 to the consolidated financial statements).

Liquidity and Capital Resources

Although we have made significant improvements in the past year, we continue to experience losses and negative cash flows from operations on a consolidated basis. These factors raise substantial doubt about our ability to continue as a going concern. Although we believe that we will be able to obtain the funds necessary to continue as a going concern there can be no assurances that our efforts will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

With respect to liquidity and capital resources, we manage the Bio-Refining segment, consisting currently of our operations in Brazil, separately from our U.S. based Corporate and SRB segments. As of January 2011, cash provided by operations in our Bio-Refining segment is generally unavailable for distribution to our Corporate and SRB segments pursuant to the terms of the limited liability company agreement for Nutra SA, LLC. Cash used in operating activities for 2011 is presented below by segment (in thousands).

| | Nine Months Ended September 30, 2011 | | |
|---|--------------------------------------|--------------|--------------|
| | Corporate and SRB | Bio-Refining | Consolidated |
| Net loss | \$(5,062) | \$ (826) | \$ (5,888) |
| Adjustments to reconcile net loss to net cash provided by (used in) operations: | | | |
| Warrant liability income | (775) | - | (775) |
| Other adjustments, net | 3,180 | 1,333 | 4,513 |
| Changes in operating asset and liabilities: | | | |
| Pre-petition liabilities | (4,807) | - | (4,807) |
| Other changes, net | (208) | (99) | (307) |
| Net cash provided by (used in) operating activities | \$(7,672) | \$ 408 | \$ (7,264) |

Three Months Ended September 30, 2011

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| | Corporate and SRB | Bio-Refining | Consolidated |
|---|----------------------|--------------|--------------|
| Net loss | \$(1,168) | \$ (601) | \$ (1,769) |
| Adjustments to reconcile net loss to net cash used in operations: | | | |
| Warrant liability income | (916) | - | (916) |
| Other adjustments, net | 1,463 | 484 | 1,947 |
| Changes in operating asset and liabilities: | | | |
| Pre-petition liabilities | (1,276) | - | (1,276) |
| Other changes, net | (143) | (363) | (506) |
| Net cash used in operating activities | \$(2,040) | \$ (480) | \$ (2,520) |

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Corporate and SRB

On a combined basis, the Corporate and SRB segments used \$7.7 million of cash in operating activities in the first nine months of 2011. In 2010 we continued to take steps to improve profitability and liquidity by reducing our U.S. based employee headcount at both the corporate and plant operations level. In order to conserve cash, in July 2011, members of the board of directors agreed to accept stock for retainer fees for the last three quarters of 2011, instead of \$0.2 million in cash. The four executive officers also agreed in July 2011 to accept stock options in lieu of \$0.1 million in cash compensation for the second half of 2011. Additional steps taken in 2011 include issuing shares of common stock and warrants to satisfy certain obligations (see Note 6 to the consolidated financial statements).

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

- growth in existing markets, including bulk processed rice bran (SRB) and derivative products;
- aligning with strategic partners who can provide channels for additional sales of our products; and
- implementing price increases.

In 2011, we also obtained funds from the issuances of convertible notes (see Note 10 to the consolidated financial statements). The equity markets, however, have not been a significant source of funds during 2011 and 2010 due to our financial position, the state of the equity markets and our November 2010 emergence from bankruptcy. Improving financial performance and equity market conditions may allow us to raise equity funds in the near future. We intend to provide the necessary cash to continue operations through the monetization of certain assets, improved profitability and equity and/or debt financing transactions. Some of the monetizations could result in additional impairment of asset values. Asset monetization may include some or all of the following:

- sale or a sale-lease back of certain facilities;
- sale of a noncontrolling interest in one or more subsidiaries; or
- sale of surplus equipment.

In the first nine months of 2011, we made distributions to unsecured creditors which reduced prepetition liabilities by \$4.8 million. These distributions are included in cash used in operations. The source of funds for the distributions to general unsecured creditors were derived from (i) the January 2011 sale of Nutra SA units discussed below (ii) proceeds from the September 2010 sale of the Phoenix, Arizona facility, (iii) receipts on notes receivable, and (iv) proceeds from issuances of convertible notes.

As further discussed in Note 2 to the consolidated financial statements, the unsecured creditors were granted a lien in all of the Parent Company's assets. As of September 30, 2011, we had \$0.5 million in restricted cash set aside for distribution to the Class 6 general unsecured creditors. In October 2011, we made our fourth distribution to these creditors and met our October 15, 2011, payment benchmark. Included in cash flows from investing activities for the first nine months of 2011 is \$0.9 million of cash received on the Ceautamed note receivable. Beginning in April 2011, all amounts received on the note receivable are set aside in restricted cash for distribution to the Class 6 creditors in accordance with our Amended Plan.

Cash used in investing activities in the first nine months of 2011 includes \$0.1 million in SRB segment capital expenditures. Cash provided by investing activities in the first nine months of 2010 included \$8.9 million of proceeds primarily from the sale of the Phoenix, Arizona facility and cereal equipment at that facility.

Cash provided by financing activities in the first nine months of 2011 includes \$1.7 million we received from advances under convertible notes, allocated to debt and equity in our consolidated financial statements (see Note 10 to the consolidated financial statements). In October 2011, we received an additional advance of \$0.6 million on a convertible note. The total cash advanced on the convertible notes of \$2.3 million has been used to fund the working

capital needs of the Corporate and SRB segments, including distributions to the unsecured creditors.

Bio-Refining

The Bio-Refining segment provided cash from operating activities of \$0.4 million in the first nine months of 2011. Funding of capital expansion projects is being provided by proceeds received from the sale of additional Nutra SA membership interests, as discussed further below, and/or bank debt.

During the first quarter of 2011, Irgovel began disbursing cash for capital improvements which are part of a project to expand production capacity and improve operational efficiency. In the first nine months of 2011, these disbursements totaled \$5.1 million. As of September 30, 2011, Irgovel has outstanding equipment purchase commitments totaling approximately \$1.5 million. We expect to pay for this equipment through the second quarter of 2012, with long-term bank financing.

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In the first nine months of 2011, we received \$11.6 million of proceeds from the sale of membership interests in Nutra SA. In December 2010, we entered into a membership interest purchase agreement with AF Bran Holdings-NL LLC and AF Bran Holdings LLC (the Investors). The Investors agreed to purchase a 35.6% interest in Nutra SA for an aggregate purchase price of \$7.7 million. The transaction closed in the first quarter of 2011, and the Parent Company received \$4.0 million of the proceeds. The remaining amount of \$3.7 million, less \$0.5 million retained by Nutra SA for administrative expenses, was invested in Irgovel for capital improvements and working capital needs. During the second and third quarter of 2011, the Investors purchased additional Nutra SA membership interests for \$3.9 million, increasing their interest in Nutra SA from 35.6% to 49.0%. Of the \$3.9 million proceeds received, \$2.0 million is being invested in Irgovel for capital improvements and \$1.9 million was received by the Parent Company for general working capital needs.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

For further information about other critical accounting policies, see the discussion of critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Recent Accounting Pronouncements

Accounting pronouncements that are applicable to us and could potentially have a material impact on our consolidated financial statements, are discussed below.

The FASB has issued guidance clarifying the criteria for separating revenue between multiple deliverables. This guidance applies to new revenue arrangements or arrangements materially modified in periods subsequent to adoption. We were required to adopt this standard effective January 1, 2011. Adoption of the standard had no impact on our consolidated financial statements.

In May 2011, the FASB amended guidance on fair value measurement and expanded the required disclosures related to fair value. The amendments, among other things, clarify that the highest and best use concept applies only to nonfinancial assets and addresses the appropriate premiums and discounts to consider in fair value measurement. We are required to adopt the guidance prospectively, effective January 1, 2012. We do not expect adoption to have a significant impact on our financial position or results of operations.

In September 2011, the FASB amended guidance on goodwill impairment testing. The amendments permit us to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less

than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Previous guidance required us to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments, we are not required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that its fair value is less than its carrying amount. We are required to adopt the amendments effective for annual and interim goodwill impairment tests (if required) performed after January 1, 2012. Early adoption is permitted. We do not expect adoption to have a significant impact on our financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable

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Item 4. Controls and Procedures

We evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report due to the material weakness identified below.

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2010, management identified the following material weaknesses in our internal control over financial reporting during the period covered by this report:

- Our Brazilian subsidiary, Irgovel, implemented a new enterprise resource planning (ERP) system during 2010, which precipitated changes to several of the underlying control processes. Due to a limited staff, certain processes were carried out by a single individual and were not subjected to a separate review process. This lack of review caused some inventory and interest calculations to be inaccurate requiring material post-closing adjustments.

Remediation Status

Our Brazilian subsidiary has realigned certain controls and responsibilities to ensure adequate and appropriate levels of independent review. Our testing and assessment of the changes made are ongoing. To date, we have not finalized our testing and conclusions with regard to the effectiveness of the new procedures. We will continue to assess the effectiveness of these remedial actions.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position or results of operations. When applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, liquidity or future results.

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

During the quarter ended September 30, 2011, we issued the securities described below without registration under the Securities Act.

On June 29, 2011, we entered into a note and warrant purchase agreement with a creditor to restructure a convertible promissory note and warrant and to allow us to borrow additional funds. Under the agreement we issued to the creditor on July 15, 2011, a convertible promissory note in the principal amounts of \$0.3 million, which was convertible into common stock at \$0.21 per share and bore interest at an annual rate of 10.0%, and a warrant to purchase up to a total of 270,000 shares of NutraCea common stock at an exercise price of \$0.23 per share. The note and warrant were cancelled October 7, 2011, when we entered into a new note and warrant purchase agreement with the creditor. See Note 10 to the consolidated financial statements contained herein for further description of the transaction.

On July 15, 2011, we entered into amendments to employment agreements with each of our four executive officers. Under the amendments we issued the officers options to purchase 2,116,726 shares of common stock, at an exercise price of \$0.20, at an average initial term of 1.6 years, in lieu of paying twenty percent of each officers salary in cash for the last six months of 2011. The options vest and become exercisable in twelve equal installments commencing on July 15, 2011, and ending on December 31, 2011.

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In lieu of paying cash to non-employee board members for board retainer fees for the last three quarters of 2011, we issued the board members 1,207,049 shares of common stock on July 15, 2011 – 534,519 shares vested immediately, 336,250 vested September 30, 2011, and 336,250 shares will vest December 31, 2011.

On August 1, 2011, we issued 1,000,000 shares of our common stock in connection with a consulting agreement – 600,000 shares vested August 1, 2011, and the remaining shares vest monthly over the six months ended July 31, 2012.

On August 24, 2011, we issued an option to purchase 500,000 shares of common stock to an employee at an exercise price of \$0.20 per share with a ten year expiration date. The option vests monthly over 36 months.

On August 31, 2011, we entered into a note and warrant purchase agreement. Under the agreement we issued to the creditor a convertible promissory note in the principal amount of \$0.7 million, which was convertible into common stock at \$0.21 per share and bore interest at an annual rate of 10.0%, and a warrant to purchase up to a total of 730,000 shares of common stock at an exercise price of \$0.23 per share. The note and warrant were cancelled in October 7, 2011, when we entered into a new note and warrant purchase agreement with the creditor. See Note 10 to the consolidated financial statements contained herein for further description of the transaction.

On September 8, 2011, we issued 500,000 shares of our common stock in connection with consulting services previously provided.

Upon termination of employment, under the terms of our stock option agreements, employees are generally allowed a three-month grace period during which they may exercise options vested prior to termination of employment. We extended the grace period on the vested options of certain employees when they terminated employment during the quarter ended September 30, 2011. On July 1, 2011, we extended the grace period on options to purchase 275,000 shares of common stock to July 1, 2013. On September 2, 2011, we extended the grace period on options to purchase 538,654 shares of common stock to August 31, 2012, and extended the grace period on options to purchase 52,500 shares of common stock to August 31, 2013.

As a result of convertible note, warrant and equity issuances previously described, we adjusted the exercise price and increased the number of shares underlying existing warrants to purchase common stock, issued to the investors in our May 2006, February 2007 and April 2008 equity financings pursuant to the antidilution provisions contained in the respective warrants. All of the changes were to warrants held by existing warrant holders without additional consideration pursuant to the terms of the respective financings, and no commission or other remuneration was paid or given directly or indirectly to any person in connection therewith. The changes to the existing warrants, as summarized in the table below, were exempt from registration under Section 3(a)(9) of the Securities Act.

| Triggering Event | Financing | Before Event | | After Event | | Increase in Shares Under Warrants |
|---|--------------------------|-----------------------------|-------------------|-----------------------------|-------------------|--|
| | | Shares Under Warrants | Exercise Price | Shares Under Warrants | Exercise Price | |
| February 14, 2011 convertible note issuance | (1) May 2006 February | 2,816,855 | \$ 1.15 | 2,840,005 | \$ 1.14 | 23,150 |
| and related warrants (Note 10) (4): | (2) 2007 April | 17,794,023 | 2.04 | 18,545,515 | 1.96 | 751,492 |
| | (3) 2008 | 9,565,964 | 1.00 | 9,642,966 | 0.99 | 77,002 |

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| | | | | | | |
|--|-------------------------------|------------|------|------------|------|---------|
| April 7, 2011 common stock issuance to Buyer and related warrants (Note 6)(4): | (1) May 2006 February | 2,840,005 | 1.14 | 2,872,386 | 1.13 | 32,381 |
| | (2) 2007 April | 18,545,515 | 1.96 | 19,376,281 | 1.87 | 830,766 |
| | (3) 2008 | 9,642,966 | 0.99 | 9,751,194 | 0.98 | 108,228 |
| June 29, 2011 convertible note issuance and related warrants (Note 10) (4): | February (2) 2007 April | 19,376,281 | 1.87 | 20,163,801 | 1.80 | 787,520 |
| | (3) 2008 | 9,751,194 | 0.98 | 9,850,433 | 0.97 | 99,239 |
| July 15, 2011 convertible note issuance and related warrants (Note 10): | February (2) 2007 April | 20,163,801 | 1.80 | 20,752,694 | 1.75 | 588,893 |
| | (3) 2008 | 9,850,433 | 0.97 | 9,902,252 | 0.97 | 51,819 |
| August 31, 2011 convertible note issuance and related warrants (Note 10): | February (2) 2007 April | 20,752,694 | 1.75 | 21,591,715 | 1.68 | 839,021 |
| | (3) 2008 | 9,902,252 | 0.97 | 10,041,442 | 0.95 | 139,190 |

- (1) The warrants issued to the investors in the May 2006 financing expired in May 2011.
- (2) The warrants issued to the investors in the February 2007 financing expire in August 2012.
- (3) The warrants issued to the investors in the April 2008 financing expire in April 2013.
- (4) In the third quarter of 2011, the calculations of the impacts of the triggering event were revised. The revised figures are reflected above.

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Unless otherwise indicated above, the securities were issued pursuant to the private placement exemption provided by Section 4(2) of the Securities Act of 1933. All issuances above were made without any public solicitation, to a limited number of persons and were acquired for investment purposes only.

Item 3. Defaults upon Senior Securities

None

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are attached hereto and filed herewith:

| Exhibit Number | Description of Exhibit |
|----------------|---|
| 10.1 | Fourth Amendment to Employment Agreement with W. John Short dated July 15, 2011 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on July 20, 2011) |
| 10.2 | Second Amendment to Employment Agreement with Leo Gingras dated July 15, 2011 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on July 20, 2011) |
| 10.3 | First Amendment to Employment Agreement with Jerry Dale Belt dated July 15, 2011 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on July 20, 2011) |
| 10.4 | First Amendment to Employment Agreement with Colin Garner dated July 15, 2011 (incorporated herein by reference to exhibits previously filed on registrant's current report on Form 8-K, filed on July 20, 2011) |
| <u>31.1</u> | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>31.2</u> | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>32.1</u> | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS (1) | XBRL Instance Document |
| 101.SCH (1) | XBRL Taxonomy Extension Schema Document |

101.CAL (1)XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB (1)XBRL Taxonomy Extension Calculation Label Document

101.PRE (1) XBRL Taxonomy Extension Calculation Presentation Document

(1)XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

Dated: November 14, 2011

/s/ W. John Short
W. John Short
Chief Executive Officer

/s/ J. Dale Belt
Jerry Dale Belt
Chief Financial Officer