INNOVA HOLDINGS
Form DEF 14A
September 28, 2006

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

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant þ

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Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-12

INNOVA HOLDINGS, INC.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)
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Innova Holdings, Inc.

NOTICE OF SPECIAL MEETING

and

PROXY STATEMENT

2006

INNOVA HOLDINGS, INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To be held November 3, 2006

TO THE STOCKHOLDERS OF INNOVA HOLDINGS, INC.

You are cordially invited to the 2006 Special Meeting of Stockholders of Innova Holdings, Inc., which will be held at Holiday Inn, Pine Island Room, 13051 Bell Tower Drive, Ft. Myers, FL 33907, on Friday, November 3, 2006 beginning at 10:00 a.m., local time. The Special Meeting will be held for the following purposes:

1. To elect 5 members to our Board of Directors, each to hold office for the terms as set forth herein, and until his successor is elected and qualified (Proposal 1);

2. To authorize our Board of Directors, in its discretion, to amend our certificate of incorporation to effect a reverse stock split of the issued and outstanding shares of our Common Stock at a ratio of either one-for-eight or one-for-ten, as determined at the discretion of the board of directors to be in the best interests of the Company without further approval from our stockholders (the "Reverse Stock Split") (Proposal 2);

3. To adopt our Amended and Restated 2005 Stock Option Plan, including all amendments thereto adopted by the Board of Directors as of the date hereof (Proposal 3); and

4. To transact such other business as may properly come before the meeting or any postponements or adjournments of the meeting.

BECAUSE OF THE SIGNIFICANCE OF THESE PROPOSALS TO THE COMPANY AND ITS STOCKHOLDERS, IT IS VITAL THAT EVERY SHAREHOLDER VOTES AT THE SPECIAL MEETING IN PERSON OR BY PROXY.

These proposals are fully set forth in the accompanying Proxy Statement, which you are urged to read thoroughly. For the reasons set forth in the Proxy Statement, your Board of Directors recommends a vote "FOR" each of the proposals. The Company intends to mail the Annual Report, Proxy Statement and Proxy enclosed with this notice on or about September 28, 2006, to all stockholders entitled to vote at the Special Meeting. If you were a stockholder of record of our common stock on September 5, 2006, the record date for the Special Meeting, you are entitled to vote at the meeting and any postponements or adjournments of the meeting. Stockholders are cordially invited to attend the Special Meeting. However, whether or not you plan to attend the meeting in person, your shares should be represented and voted. After reading the enclosed Proxy Statement, please sign, date, and return promptly the enclosed proxy in the accompanying postpaid envelope we have provided for your convenience to ensure that your shares will be represented. If you do attend the meeting and wish to vote your shares personally, you may revoke your Proxy.

We hope that you will use this opportunity to take an active part in our affairs by voting on the business to come before the Special Meeting, either by executing and returning the enclosed Proxy Card or by casting your vote in person at the meeting.

BY ORDER OF THE BOARD OF DIRECTORS

WALTER K. WEISEL

Chairman of the Board of Directors

Fort Myers, Florida
September 28, 2006

Stockholders unable to attend the special meeting in person are requested to date and sign the enclosed proxy card as promptly as possible. A stamped envelope is enclosed for your convenience. If a stockholder receives more than one proxy card because he or she owns shares registered in different names or addresses, each proxy card should be completed and returned.

INNOVA HOLDINGS, INC.
17105 San Carlos Boulevard, Suite A6151
Fort Myers, Florida 33931
(239) 466-0488

PROXY STATEMENT

SPECIAL MEETING OF STOCKHOLDERS
November 3, 2006

INTRODUCTION

This Proxy Statement is furnished to the stockholders by the Board of Directors of Innova Holdings, Inc., for solicitation of proxies for use at the 2006 Special Meeting of Stockholders to be tentatively held at Holiday Inn, Pine Island Room, 13051 Bell Tower Drive, Ft. Myers, FL 33907, on Friday, November 3, 2006 beginning at 10:00 a.m., local time, and at any and all adjournments of the meeting.

The purpose of the Special Meeting and the matters to be acted upon are set forth in the following Proxy Statement. As of the date of this Proxy Statement, our Board of Directors knows of no other business which will be presented for consideration at the Special Meeting. A stockholder giving a proxy pursuant to this solicitation may revoke it at any time before it is exercised by submitting a duly executed proxy bearing a later date or by delivering to our Corporate Secretary a written notice of revocation prior to the Special Meeting, or by appearing at the meeting and expressing a desire to vote his or her shares in person. Subject to such revocation, all shares represented by a properly executed proxy received prior to or at the Special Meeting will be voted by the proxy holders whose names are set forth in the accompanying proxy in accordance with the instructions on the proxy. If no instruction is specified with respect to a matter to be acted upon, the shares represented by the proxy will be voted "FOR" the election of the nominees for director and "FOR" each other matter set forth in this Proxy Statement. If any other business properly comes before the meeting, votes will be cast in accordance with the proxies in respect of any such other business in accordance with the judgment of the persons acting under the proxies.

It is anticipated that the mailing to stockholders of this Proxy Statement and the enclosed proxy will commence on or about September 28, 2006.

OUTSTANDING SECURITIES AND VOTING RIGHTS

Only stockholders of record at the close of business on the record date of September 5, 2006 are entitled to notice of and to vote at the Special Meeting. At that date there were 750,998,259 outstanding shares of our common stock, par value $.001 per share, our only outstanding voting securities. At the Special Meeting, each share of common stock will be entitled to one vote.

The representation, in person or by properly executed proxy, of the holders of a majority of the voting power of the shares of stock entitled to vote at the Special Meeting is necessary to constitute a quorum for the transaction of business at the meeting. Stockholders are not entitled to cumulate their votes. Abstentions and broker non-votes (shares held by a broker or nominee which are represented at the Special Meeting, but with respect to which such broker or nominee is not empowered to vote on a particular proposal) are counted for purposes of determining the presence or absence of a quorum for the transaction of business. In all matters, abstentions have the effect of votes against a proposal in tabulations of the votes cast on proposals presented to stockholders, while broker non-votes do not have any effect for purposes of determining whether a proposal has been approved.

QUESTIONS AND ANSWERS ABOUT

ABOUT THE MEETING AND VOTING

1. WHAT IS A PROXY?

It is your legal designation of another person to vote the stock that you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. Walter K. Weisel, our Chief Executive Officer, and Sheri Aws, our Corporate Secretary, have been designated as proxies for the 2006 Special Meeting of Stockholders.

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2. WHAT IS THE RECORD DATE AND WHAT DOES IT MEAN?

The record date for the 2006 Special Meeting of Stockholders is September 5, 2006. The record date is established by our Board of Directors as required by Delaware law and our By-laws. Stockholders of record (registered stockholders and street name holders) at the close of business on the record date are entitled to:

(a) receive notice of the meeting; and

(b) vote at the meeting and any adjournments or postponements of the meeting.

3. WHAT IS THE DIFFERENCE BETWEEN A REGISTERED STOCKHOLDER AND A STOCKHOLDER WHO HOLDS STOCK IN STREET NAME?

If your shares of stock are registered in your name on the books and records of our transfer agent, you are a registered stockholder.

If your shares of stock are held for you in the name of your broker or bank, your shares are held in street name. The answer to Question 13 describes brokers' discretionary voting authority and when your bank or broker is permitted to vote your shares of stock without instructions from you.

4. WHAT ARE THE DIFFERENT METHODS THAT I CAN USE TO VOTE MY SHARES OF COMMON STOCK?

(a) In Writing:

All stockholders of record can vote by mailing in their completed proxy card (in the case of registered stockholders) or their completed vote instruction form (in the case of street name holders).

(b) In Person:

All stockholders may vote in person at the meeting (unless they are street name holders without a legal proxy).

5. HOW CAN I REVOKE A PROXY?

You can revoke a proxy prior to the completion of voting at the meeting by:

(a) giving written notice to our Corporate Secretary;

(b) delivering a later-dated proxy; or

(c) voting in person at the meeting.

6. ARE VOTES CONFIDENTIAL? WHO COUNTS THE VOTES?

We will hold the votes of each stockholder in confidence from directors, officers and employees except:

(a) as necessary to meet applicable legal requirements and to assert or defend claims for or against us;

(b) in case of a contested proxy solicitation;

(c) if a stockholder makes a written comment on the proxy card or otherwise communicates his or her vote to management; or

(d) to allow the independent inspectors of election to certify the results of the vote.

7. WHAT ARE THE VOTING CHOICES WHEN VOTING ON DIRECTOR NOMINEES, AND WHAT VOTE IS NEEDED TO ELECT DIRECTORS?

When voting on the election of director nominees to serve for the terms as set forth herein, stockholders may:

(a) vote in favor of all nominees;

(b) vote to withhold votes as to all nominees; or

(c) withhold votes as to specific nominees.

Directors will be elected by a plurality of the votes cast.

Our Board recommends a vote "FOR" all of the nominees.

8. WHAT ARE THE VOTING CHOICES WHEN VOTING ON THE APPROVAL OF THE AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF THE ISSUED AND OUTSTANDING SHARES OF OUR COMMON STOCK AT A RATIO OF EITHER ONE-FOR-EIGHT OR ONE-FOR-TEN, AS DETERMINED AT THE DISCRETION OF THE BOARD OF DIRECTORS TO BE IN THE BEST INTERESTS OF THE COMPANY WITHOUT FURTHER APPROVAL FROM OUR STOCKHOLDERS AND WHAT VOTE IS NEEDED TO APPROVE?

When voting on the amendment to our Certificate of Incorporation to effect a reverse stock split of the outstanding shares of our Common Stock at a ratio of either one-for-eight or one-for-ten, as determined at the discretion of the board of directors to be in the best interests of the Company without further approval from our stockholders, stockholders may:

(d) vote in favor of the amendment;

(e) vote against the amendment; or

(f) abstain from voting on the amendment.

The amendment will be approved if the votes cast "FOR" are a majority of the votes present at the meeting. The Board recommends a vote "FOR" the amendment.

9. WHAT ARE THE VOTING CHOICES WHEN VOTING ON THE APPROVAL OF THE AMENDED AND RESTATED 2005 STOCK OPTION PLAN AND WHAT VOTE IS NEEDED TO APPROVE?

When voting on the approval of the Amended and Restated 2005 Stock Option Plan, stockholders may:

(a) vote in favor of the Plan;

(b) vote against the Plan; or

(c) abstain from voting on the Plan.

The Plan will be approved if the votes cast "FOR" are a majority of the votes present at the meeting. The Board recommends a vote "FOR" the Plan.

10. WHAT IF A STOCKHOLDER DOES NOT SPECIFY A CHOICE FOR A MATTER WHEN RETURNING A PROXY?

Stockholders should specify their choice for each matter on the enclosed proxy. If no specific instructions are given, proxies which are signed and returned will be voted FOR the election of all director nominees, FOR the amendment to our Certificate of Incorporation to effect a reverse stock split of the outstanding shares of our Common Stock at a ratio of either one-for-eight or one-for-ten, as determined at the discretion of the board of directors to be in the best interests of the Company without further approval from our stockholders, and FOR the approval of our Amended and Restated 2005 Stock Option Plan.

11. WHO IS ENTITLED TO VOTE?

You may vote if you owned stock as of the close of business on September 5, 2006. Each share of our common stock is entitled to one vote. As of September 5, 2006, we had 750,998,259 shares of common stock outstanding.

12. WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?

It means that you have multiple accounts with brokers or our transfer agent. Please vote all of these shares. We recommend that you contact your broker or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is Continental Stock Transfer and Trust Company, 17 Battery Place, New York, NY 10004, or you can reach Corporate Stock Transfer at (212) 509-4000.

13. WILL MY SHARES BE VOTED IF I DO NOT PROVIDE MY PROXY?

If your shares are registered in your name, they will not be voted unless you submit your proxy card, or vote in person at the meeting. If your shares are held in street name, your bank, brokerage firm or other nominee, under some circumstances, may vote your shares.

Brokerage firms, banks and other nominees may vote customers' unvoted shares on "routine" matters. Generally, a broker may not vote a customer's unvoted shares on non-routine matters without instructions from the customer and must instead submit a "broker non-vote." A broker non-vote is counted toward the shares needed for a quorum, but it is not counted in determining whether a matter has been approved.

14. ARE ABSTENTIONS AND BROKER NON-VOTES COUNTED?

Broker non-votes will not be included in vote totals and will not affect the outcome of the vote. In matters other than the elections of directors, abstentions have the effect of votes against a proposal in tabulations of the votes cast on proposals presented to stockholders.

15. HOW MANY VOTES MUST BE PRESENT TO HOLD THE MEETING?

To hold the meeting and conduct business, a majority of our outstanding voting shares as of September 5, 2006 must be present at the meeting. On this date, a total of 750,998,259 shares of our common stock were outstanding and entitled to vote. Shares representing a majority, or 375,499,130 votes, must be present. This is called a quorum.

Votes are counted as present at the meeting if the stockholder either:

(d) Is present and votes in person at the meeting, or

(e) Has properly submitted a proxy card.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as to the shares of our common stock beneficially owned as of August 10, 2006 by (i) each person known to us to be the beneficial owner of more than 5% of our common stock; (ii) each director and nominee for director; (iii) each executive officer; and (iv) all of our directors and executive officers as a group. Unless otherwise indicated in the footnotes following the table, the persons as to whom the information is given had sole voting and investment power over the shares of common stock shown as beneficially owned by them. Unless otherwise indicated, the address of each person shown is c/o Innova Holdings, Inc., 17105 San Carlos Boulevard, Suite A6151, Fort Myers, Florida 33931.

Walter K. Weisel	62,128,047	8.14%
Martin Nielson (1)	36,751,700	4.85%
Gary McNear (2)	21,902,117	2.89%
Craig Conklin (3)	23,223,617	3.07%
Eugene V. Gartlan (4)	46,437,196	6.01%
Jerry E. Horne	74,329,227	9.90%
Richard K. and Johanna Wynns	47,020,748	6.24%
Sheri Aws	6,034,483	*
Directors and Officers as a Group	196,497,160	24.21%

*Less than one percent.

(1). On April 29, 2003, the Gary F. McNear Revocable Trust ("Gary Trust"), the Susan M. McNear Revocable Trust ("Susan Trust"), the Craig M. Conklin Revocable Trust ("Craig Trust") and the Margaret L. Conklin Revocable Trust ("Margaret Trust") (collectively the "Trusts") entered into a Stock Option and Irrevocable Proxy Agreement with Altos BanCorp, a business owned by Mr. Nielson. Gary McNear was the Chief Financial Officer, Vice President, Secretary and Director of The Company; he currently is a director of the Company. Susan McNear is his wife. Craig M. Conklin was the Chief Operating Officer, Vice President and a Director of the Company; he currently is a director of the Company. Margaret Conklin is his wife. The Trusts own an aggregate of 15,838,444 shares of the Company's Common Stock. The Trusts granted to Altos an option to acquire 10,000,000 of their shares of Common Stock for $.01 per share for a period of three years. The Trusts also granted to Altos an irrevocable proxy to vote their shares. The irrevocable proxy is for a term of three years with respect to the 10,000,000 shares of Common Stock held by the Trusts that are subject to the option to purchase and for a term of six months with respect to the 5,838,444 shares of Common Stock held by the Trusts that are not subject to the option to purchase. The irrevocable proxy relating to the 15,838,444 shares has expired as well as the option granted to Altos to acquire 10,000,000 shares. Additionally, Altos and Mr. Nielson earned a fee for services rendered, compensation as an executive of the Company and reimbursement of expenses, which was paid in full upon the issuance of 30,085,033 shares in July 2006 and in accordance with the terms of the Merger Agreement between the Company and Robotic Workspace Technologies, Inc., which was effective August 25, 2004.

(2). Includes 2,919,224 shares owned by the Susan M. McNear Revocable Trust and 3,900,000 shares issued in July 2006 in accordance with the terms of the Merger Agreement between the Company and Robotic Workspace Technologies, Inc., which was effective August 25, 2004, for services rendered.

(3). Includes 2,919,224 shares owned by the Margaret L. Conklin Revocable Trust and 3,900,000 shares issued in July 2006 in accordance with the terms of the Merger Agreement between the Company and Robotic Workspace Technologies, Inc., which was effective August 25, 2004, for services rendered.

(4). Includes 12,000,000 shares owned by Stratex Solutions, LLC, through which Mr. Gartlan provided consulting services to the Company from December 15, 2004 through June 14, 2005, and a bonus of 5,625,000 shares of the Company's common stock awarded on March 10, 2006, which was valued at $50,000 based on $.009 per share, the closing price of the Company stock on the previous day.

EXECUTIVE OFFICERS AND KEY EMPLOYEES

The following table sets forth the names and ages of our executive officers and key employees, if any, who are not also directors.

Name	Age	Position
Eugene V. Gartlan	62	Chief Financial Officer
Sheri Aws	45	Vice President and Secretary

Executive Officers

The principal occupations for the past five years (and, in some instances, for prior years) of each of our executive officers (other than those executive officers who are also directors):

EUGENE V. GARTLAN was appointed Chief Financial Officer of the Company in June 2005. Mr. Gartlan served as a consultant to the Company since December 15, 2004 through his wholly owned company, Stratex Solutions, LLC. ("Stratex"), a business consulting firm. Stratex earned 12,000,000 shares of the Company's common stock and received reimbursement of business expenses of approximately $12,000 as consideration for these consulting services. Mr. Gartlan served as the President of Stratex since June 2003. Stratex's compensation was based on a monthly salary of $10,000, payable in cash or common stock of the Company at the option of the Company. The price per share used to determine the number of shares earned if stock was paid was $.005 per share, the stock price on the date the Company and Stratex entered into the consulting agreement. No cash compensation was been paid to Stratex. From June 2000 through June 2003 Mr. Gartlan was a self employed business consultant doing business under the name CFO Strategies and E. V. Gartlan. From June 2000 to June 2003, Mr. Gartlan was also an independent contractor with Whitestone Communications, Inc. serving in the capacity as a Managing Director of this investment banking firm specializing in mergers and acquisitions in the publishing industry. Mr. Gartlan's prior experience include positions as Chief Financial Officer of The Thomson Corporation's Information Publishing Group, Chief Financial Officer with Moody's Investors Service, Chief Financial Officer with International Data Group as well as several top financial management positions with The Dun & Bradstreet Corporation. Mr. Gartlan worked with Price Waterhouse earlier in his career and is a CPA in New York.

SHERI AWS was appointed Secretary of the Company on September 14, 2004. Ms. Aws has served as Vice President of Administration of RWT, the Company's wholly owned subsidiary, since February 2004. Prior to that, Ms. Aws served as Executive Administrator, General Mortgage Corporation of America, from August 24, 2003 to February 2004; Director of Just for Kids, an after school and summer camp program for children, from December 2002 to August 2003; Assistant to the Chief Executive Officer of RWT from December 2002 through February 2004; and Administrative Assistant to Vice President of Marketing and Sales and Manager of Proposals and Contracts

Administration for RWT.

FAMILY RELATIONSHIPS

There are no family relationships among our executive officers and directors.

LEGAL PROCEEDINGS

As of the date of this Proxy Statement, there are no material proceedings to which any of our directors, executive officers, affiliates or stockholders is a party adverse to us. There are no orders, judgments, or decrees of any governmental agency or administrator, or of any court of competent jurisdiction, revoking or suspending for cause any license, permit or other authority to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining any of our officers or directors from engaging in or continuing any conduct, practice or employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanor involving a security, or any aspect of the securities business or of theft or of any felony or any conviction in a criminal proceeding or being subject to a pending criminal proceeding.

THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Our Board of Directors is responsible for establishing broad corporate policies and for overseeing our overall management. In addition to considering various matters which require Board approval, the Board provides advice and counsel to, and ultimately monitors the performance of, our senior management.

We do not have a standing Audit Committee, a Compensation Committee, or a Nominations and Governance Committee of the board of directors. Our directors perform the functions of audit, nominating and compensation committees. Four of our directors, Walter K. Weisel, Martin Nielson, Gary McNear and Craig Conklin participate in the consideration of director nominees. Due to the small size of our company and our board, the board of directors does not believe that establishing a separate nominating committee is necessary for effective governance. When additional members of the Board of Directors are appointed or elected, we will consider creating a nominating committee. The entire Board of Directors participates in audit related matters of our company, including, but not limited to, reviewing and discussing our audited financial statements with management and our auditors and recommending to the board of directors that the financial statements be included in our Annual Reports on Form 10-KSB. In performing their role equivalent to an audit committee, the Board of Directors (i) reviewed and discussed the Company's audited financial statements in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 with management, (ii) discussed with the Company's independent registered public accounting firm the matters required to be discussed pursuant to *Statement on Auditing Standards No. 61 (Communication With Audit Committees*), (iii) discussed with its independent registered public accounting firm matters relating to independence, including the disclosures made to the Board as required by the *Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees*), and (iv) in reliance on the aforementioned reviews and discussions, recommended to management the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 for filing with the Securities and Exchange Commission. Messrs. Weisel, Nielson, Conklin, Wynns and McNear are not considered independent directors as defined by any national securities exchange registered pursuant to Section 6(a) of the Securities Exchange Act of 1934 or by any national securities association registered pursuant to Section 15A(a) of the Securities Exchange Act of 1934.

The Board and our management strive to perform and fulfill their respective duties and obligations in a responsible and ethical manner. The Board performs annual self-evaluations. We have adopted a comprehensive Code of Ethics for all directors, officers and employees. The Code of Ethics was filed with the Securities and Exchange Commission as part of the Company's report on Form 10-KSB for the fiscal year ended December 31, 2004.

During 2005, the Board of Directors met and/or executed unanimous written consents of the Board of Directors twelve times. While we do not have a formal policy requiring members of the Board to attend the Special Meeting of Stockholders, we strongly encourage all directors to attend.

DIRECTOR COMPENSATION

The Company has not paid and does not presently propose to pay cash compensation to any director for acting in such capacity. However, the Company will give the directors a grant of shares of common stock or options and reimbursement for reasonable out-of-pocket expenses for attending meetings. In December 2004 and in March 2006, the Company awarded each director 5,000,000 options in each year for services as a director, each with an exercise price of $.01 per share and a term of ten years. In addition, Mr. Weisel received 15,000,000 options in April 2005 for services as Chief Executive Officer of the Company. Originally these options had an exercise price of $.017 per share but were modified in March 2006 to have an exercise price of $.01 per share. These options have a term of ten years and expire in April 2015.

EXECUTIVE COMPENSATION AND RELATED MATTERS

The following table sets forth the cash compensation (including cash bonuses) paid or accrued by us for our years ended December 31, 2005, 2004 and 2003 to our Chief Executive Officer and our four most highly compensated officers other than the Chief Executive Officer at December 31, 2005.

Summary Compensation Table

Name & Position	Year	Salary	Bonus	Other	Restricted Stock	Options	LTIP	All Other
Walter K. Weisel Chairman and CEO (1) (3)	2005	$ 150,000	0.000	0	0	15,000,000	0	$ 69,100 (1)
	2004	$ 150,000	0.000	0	0	5,000,000	0	0
	2003	$ 150,000	0.000	0	0	0	0	0
Martin Nielson Chairman and CEO (1) (2) (3)	2005	$ 0	0.000	0	0	0	0	(2)
	2004	$ 100,000	0.000	0	0	5,000,000	0	(2)
	2003	$ 116,667	0.000	0	0	0	0	0
Eugene V. Gartlan Chief Financial Officer	2005	$ 0	0.000	0	12,000,000	18,000,000	0	$ 12,000 (4)

(1) Walter K. Weisel has served as Chairman and CEO of the Company since August 25, 2004, the date the merger between the Company and RWT closed. Martin Nielson served as Chairman and CEO of the Company from the beginning of 2004 to August 25, 2004. During 2005,Mr. Weisel was reimbursed for expenses incurred over the prior three years in an amount of $69,100.

(2) On April 22, 2003, the Company entered into an Advisory Agreement with AltosBancorp Inc. ("Altos") pursuant to which Altos agreed to act as the Company's exclusive business advisor for a one-year period. Martin Nielson was President of Altos and subsequently became Chairman and Chief Executive Officer of the Company. Altos advised the Company regarding equity and debt financings, strategic planning, mergers and acquisitions, and business developments. In conjunction with the decision to proceed with the RWT acquisition, the agreement with Altos was concluded. Altos did not receive any cash compensation for its services rendered, but in accordance with the terms of the Merger Agreement between the Company and Robotic Workspace Technologies, Inc., which was effective August 25, 2004, Altos and Mr. Nielson were to receive 16,133,333 shares of the Company's common stock (valued at approximately $166,000), of which 10,633,333 shares were earned in 2004 and 5,500,000 shares were earned in 2003. These shares were issued to Altos in July 2006.

(3) During the past three years, Walter K. Weisel has not received any cash compensation. The amounts earned by Mr. Weisel remain accrued by the Company as of December 31, 2005. Martin Nielson received $80,000 in cash compensation; $50,000 was paid in 2003 and $30,000 was paid in 2004. The balance earned but unpaid remains accrued by the Company as of December 31, 2005. Mr. Nielson received 13,951,700 shares of the Company’s common stock in July 2006 for these services rendered and in accordance with the terms of the Merger Agreement between the Company and Robotic Workspace Technologies, Inc., which was effective August 25, 2004.

(4) Eugene V. Gartlan did not receive any cash compensation in 2005. Mr. Gartlan served as a consultant to the company since December 15, 2004 through his wholly owned company, Stratex Solutions, LLC. ("Stratex"), a business consulting firm. Stratex earned 12,000,000 shares of the Company's common stock and received reimbursement of business expenses of approximately $12,000 as consideration for these consulting services. Additionally, on December 15, 2004 Stratex received 12,121,276 options at an exercise price of $.005 per share with a term of ten years, expiring in December 2014. On June 30, 2005, the Company and Mr. Gartlan entered into an

Employment Agreement effective as of June 14, 2005. For all the services to be rendered by Mr. Gartlan from June 14, 2005 through December 14, 2005, Mr. Gartlan shall be granted stock options to purchase 18,000,000 shares of common stock of the Company at the purchase price of $.036 with a term of ten years. After December 14, 2005, Mr. Gartlan shall be paid a salary of fifteen thousand dollars per month, which payment commenced in January 2006. In March 2006 the Company modified the 18,000,000 options granted to Mr. Gartlan as part of his employment agreement dated June 30, 2005 by changing their vesting from a three year period to 100% vested as of December 14, 2005, and by modifying the exercise price from $.036 to $.01. They expire in June 2015. Additionally, the 12,121,276 options that were granted to Stratex Solutions, Inc in December 2004 were modified in March 2006 to vest over three years. They expire in December 2014. Additionally, Mr. Gartlan received a bonus of 5,625,000 shares of the Company's common stock on March 10, 2006 which were valued at $50,000, based on $.009 per share, the closing price of the Company stock on the previous day.

2003, 2004 and 2005 Stock Option Plans

The Company currently has three Stock Options Plans that are in place, the 2003 Stock Option Plan, the 2004 Stock Option Plan and the 2005 Stock Option Plan. On July 15, 2003, the Company adopted the 2003 Stock Option Plan authorizing options to purchase an aggregate of 5,000,000 shares. On April 15, 2004, the Company adopted the 2004 Stock Option Plan authorizing options on 3,150,000 shares. On April 12, 2005, the Company adopted the 2005 Stock Option Plan authorizing options to purchase an aggregate of 100,000,000 shares. On April 12, 2006, the Company authorized an increase in the authorized shares of common stock available under the 2005 Stock Option Plan from 100,000,000 shares to 150,000,000 shares, and on July 24, 2006, the Company authorized an increase in the authorized shares of common stock available under the 2005 Stock Option Plan from 150,000,000 to 200,000,000 shares.

As of December 31, 2005, options awarded under the 2003, 2004 and 2005 Stock Option Plans aggregated 103,107,400. Of these, 20,000,000 options were awarded to Mr. Weisel, 5,000,000 options were awarded to Mr. Nielson and 18,000,000 options were awarded to Mr. Gartlan, each under the 2005 Stock Option Plan. In addition, 12,121,276 options were awarded to Stratex Solutions, LLC, a business owned by Mr. Gartlan that provided financial consulting services to the Company prior to Mr. Gartlan's employment date, under the 2005 Stock Option Plan.

Each of the 2003, 2004 and 2005 Stock Option Plans provide for the grant of nonstatutory stock options that are not intended to qualify as "incentive stock options," options. As of June 30, 2006, there were 164,937,400 options awarded, including 1,000,000 options under the 2003 Plan, no options under the 2004 Plan and 163,937,400 options under the 2005 Plan. The total number of shares of common stock to be reserved for issuance under all plans is 208,150,000 subject to adjustment in the event of a stock split, stock dividend, recapitalization or similar capital change.

Each of the 2003, 2004 and 2005 Stock Option Plans are presently administered by the Company's board of directors, which selects the eligible persons to whom options shall be granted, determines the number of common shares subject to each option, the exercise price therefore and the periods during which options are exercisable, interprets the provisions of the plans and, subject to certain limitations, may amend the plans. Each option granted under the plans shall be evidenced by a written agreement between the Company and the optionee.

Options may be granted to employees (including officers) and directors and certain consultants and advisors.

Options Grants in Last Fiscal Year

The following table sets forth information with respect to grants of options to purchase our common stock under the 2003 Stock Option Plan, the 2004 Stock Option Plan and the 2005 Stock Option Plan to the named executive officers during the fiscal year ended December 31, 2005.

Options in Year Ended December 31, 2005
Individual Grants

Name	Number of Shares Underlying Options	% of Total Options Granted to Employees	Exercise Price	Market Price	Expiration Date
Walter K. Weisel	15,000,000(1)	30.8%	$ .017(1)	$ .017	4/11/2015
Martin Nielson	0	0	--	--	--

Eugene V. Gartlan	18,000,000(2)	37.0 %	$	.036(2) $	.035	6/21/2015

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(1) Mr. Weisel received 15,000,000 options in April 2005 for services as Chief Executive Officer of the Company. Originally these options had an exercise price of $.017 per share but were modified in March 2006 to have an exercise price of $.01 per share. These options vest annually over a three year period and expire in April 2015.

(2) Mr. Gartlan was employed as the Company's Chief Financial Officer effective June 14, 2005. He did not receive any cash compensation, including salary or bonus in 2005. These 18,000,000 options granted were in lieu of a cash salary. In March 2006 the Company modified the 18,000,000 options granted to Mr. Gartlan as part of his employment agreement dated June 30, 2005 by changing their vesting from a three year period to 100% vested as of December 14, 2005, and by modifying the exercise price from $.036 to $.01. The term remains ten years with expiration in June 2015.

Aggregate Option Exercises In Last Fiscal Year and Fiscal Year End Option Values

The following table sets forth information as of December 31, 2005 with respect to the named executive officers information with respect to options exercised, unexercised options and year-end option values in each case with respect to options to purchase shares of our common stock.

			Number of Securities Underlying Unexercised Options at December 31, 2005		Value of Unexercised In The Money Options At December 31, 2005	
Name	Shares Acquired on Exercise (#)	Value Realized ($)	Exercisable (#)	Unexercisable (#)	Exercisable ($)	Unexercisable ($)
Walter K. Weisel	0		2,495,287	18,333,333	3,154	2,000
Martin Nielson	0		0	5,000,000	0	3,000
Eugene V. Gartlan	0		4,040,426	26,080,850	22,626	45,253

Equity Compensation Plan Information

The following table set forth the information as of December 31, 2005 with respect to compensation plans under which equity securities of the Company are authorized for issuance:

Plan Category	Number of shares to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	0	0	0
Equity compensation plans not approved by security holders	103,107,400	$ 0.016	5,042,600
Total	103,107,400	$ 0.016	5,042,600

On April 12, 2005 the Company adopted a Stock Option Plan authorizing options on 100,000,000 shares. On July 15, 2003 the Company adopted a Stock Option Plan authorizing options on 5,000,000 shares. On April 15, 2004 the Company adopted a Stock Option Plan authorizing options on 3,150,000 shares. Under all of these plans, the Company issued options for 1,000,000 shares. During 2004 the Company authorized 33,962,655 options to be awarded to directors, an employee and an independent contractor. During 2005, the Company awarded a net amount of options totaling 54,719,259 to employees and an independent contractor. And on April 12, 2006 the Company authorized an increase in the Stock Option Plan for an additional 50,000,000 shares, bring the total options authorized to 150,000,000 shares. On July 24, 2006, the Company authorized an increase of the authorized shares of common stock available under the Stock Option Plan from 150,000,000 to 200,000,000 share.

The Company is planning to file an S-8 registration statement in November 2006 for the Company's stock option plan. Options granted through December 31, 2005 to be included are 71,500,000 shares to directors and management, 13,000,000 shares for employees and 12,121,276 shares to Stratex Solutions, LLC, a consulting firm that provided financial and accounting support services to the Company. Additionally, options were granted for another 20,000,000 shares in March 2006 to directors and another 5,500,000 to employees.

Robotic Workspace Technologies, Inc. had a stock option plan in effect at the time of the merger with the Company, under which plan there were options granted for the equivalent of 15,266,865 shares of the Company’s stock, after adjusting for the ratio of stock exchange in the merger agreement, which will also be included in the S-8 filing. There are no remaining shares to be granted under that plan.

Employment Agreement

Currently there are employment agreements with three executives, Walter Weisel, Chairman, CEO, Eugene V. Gartlan, CFO and Sheri Aws, Vice President and Secretary.

Mr. Weisel's employment agreement is dated July 19, 2000. Mr. Weisel's salary is $150,000 per annum plus a bonus at the discretion of the Board of Directors. The agreement stipulates that Mr. Weisel's salary will be increased to $200,000 and $250,000 when certain sales and profit objectives are met. The agreement is for a term of three years and automatically renews for successive one-year periods unless terminated by either party upon not less than sixty days prior to the renewal date. Mr. Weisel has agreed not to compete with the Company or solicit its customers or employees for a period of two years following the termination of his employment. The agreement also requires the Company to pay Mr. Weisel all accrued compensation, which amounted to $487,500 as of December 31, 2005, upon receipt of additional capital of no less than $3,000,000.

On June 30, 2005, the Company and Mr. Gartlan entered into an Employment Agreement effective as of June 14, 2005. The term of the employment agreement is five years. The agreement is automatically extended for one year periods unless terminated on not less than thirty days notice by either party prior to any termination date. For all the services to be rendered by Mr. Gartlan from June 14, 2005 through December 14, 2005, Mr. Gartlan shall be granted stock options to purchase 18,000,000 shares of common stock of the Company at the purchase price of $.036. Such options shall be granted under the terms of the Company's Stock Option Plan and shall vest equally over a period of three years, or upon death if sooner. After December 14, 2005, Mr. Gartlan shall be paid a salary of fifteen thousand dollars per month. The Company shall have the option to pay the salary in cash or in shares of common stock of the Company registered on Form S-8. The stock price shall be determined by the market price for the shares on the first business day of the month in which the salary is earned. If the Executive is terminated without cause, all remaining outstanding stock options that have not been exercised by Mr. Gartlan, including stock options to purchase 12,121,276 shares of common stock of the Company awarded by the Board of Directors of the Company to Stratex Solutions, LLC on December 15, 2004, shall immediately vest on the effective date of termination. If there is a change of ownership of the Company or any of its subsidiaries, all remaining outstanding stock options, including the Stratex Solutions options, that have not been exercised by Mr. Gartlan, shall immediately vest on the day immediately preceding the effective date of the change of ownership. Stratex Solutions is owned by Mr. Gartlan.

If employment is terminated by the Company without cause, Mr. Gartlan shall receive a payment equal to twenty four months of salary paid prior to the effective date of termination. The Company has the option to make this payment either in cash or in the common stock of the Company based on the per share market price of common stock at the time of termination. If during Mr. Gartlan's employment, the Company enters into an agreement which effectively will result in a change of control of the ownership of either the Company or Robotic Workspace Technologies, Inc. ("RWT"), the Company's wholly-owned subsidiary, or if the Company enters into an agreement which effectively will result in a change of ownership of the assets of the Company or RWT, Mr. Gartlan shall receive a payment equal to twenty four months of the salary paid prior to the effective date of the change of control. The Company shall make such payment in the common stock of the Company based on a price per share of $.005 if the effective date of the change of control is December 14, 2005 or sooner; thereafter the price per share shall be the market price of common stock at the time of the change in control. Regarding the change of ownership of the assets of the Company or RWT, such change of ownership shall be deemed to have occurred if the rights to use the software of Robotic Workspace Technologies, Inc., is granted or sold in settlement of claims made by the Company or RWT of trade secret violations or patent infringements, and such rights to use the software results in a settlement payment to the Company or RWT in a single payment or multiple payments, other than a long term licensing agreement typical of software licensing agreements.

In March 2006 the Company modified the 18,000,000 options granted to Mr. Gartlan as part of his employment agreement dated June 30, 2005 by changing their vesting from a three year period to 100% vested as of December 14, 2005, and by modifying the exercise price from $.036 to $.01. Additionally, Mr. Gartlan has 12,121,276 options that were granted to Stratex Solutions, Inc in December 2004 with an exercise price of $.005 per share and vest monthly over 5 years. These options were modified in March 2006 to vest over three years. Additionally, Mr. Gartlan received a bonus of 5,625,000 on March 10, 2006 which were valued at $50,000, based on $.009 per share, the closing price of the Company stock on the previous day.

Ms. Aws is employed as Vice President of Administration by RWT under an Employment Agreement dated February 24, 2004. Ms. Aws compensation is $60,000 per annum plus a bonus in the discretion of RWT. The agreement is for a term of one year, and automatically renews for successive one-year periods unless terminated by either party upon not less than thirty days notice prior to the renewal date. Ms Aws has agreed not to compete with RWT or solicit its customers or employees for a period of one year following the termination of her employment. Ms. Aws is also employed as Corporate Secretary of the Company for no additional compensation.

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Certain Relationships and Related Transactions

On July 22, 2005 the Company borrowed $30,000 from a beneficial shareholder, Rick Wynns, and entered into a short term note for that amount, the terms of which are: interest at the annual rate of 5%, due date in six months, and principal and accrued interest are convertible into common stock of the Company at $.015 per share. The due date of the note has been extended to December 31, 2006. To date there have been no conversions.

In May 2006 the Company recorded a liability associated with the indemnification of Gary McNear, a director, for his personal liability in an amount of $110,000 resulting from his personal guarantee of amounts owed by a former subsidiary of the Company and the settlement of such indebtedness of the Company's former subsidiary incurred in the ordinary course of business in accordance with the provisions of Article V, Paragraph 6.2 (k) of the Merger Agreement the Company entered into with RWT Acquisition, Inc., and Robotic Workspace Technologies, Inc. dated July 21, 2004. The actual amount paid in full settlement of Mr.McNear's obligations under the settlement agreement was $85,000.

During September through December 2005, the Company also entered into short-term debt obligations other than in the ordinary course of business. All of the short-term debt bears interest at the rate of 10% per annum. The following table sets forth the names of the lenders, the amount of the loans, the dates of the loans and the due date of the loans:

Lender	Amount of Loan		Date of Loan	Due Date
Eugene Gartlan	$	40,000	September 19, 2005	October 19, 2005
Jerry Horne	$	50,000	September 22, 2005	October 22, 2005
Eugene Gartlan	$	5,000	October 5, 2005	January 5, 2006
Rick Wynns	$	30,000	October 3, 2005	November 3, 2005
Rick Wynns	$	30,000	October 14, 2005	February 14, 2006
Gary McNear	$	1,000	November 22, 2005	February 22, 2006
Jerry Horne	$	50,000	November 28, 2005	December 28, 2005

All of the lenders are shareholders of the Company. Mr. Gartlan is also the Chief Financial Officer of the Company. Mr. McNear is a Director of the Company. All lenders have agreed to repayment terms that extend the due date to December 31, 2006. As of the date hereof, an aggregate of $85,000 of these loans have been repaid.

On June 23, 2004, the Company entered into and simultaneously closed an Agreement with Encompass Group Affiliates, Inc. (Encompass"), pursuant to which the Company granted to Encompass an exclusive, worldwide, royalty free and fully paid up perpetual and irrevocable licenses to use the customer list associated with its computer and systems related products business and its related websites; this business was subsequently closed down. Additionally, the Company assigned to Encompass the Company's rights to enter into acquisitions with three companies. In consideration for this transaction, Encompass assumed all of the Company's obligations under certain Convertible Debentures (the "Convertible Debentures") in the aggregate principal amount of $503,300. The holders of the Convertible Debentures released the Company from all claims arising under the Convertible Debentures.

In January 2003, Craig W. Conklin, our President, and Gary F. McNear, our Chief Executive Officer, entered into a consulting agreement with the Company's subsidiary relating to the negotiation of a reduced loan amount due

SunTrust Bank. Pursuant to the consulting agreement, the subsidiary agreed to pay each of Messrs. Conklin and McNear six percent of the discounted amount of the loan due SunTrust Bank. In consideration for six percent of the discounted amount, Messrs. Conklin and McNear agreed to forego any compensation due them for the prior two years. In connection with the SunTrust settlement, the Company issued common stock valued at $225,772 to each individual, Mr. Conklin and Mr. McNear.

On August 18, 2004 the Company entered into an agreement with Aegis Funds, Inc (AFI) to sell all of the issued and outstanding capital stock of its subsidiary Hy Tech Computer Systems (HTCS) to AFI. The sale of HTCS to AFI closed on August 25, 2004. At the closing date, for and in consideration for the transfer to AFI of the HTCS Capital Stock, AFI became the record and beneficial owner of the HTCS Capital Stock, the Company transferred as directed by AFI and for the benefit of HTCS the sum of fifteen thousand dollars ($15,000) in good funds, and the judgment of Sun Trust Bank against HTCS was transferred to AFI free of all claims and liens. AFI is controlled by Gary McNear and Craig Conklin, who are directors of the Company. The transaction was approved by the member of the board of directors who had no interest in the transaction.

On July 22, 2002, the Company entered into a revolving line of credit of $225,000 with Fifth Third Bank, Florida, secured by the assets of the Company. The annual interest rate on unpaid principal is the prime rate plus 2%, due in monthly installments. Principal and interest were due on July 22, 2003. In November 2004, a principal shareholder, Jerry E. Horne, loaned the Company $165,000 to pay down the line of credit with Fifth Third Bank. The loan has the same terms as the Fifth Third Bank line of credit, except that it remains unsecured until such time as the Fifth Third Bank line of credit is fully paid, including principal and accrued interest, and is due upon demand. In January 2005, the Fifth Third Bank line of credit was paid off.

On August 25, 2004 the Company issued 280,000,000 shares of common stock for 100% of the outstanding stock of Robotic Workspace Technology, Inc ("RWT"). For financial reporting purposes this transaction was treated as an acquisition of Innova and a recapitalization of RWT using the purchase method of accounting. As part of this transaction, Walter K. Weisel received 53,172,765 shares of the Company and Jerry E. Horne received 74,329,227 shares of the Company.

We believe that these transactions were advantageous to us and were on terms no less favorable to us than could have been obtained from unaffiliated third parties.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under the Exchange Act, our directors, our executive officers, and any persons holding more than 10% of our common stock are required to report their ownership of the common stock and any changes in that ownership to the Commission. Specific due dates for these reports have been established and we are required to report in this Proxy Statement any failure to file by these dates during the fiscal year ended December 31, 2005. All of these filing requirements were satisfied by our directors, officers and 10% holders. In making these statements, we have relied on the written representations of our directors, officers and our 10% holders and copies of the reports that they have filed with the Commission.

PROPOSAL 1: ELECTION OF DIRECTORS

Pursuant to our Certificate of Incorporation, the holders of our common stock may elect our 5 directors. All nominees have advised us that they are able and willing to serve as directors. However, if any nominee is unable to or for good cause will not serve, the persons named in the accompanying proxy will vote for any other person nominated by our Board of Directors.

Except as set forth below, no arrangement or understanding exists between any nominee and any other person or persons pursuant to which any nominee was or is to be selected as a director or nominee.

The Board of Directors Recommends a Vote "FOR" the Election of the Nominees Listed Below.

The following table sets forth the names and ages of the nominees of our Board of Directors.

Name	Age	Position
Walter K. Weisel (1)	66	Chairman, Chief Executive Officer and Director
Martin Nielson (1)	54	Previously Chief Executive Officer and Chairman of the Board of Directors; Director
Gary F. McNear (2)	61	Director; Previously C F O, Vice President, and Secretary
Craig W. Conklin (2)	56	Director; Previously Chief Operating Officer and Vice President
Rick Wynns* (3)	59	Director

*On July 12, 2006, our Board of Directors appointed Rick Wynns to our Board of Directors in accordance with our Certificate of Incorporation and By-laws.

(1) To serve until our 2009 Annual Meeting of Stockholders.
(2) To serve until our 2008 Annual Meeting of Stockholders.
(3) To serve until our 2007 Annual Meeting of Stockholders.

The principal occupations for the past five years (and, in some instances, for prior years) of each of our directors are as follows:

WALTER K. WEISEL became the Company's Chairman and Chief Executive Officer on August 25, 2004, the date the merger closed between the Company and RWT. With over thirty year's experience, Mr. Weisel is recognized as a pioneer and leader in the robotics industry. An original founding member of the Robotic Industries Association (RIA), the U.S. robot manufacturers' trade association, Mr. Weisel served three terms as President. He served on the RIA Board of Directors and Executive Committee and, as a spokesperson for the industry, served as an advisor to members of the U.S. Trade Commission and the U.S. Department of Commerce. Mr. Weisel was a founding member of Robotics International (RI), a member society dedicated to the advancement of robotic technology. During his term as President the membership grew to over 16,000 members. In 1992 Mr. Weisel was awarded the Joseph F. Engelberger Award, which recognizes the most significant contribution to the advancement of robotics and automation in the service of mankind. Each year nominations are received from 26 nations worldwide. This award has been presented since 1977.

Mr. Weisel has a long record of advancing technology and growing companies that develop and commercialize technology. Mr. Weisel served 13 years with Prab Robots, Inc. as Chief Executive Officer, President, and Chief Operating Officer. During his tenure, Prab Robots, Inc. was transformed into an international organization and leader in the fields of industrial robots and automation. While under his direction, Prab Robots, Inc. was taken public in an Initial Public Offering and Unimation, Inc. and several other companies in the U.S. and Europe were acquired. By 1990, Prab Robots, Inc. was responsible for the largest installed base of robots in North America and had developed a very successful robot retrofit business with customers such as General Motors, Ford, and Chrysler. Mr. Weisel has served as Chairman and Chief Executive Officer of RWT since its incorporation in 1994, and continues to serve in that capacity.

MARTIN NIELSON was the Company's Chief Executive Officer and Chairman of the Board of Directors since May 2003. He resigned effective June 1, 2004. Mr. Nielson is a principal of Altos Bancorp, Inc., serving as its Chairman and Chief Executive Officer since November 2002. He has also served as Chief Executive Officer and director of Inclusion Inc. since September, 2000. Mr. Nielson and Altos were instrumental in assisting the Company in the negotiations that led to the Company's settlement of its litigation with SunTrust Bank and in securing the financing that funded that settlement. Mr. Nielson will continue as a director of the Company. Mr. Nielson is a senior executive with extensive experience in operations and finance. He has been a business builder for 30 years with such companies as Gap, Businessland, and Corporate Express.

Altos, which is an outgrowth of Nielson's M&A practice during his ten years in London, is engaged in providing investment banking and business development services to growth oriented, emerging companies throughout the United States and Europe. Altos was retained by the Company to act as its business advisor, but that contract was concluded to coincide with the acquisition of RWT. Mr. Nielson is also a director of Advanced Communications Technologies, Inc.

GARY F. MCNEAR was the Chief Financial Officer, Vice President and Secretary since May 2003 through August 25, 2004, and a Director since May 2003. From January 2003, through May 2003 he served as Chief Executive Officer and Director of the Company. Mr. McNear has served as the Chief Executive Officer, Chairman of the Board, and Treasurer of Hy-Tech Computer Systems(HTCS) since HTCS's inception in November 1992, and was a founding shareholder. Mr. McNear has also served as Secretary of HTCS since March 2001. HTCS acquired the Company in a reverse acquisition in January 2003. Mr. McNear's duties included banking relationships, cash management, and financial reporting. Mr. McNear's formal education is in Industrial Administration at Iowa State University. Mr. McNear is a former officer and pilot in the U.S. Air Force, and a former airline pilot.

CRAIG W. CONKLIN was the Chief Operating Officer and Vice President since May 2003 through August 25, 2004, and a Director since May 2003. From January 2003 through May 2003, he served as President and Director of the Company. Mr. Conklin has served as President and Director of HTCS since HTCS's inception in November 1992, and was a founding shareholder. HTCS acquired the Company in a reverse acquisition in January 2003. Mr. Conklin's duties included marketing and operations of the Company. Mr. Conklin holds a B.S. in engineering from Dartmouth College, and an MBA from the Amos Tuck School of Business. Mr. Conklin was formerly employed by Owens-Corning Fiberglas, Inc. and he successfully operated and sold Golf & Electric Carriages, Inc., a local distributorship for Club Car Golf Carts.

RICK WYNNS is a successful businessman, owning one of the most flourishing State Farm Insurance Agencies in the country for 26 years. Currently his business has over 5,000 households as customers, representing nearly 12,000 accounts, all of this from a customer base of virtually nothing at the start of his insurance career. This was accomplished by excellent sales and marketing skills, both direct and telephone. Mr. Wynns graduated from the University of South Florida with a Bachelor of Science degree.

PROPOSAL 2: REVERSE STOCK SPLIT

The Board of Directors has unanimously adopted a resolution approving, declaring advisable and recommending to the stockholders for their approval an amendment to our certificate of incorporation to effect a reverse stock split of outstanding shares of common stock at a ratio of either one-for-eight or one-for-ten, as determined at the discretion of the Board of Directors to be in the best interests of the Company and its stockholders. The Board of Directors believes that approval of a range of reverse split ratios, rather than approval of a specific reverse split ratio, provides the Board of Directors with maximum flexibility to achieve the purposes of the reverse stock split.

The reverse stock split will be affected by filing an amendment to our certificate of incorporation with the State of Delaware. The certificate of amendment will effect a reverse stock split of the shares by reducing the number of issued and outstanding shares of common stock by the ratio determined by the board of directors to be in the best interests of the Company and its stockholders, but will not change the number of authorized shares of common stock or preferred stock or the par value of the common stock or preferred stock. A copy of the proposed amendment to our certificate of incorporation effecting the 1-for-8 or 1-for-10 reverse stock split is attached at the back of this proxy statement as Exhibit 1.

Reasons for Board Recommendation

If the board of directors otherwise determines that a reverse stock split is in our best interests or in the best interests of our stockholders, we would like the authority to proceed with a reverse stock split without further authorization of our stockholders.

The Board of Directors is recommending that you empower the Board of Directors to effectuate, in the Board of Directors' discretion, the reverse stock split within the foregoing ratios for the following reasons:

- Because the Board of Directors believes a higher stock price may help generate investor interest in the Company and help the Company attract and retain employees and other service providers; and

- Because the Company requires additional authorized but unissued shares of common stock.

Although the Board of Directors of the Company determined to seek shareholder approval for the reverse stock split prior to the consummation of the Company's recent private placement with Cornell Capital Partners, L.P. (as described on page 17 below), and therefore did not directly contribute to the Board's decision to undertake a reverse stock split, the numb1er of shares currently available for issuance is not sufficient to cover the convertible securities that were sold in the private placement and a portion of such additional authorized and unissued shares available to the Company post stock split will be used for Cornell. Due to the fact that we require additional authorized shares of common stock to cover the convertible securities issued to Cornell, in the event that we are unable to obtain a vote of a majority of our stockholders approving of the reverse split, we will be in default of the Securities Purchase Agreement and related transaction documents, including, but not limited to, the secured convertible debentures. If we are in default, we will be required to repay the convertible debentures. If we are required to repay the convertible debentures, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the convertible debentures when required, the debenture holder could commence legal action against us to recover the amounts due. Any such action would require us to curtail or cease operations. In addition, if we are in default of the agreements with Cornell because a majority of our stockholders do not approve of the reverse split, Cornell can foreclose on all of our and CoroWare Technologies, Inc.'s assets pursuant to the Amended and Restated Security Agreement which we entered into with Cornell and the Security Agreement which our wholly owned subsidiary, CoroWare Technologies, Inc., entered into in favor of Cornell granting Cornell a first priority security interest in all of our and CoroWare's goods, inventory, contractual rights and general intangibles, receivables,

documents, instruments, chattel paper, and intellectual property. The Security Agreement and the Amended and Restated Security Agreement state that if an event of default occurs under the Securities Purchase Agreement, Secured Convertible Debentures, Warrants, Security Agreement or Amended and Restated Security Agreement, Cornell has the right to take possession of the collateral, to operate our business using the collateral, and have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the collateral, at public or private sale or otherwise to satisfy our obligations under the agreements.

A description of the July 2006 Securities Purchase Agreement can be found beginning on page 17 of this proxy statement.

As of September 5, 2006, the closing price of our common stock as reported on the Over-The-Counter Bulletin Board was $0.024 per share. The Board of Directors believes that a higher stock price would help the Company attract and retain employees and other service providers. The Board of Directors believes that some potential employees and service providers are less likely to work for a company with a low stock price, regardless of the size of the company’s market capitalization. If the reverse stock split successfully increases the per share price of our common stock, the Board of Directors believes this increase will enhance our ability to attract and retain employees and service providers. Further, in deciding at what ratio to effectuate the reverse stock split, the Board of Directors will consider that our common stock may not appeal to brokerage firms that are reluctant to recommend lower priced securities to their clients. Investors may also be dissuaded from purchasing lower priced stocks because the brokerage commissions, as a percentage of the total transaction, tend to be higher for such stocks. Moreover, the analysts at many brokerage firms do not monitor the trading activity or otherwise provide coverage of lower priced stocks. Most investment funds are reluctant to invest in lower priced stocks.

The increase in the number of authorized but unissued shares of common stock would enable the Company, without further stockholder approval, to issue shares from time to time as may be required for proper business purposes, such as raising additional capital for ongoing operations, acquisitions of businesses and assets, stock splits and dividends, present and future employee benefit programs and other corporate purposes. In addition, the Board of Directors believes that having additional authorized but unissued shares of common stock through the effectuation of the reverse stock split could have a number of effects on the Company's stockholders depending upon the exact nature and circumstances of any actual issuances of authorized but unissued shares. The increase could have an anti-takeover effect, in that additional shares could be issued (within the limits imposed by applicable law) in one or more transactions that could make a change in control or takeover of the Company more difficult. For example, additional shares could be issued by the Company so as to dilute the stock ownership or voting rights of persons seeking to obtain control of the Company. Similarly, the issuance of additional shares to certain persons allied with the Company's management could have the effect of making it more difficult to remove the Company's current management by diluting the stock ownership or voting rights of persons seeking to cause such removal. Our board members serve under staggered terms, pursuant to which, if approved by the requisite vote of our stockholders: (i) Walter Weisel, Chairman of the board, and Martin Nielson will each serve until our 2009 Annual Meeting, (ii) Gary McNear and Craig Conklin will each serve until our 2008 Annual Meeting, and (iii) Rick Wynns will serve until our 2007 Annual Meeting. This will make it more difficult for those seeking to control the Company and remove its board at one time. Except as further discussed herein, the Board of Directors is not aware of any attempt, or contemplated attempt, to acquire control of the Company, and this proposal is not being presented with the intent that it be utilized as a type of anti-takeover device.

Except for the following, there are currently no plans, arrangements, commitments or understandings for the issuance of the additional shares of Common Stock which are proposed to be authorized:

JULY 2006 SECURITIES PURCHASE AGREEMENT

On July 21, 2006, we consummated a Securities Purchase Agreement (the "Purchase Agreement") dated July 21, 2006 with Cornell Capital Partners L.P. ("Cornell") providing for the sale by us to Cornell of our 10% secured convertible debentures in the aggregate principal amount of $2,825,000 (the "Debentures") of which $1,250,000 was advanced immediately. The second installment of $575,000 will be advanced on the date of the filing by us with the Securities and Exchange Commission (the "Commission") of the Registration Statement (as defined below). The last installment of $1,000,000 will be advanced three business days after the date the Registration Statement is declared effective by the Commission.

The Debentures mature on the third anniversary of the date of issuance (the "Maturity Date"). The holder of the Debentures may convert at any time amounts outstanding under the Debentures into shares of our common stock (the "Common Stock") at a fixed conversion price per share equal to $0.04 (the “Conversion Price”). Cornell has agreed not to short any of the shares of Common Stock. Our obligations under the Purchase Agreement are secured by substantially all of our, and our wholly owned subsidiary’s (Coroware Technologies, Inc.) assets.

Under the Purchase Agreement, we also issued to Cornell five-year warrants to purchase 10,000,000 and 15,000,000 shares of Common Stock at a price equal to $0.05 and $0.10, respectively, together with three-year warrants to purchase 23,000,000, 20,000,000 and 25,000,000 shares of Common Stock at a price equal to $0.025, $0.065 and $0.075, respectively (collectively, the "Warrants").

In connection with the Purchase Agreement, we also entered into a registration rights agreement with Cornell (the "Registration Rights Agreement") providing for the filing of a registration statement (the "Registration Statement") with the Securities and Exchange Commission registering the Common Stock issuable upon conversion of the Debentures and exercise of the Warrants. We are obligated to use out best efforts to cause the Registration Statement to be filed no later than 30 days after the closing date. In the event of a default of our obligations under the Registration Rights Agreement, including our agreement to file the Registration Statement with the Commission no later than 30 days after the closing date, or if the Registration Statement is not declared effective within 120 days after the closing date, we are required to pay to Cornell, as liquidated damages, for each month that the registration statement has not been filed or declared effective, as the case may be, either a cash amount or shares of our common stock equal to 2% of the liquidated value of the Debentures.

We claim an exemption from the registration requirements of the Act for the private placement of these securities pursuant to Section 4(2) of the Act and/or Regulation D promulgated thereunder since, among other things, the transaction did not involve a public offering, Cornell is an accredited investor and/or qualified institutional buyer, Cornell had access to information about us and its investment, Cornell took the securities for investment and not resale, and we took appropriate measures to restrict the transfer of the securities.

The following are the risks associated with the July 2006 Securities Purchase Agreement:

THERE ARE A LARGE NUMBER OF SHARES UNDERLYING OUR CONVERTIBLE NOTES AND WARRANTS THAT ARE BEING REGISTERED IN THIS PROSPECTUS AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK.

As of August 10, 2006, we had 750,998,259 shares of common stock issued and outstanding. In connection with our July 2006 Securities Purchase Agreement, we also have outstanding secured convertible debentures or an obligation to issue secured convertible debentures that may be converted into 70,625,000 shares of common stock, and outstanding

warrants or an obligation to issue warrants to purchase 93,000,000 shares of common stock. Upon effectiveness of the registration statement, all of the shares, including all of the shares issuable upon conversion of the debentures and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

THE ISSUANCE OF OUR STOCK UPON CONVERSION OF THE DEBENTURES COULD ENCOURAGE SHORT SALES BY THIRD PARTIES, WHICH COULD CONTRIBUTE TO THE FUTURE DECLINE OF OUR STOCK PRICE AND MATERIALLY DILUTE EXISTING STOCKHOLDERS' EQUITY AND VOTING RIGHTS.

The debentures have the potential to cause significant downward pressure on the price of our common stock. This is particularly the case if the shares being placed into the market exceed the market's ability to absorb the increased number of shares of stock. Such an event could place further downward pressure on the price of our common stock which presents an opportunity for short sellers and others to contribute to the future decline of our stock price. If there are significant short sales of our stock, the price decline that would result from this activity will cause the share price to decline more so, which, in turn, may cause long holders of the stock to sell their shares thereby contributing to sales of stock in the market. If there is an imbalance on the sell side of the market for the stock, our stock price will decline.

IF WE ARE REQUIRED FOR ANY REASON TO REPAY OUR OUTSTANDING SECURED CONVERTIBLE DEBENTURES, WE WOULD BE REQUIRED TO DEPLETE OUR WORKING CAPITAL, IF AVAILABLE, OR RAISE ADDITIONAL FUNDS. OUR FAILURE TO REPAY THE SECURED CONVERTIBLE DEBENTURES, IF REQUIRED, COULD RESULT IN LEGAL ACTION AGAINST US, WHICH COULD REQUIRE THE SALE OF SUBSTANTIAL ASSETS.

In July 2006, we entered into a Securities Purchase Agreement for the sale of an aggregate of $2,825,000 principal amount of secured convertible debentures. These debentures are due and payable, with interest, three years from their respective dates of issuance, unless sooner converted into shares of our common stock. Any event of default such as our failure to repay the principal or interest when due, our failure to issue shares of common stock upon conversion by the holder, or our failure to timely file a registration statement or have such registration statement declared effective, could require the early repayment of the convertible debentures. We anticipate that the full amount of the convertible debentures will be converted into shares of our common stock, in accordance with the terms of these debentures. If we were required to repay the convertible debentures, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the debentures when required, the holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

IF AN EVENT OF DEFAULT OCCURS UNDER THE SECURITIES PURCHASE AGREEMENT, SECURED CONVERTIBLE DEBENTURES, WARRANTS, SECURITY AGREEMENT OR AMENDED AND RESTATED SECURITY AGREEMENT, THE INVESTORS COULD TAKE POSSESSION OF ALL OUR GOODS, INVENTORY, CONTRACTUAL RIGHTS AND GENERAL INTANGIBLES, RECEIVABLES, DOCUMENTS, INSTRUMENTS, CHATTEL PAPER, AND INTELLECTUAL PROPERTY.

In connection with the Securities Purchase Agreement we entered into in July 2006, we executed an Amended and Restated Security Agreement and our wholly owned subsidiary, Coroware Technologies, Inc., entered into an Security Agreement in favor of the investors granting them a first priority security interest in all of our goods, inventory, contractual rights and general intangibles, receivables, documents, instruments, chattel paper, and intellectual property. The Security Agreement and the Amended and Restated Security Agreement state that if an event of default occurs under the Securities Purchase Agreement, Secured Convertible Debentures, Warrants, Security Agreement or Amended and Restated Security Agreement, the investors have the right to take possession of the collateral, to operate our business using the collateral, and have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the collateral, at public or private sale or otherwise to satisfy our obligations under these agreements.

IF WE FAIL TO OBTAIN STOCKHOLDER APPROVAL TO EFFECT A REVERSE STOCK SPLIT OF THE ISSUED AND OUTSTANDING SHARES OF OUR COMMON STOCK AT A RATIO OF EITHER ONE-FOR-EIGHT OR ONE-FOR-TEN, WE WILL BE IN DEFAULT OF THE SECURITIES PURCHASE AGREEMENT.

We presently do not have an adequate amount of authorized and unissued shares of common stock to issue upon the conversion of the convertible debentures and the exercise of the warrants in connection with the July 2006 Securities Purchase Agreement. As of August 10, 2006, there were 750,998,259 shares of common stock outstanding. We filed amendment no. 2 to our preliminary proxy statement with the Securities and Exchange Commission on August 24, 2006 and will hold our 2006 Special Meeting of Stockholders pursuant to which we will ask our stockholders to approve an amendment to our certificate of incorporation to effect a reverse stock split of the issued and outstanding shares of our common stock at a ratio of either one-for-eight or one-for-ten, as determined at the discretion of the board of directors to be in the best interests of our company without further approval from our stockholders. In the event that we are unable to obtain a vote of a majority of our stockholders approving of the reverse split, we will be in default of the agreement. If we are in default, we will be required to repay the convertible debentures. If we are required to repay the convertible debentures, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the convertible debentures when required, the debenture holder could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

Potential Disadvantages to the Reverse Stock Split

Reduced Market Capitalization. As noted above, the principal purpose of the reverse stock split would be to help maintain the price of our common stock at a higher level. As of September 5, 2006, the closing price of our common stock as reported on the Over-The-Counter Bulletin Board was $0.024 per share. We cannot assure you that the reverse stock split will accomplish this objective. While we expect that the reduction in our outstanding shares of common stock will increase the market price of our common stock, we cannot assure you that the reverse stock split will increase the market price of our common stock by a multiple equal to the number of pre-split shares in the reverse split ratio determined by the board of directors, which will be either 8 or 10, or result in any permanent increase in the market price, which can be dependent upon many factors, including our business and financial performance and prospects. Should the market price decline after the reverse stock split, the percentage decline may be greater, due to the smaller number of shares outstanding, than it would have been prior to the reverse stock split. In some cases the stock price of companies that have effected reverse stock splits has subsequently declined back to pre-reverse split levels. Accordingly, we cannot assure you that the market price of our common stock immediately after the effective date of the proposed reverse stock split will be maintained for any period of time or that the ratio of post and pre-split shares will remain the same after the reverse stock split is effected, or that the reverse stock split will not have an adverse effect on our stock price due to the reduced number of shares outstanding after the reverse stock split. A reverse stock split is often viewed negatively by the market and, consequently, can lead to a decrease in our overall market capitalization. If the per share price does not increase proportionately as a result of the reverse stock split, then our overall market capitalization will be reduced.

Increased Transaction Costs. The number of shares held by each individual stockholder will be reduced if the reverse stock split is implemented. This will increase the number of stockholders who hold less than a "round lot," or 100 shares. Typically, the transaction costs to stockholders selling "odd lots" are higher on a per share basis. Consequently, the reverse stock split could increase the transaction costs to existing stockholders in the event they wish to sell all or a portion of their position.

Liquidity. Although the board believes that the decrease in the number of shares of our common stock outstanding as a consequence of the reverse stock split and the anticipated increase in the price of our common stock could encourage interest in our common stock and possibly promote greater liquidity for our stockholders, such liquidity could also be adversely affected by the reduced number of shares outstanding after the reverse stock split.

Authorized Shares; Future Financings. Upon effectiveness of such a 1-for-8 or 1-for-10 reverse stock split, the number of authorized shares of common stock that are not issued or outstanding, as of July 7, 2006, would increase from approximately 149,000,000 shares to approximately 806,000,000 and 825,000,000 shares, respectively. As a result, we will have an increased number of authorized but unissued shares of common stock. Authorized but unissued shares will be available for issuance, and we may issue such shares in financings or otherwise. If we issue additional shares, the ownership interests of our current stockholders may be diluted.

Effect on Number of Shares Outstanding, Reserved for Issuance and Available for Issuance

The following tables set forth the effect of the proposed reverse stock split ratios on the number of shares currently outstanding, reserved for issuance, and available for issuance, together with the effect of the private placement with Cornell Capital on our post-split capitalization.

	Share Capital at	Share Capital after	Share Capital after Issuance of

	8/10/2006	**1 for 10 Split**	**Shares to Cornell**
Issued and Outstanding	750,998,259	75,099,826	101,899,826
Reserved for Issuance	140,866,800	53,386,680	26,586,680
Available for Issuance	8,134,941	771,513,494	771,513,494
Total Authorized	900,000,000	900,000,000	900,000,000

	Share Capital at 8/10/2006	**Share Capital after 1 for 8 Split**	**Share Capital after Issuance of Shares to Cornell**
Issued and Outstanding	750,998,259	93,874,783	127,374,783
Reserved for Issuance	140,866,800	66,733,350	33,233,350
Available for Issuance	8,134,941	739,391,867	739,391,867
Total Authorized	900,000,000	900,000,000	900,000,000

Effect on Fractional Shares

A reverse stock split would result in some stockholders owning a fractional share of common stock. For example, if a 1-for-10 reverse stock split were to be implemented, the shares owned by a stockholder with 112 shares would be converted into 11.2 shares. In lieu of issuing fractional shares, the Company will issue to any shareholder who otherwise would have been entitled to receive a fractional share as a result of the reverse split an additional full share of its common stock.

Effect of Reverse Stock Split on Options

The number of shares subject to outstanding options to purchase shares of our common stock also would automatically be reduced in the same ratio as the reduction in the outstanding shares. Correspondingly, the per share exercise price of those options will be increased in direct proportion to the reverse stock split ratio, so that the aggregate dollar amount payable for the purchase of the shares subject to the options will remain unchanged. For example, a 1-for-10 reverse stock split is implemented and that an optionee holds options to purchase 1,000 shares at an exercise price of $0.66 per share. On the effectiveness of the 1-for-10 reverse stock split, the number of shares subject to that option would be reduced to 100 shares and the exercise price would be proportionately increased to $6.60 per share.

Effect of Reverse Stock Split on Warrants

The agreements governing the outstanding warrants to purchase shares of our common stock include provisions requiring adjustments to both the number of shares issuable upon exercise of such warrants, and the exercise prices of such warrants, in the event of a reverse stock split. For example, assume that a 1-for-10 reverse stock split is implemented and a warrant holder holds a warrant to purchase 10,000 shares of our common stock at an exercise price of $.75 per share. On the effectiveness of the reverse stock split, the number of shares subject to that warrant would be reduced to 1,000 shares and the exercise price would be proportionately increased to $7.50 per share.

Implementation and Effect of the Reverse Stock Split

If approved by our stockholders at the annual meeting, and if a majority of our board of directors determines that effecting a reverse stock split at either a 1-for-8 or 1-for-10 ratio is in our best interests and the best interests of our stockholders, following such determinations, the board will effect the reverse stock split by directing management to file the certificate of amendment with the Delaware Secretary of State at such time as the board has determined is the appropriate effective time for the reverse stock split. The reverse stock split will become effective at the time specified in the certificate of amendment after the filing of the amendment with the Delaware Secretary of State, which we refer to as the “effective time”.

We estimate that, following the reverse stock split, we would have approximately the same number of stockholders and the completion of the reverse stock split would not affect any stockholder's proportionate equity interest in our company. By way of example, a stockholder who owns a number of shares that prior to the reverse stock split represented one-half of a percent of the outstanding shares of the company would continue to own one-half of a percent of our outstanding shares after the reverse stock split. The reverse stock split also will not affect the number of shares of common stock that our board of directors is authorized to issue under our certificate of incorporation, which will remain unchanged at 900,000,000 shares. However, it will have the effect of increasing the number of shares available for future issuance because of the reduction in the number of shares that will be outstanding after giving effect to the reverse stock split.

Exchange of Stock Certificates and Payment for Fractional Shares

Exchange of Stock Certificates. Promptly after such an effective time, you would be notified that the reverse stock split has been effected and the applicable ratio. Our stock transfer agent, Continental Stock Transfer & Trust Company, whom we refer to as the “exchange agent”, would implement the exchange of stock certificates representing outstanding shares of common stock. You would be asked to surrender to the exchange agent certificates representing your pre-split shares in exchange for certificates representing your post-split shares in accordance with the procedures

to be set forth in a letter of transmittal which we would send to you. You would not receive a new stock certificate representing your post-split shares until you surrender your outstanding certificate(s) representing your pre-split shares, together with the properly completed and executed letter of transmittal to the exchange agent. We would not issue scrip or fractional shares, or certificates for fractional shares, in connection with the reverse stock split. Should you be entitled to receive fractional shares because you hold a number of shares not evenly divisible by the relevant reverse split number selected by our board of directors (which will be either eight or ten), you will be entitled, upon surrender to the exchange agent of certificates representing such shares, to receive an additional full share of common stock.

IF THIS REVERSE SPLIT WERE TO BE EFFECTED, PLEASE DO NOT DESTROY ANY STOCK CERTIFICATE OR SUBMIT ANY OF YOUR CERTIFICATES UNTIL YOU ARE REQUESTED TO DO SO.

Effect of Failure to Exchange Stock Certificates . Upon the filing of the amendment to our certificate of incorporation with the Delaware Secretary of State, each certificate representing shares of our common stock outstanding prior to the that time would, until surrendered and exchanged as described above, be deemed, for all corporate purposes, to evidence ownership of the whole number of shares of our common stock. However, a holder of such unexchanged certificates would not be entitled to receive any dividends or other distributions payable by us after the effective date, until the old certificates have been surrendered. Such dividends and distributions, if any, would be accumulated, and at the time of surrender of the old certificates, all such unpaid dividends or distributions will be paid without interest.

No Appraisals Rights

Under the Delaware General Corporation Law and our certificate of incorporation and bylaws, you are not entitled to appraisal rights with respect to the reverse stock split.

Federal Income Tax Consequences

The following description of the material federal income tax consequences of the reverse stock split is based on the Internal Revenue Code, applicable Treasury Regulations promulgated under the Code, judicial authority and current administrative rulings and practices as in effect on the date of this proxy statement. Changes to the laws could alter the tax consequences described below, possibly with retroactive effect. We have not sought and will not seek an opinion of counsel or a ruling from the Internal Revenue Service regarding the federal income tax consequences of any of the proposed reverse stock splits. This discussion is for general information only and does not discuss the tax consequences that may apply to special classes of taxpayers (e.g., non-resident aliens, broker/dealers or insurance companies). The state and local tax consequences of the reverse stock split may vary significantly as to each stockholder, depending upon the jurisdiction in which such stockholder resides. We urge stockholders to consult their own tax advisors to determine the particular consequences to them.

We believe that because the reverse stock split is not part of a plan to increase periodically a stockholder's proportionate interest in our assets or earnings and profits, the reverse stock split will likely have the following federal income tax effects.

A stockholder who receives solely a reduced number of shares of our common stock will not recognize gain or loss. In the aggregate, such a stockholder's basis in the reduced number of shares of our common stock will equal the stockholder's basis in its old shares of common stock and the holding period of the common stock received after the reverse stock split will include the holding period of the common stock held prior to the reverse stock split exchanged therefore.

We will not recognize any gain or loss as a result of the reverse stock split.

RECOMMENDATION OF THE BOARD FOR PROPOSAL NO. 2:

THE BOARD RECOMMENDS A VOTE FOR APPROVAL OF THE REVERSE STOCK SPLIT.

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PROPOSAL 3: APPROVAL OF THE AMENDED AND RESTATED 2005 STOCK OPTION PLAN

At the Special Meeting, the Company's stockholders are being asked to approve the Amended and Restated 2005 Stock Option Plan (the "2005 Stock Option Plan"), including all amendments thereto adopted by the Board of Directors as of the date hereof. The Board has unanimously approved the 2005 Stock Option Plan and has directed that it be submitted for the approval of the stockholders at the special meeting. On April 12, 2005, the Board adopted the 2005 Stock Option Plan authorizing options to purchase an aggregate of 100,000,000 shares. On April 12, 2006, the Board authorized an increase in the authorized shares of common stock available under the 2005 Stock Option Plan from 100,000,000 shares to 150,000,000 shares, and on July 24, 2006, the Board authorized an increase in the authorized shares of common stock available under the 2005 Stock Option Plan from 150,000,000 to 200,000,000 shares..

The following description of the 2005 Stock Option Plan is only a summary of the important provisions of the 2005 Stock Option Plan and does not contain all of the terms and conditions of the 2005 Stock Option Plan. A copy of the 2005 Stock Option Plan is attached to this Proxy Statement as Exhibit "2". The 2005 Stock Option Plan and the right of participants to make purchases thereunder are intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The 2005 Stock Option Plan is not a qualified deferred compensation plan under Section 401(a) of the Internal Revenue Code and is not subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

The primary purpose of the 2005 Stock Option Plan is to attract and retain the best available personnel for the Company, as well as key non-employees of the Company, in order to promote the success of the Company's business. In the event that the 2005 Stock Option Plan is not adopted, the Company may have considerable difficulty in retaining and attracting qualified personnel and consultants.

SHARE RESERVATION

We will reserve a total 200,000,000 shares of our common stock for issuance under the 2005 Stock Option Plan. If the recipient of an option grant does not purchase the shares subject to the option grant before it expires or terminates, the shares that are not purchased again become available for issuance under the 2005 Stock Option Plan.

ADMINISTRATION

The 2005 Stock Option Plan is administered by the Company's Board of Directors as the Board of Directors may be composed from time to time. The Board determines all questions of interpretation of the 2005 Stock Option Plan, and its decisions are final and binding upon all participants. Any determination by a majority of the members of the Board of Directors at any meeting, or by written consent in lieu of a meeting, shall be deemed to have been made by the whole Board of Directors.

Notwithstanding the foregoing, the Board of Directors may at any time, or from time to time, appoint a committee (the "Committee") of at least two members of the Board of Directors, and delegate to the Committee the authority of the Board of Directors to administer the Plan. Upon such appointment and delegation, the Committee shall have all the powers, privileges and duties of the Board of Directors, and shall be substituted for the Board of Directors, in the administration of the Plan, subject to certain limitations.

ELIGIBILITY

Under the 2005 Stock Option Plan, options may be granted to key employees of the Company or any of its participating subsidiaries, and key non-employees such as a non-employee directors, consultants or independent

contractors of the Company or any of its participating subsidiaries, as provided in the 2005 Stock Option Plan (the participant is referred to herein as an “Optionee”).

TERMS OF OPTIONS

The term of each Option or stock award granted under the Plan shall be contained in a stock agreement between the Optionee and the Company and such terms shall be determined by the Board of Directors consistent with the provisions of the Plan, including the following:

(a) OPTION PRICE. The purchase price of the common stock subject to each Option shall be determined by the Board of Directors in its sole discretion as of the date of grant of the Option.

(b) NUMBER OF SHARES. The number of shares under each option award should be stated as to which it pertains.

(c) VESTING. The dates on which each Option (or portion thereof) shall be exercisable or shall vest and the conditions precedent to such exercise or vesting, if any, shall be fixed by the Board of Directors, in its discretion, at the time such Option is granted.

(d) EXPIRATION. The Board of Directors, in its discretion, shall fix the expiration of each Option, at the time such Option is granted; however, unless otherwise determined by the Board of Directors at the time such Option is granted, an Option shall be exercisable for ten (10) years after the date on which it was granted (the "Grant Date"). Each Option shall be subject to earlier termination as expressly provided in the 2005 Stock Option Plan or as determined by the Board of Directors, in its discretion, at the time such Option is granted.

(e) TRANSFERABILITY. No Option shall be transferable, except by will or the laws of descent and distribution, and any Option may be exercised during the lifetime of the Optionee only by him. No Option or stock award granted under the Plan shall be subject to execution, attachment or other process.

(f) OPTION ADJUSTMENTS. The aggregate number and class of shares as to which Options may be granted under the 2005 Stock Option Plan, the number and class shares covered by each outstanding Option and the exercise price or purchase price per share thereof (but not the total price), and all such Options, shall each be proportionately adjusted for any increase decrease in the number of issued Common Stock resulting from split-up spin-off or consolidation of shares, additional issuance of shares, or any like capital adjustment or the payment of any stock dividend. The total number of shares approved in the 2005 Stock Option Plan would not decrease as a result of the exercising of options.

(g) TERMINATION, MODIFICATION AND AMENDMENT. The 2005 Stock Option Plan (but not Options previously granted under the Plan) shall terminate ten (10) years from the earlier of the date of its adoption by the Board of Directors, and no Option shall be granted after termination of the Plan. Subject to certain restrictions, the Plan may at any time be terminated and from time to time be modified or amended by the affirmative vote of the holders of a majority of the outstanding shares of the capital stock of the Company present, or represented, and entitled to vote at a meeting duly held in accordance with the applicable laws of the State of Delaware.

New Plan Benefits

The table below sets forth the stock options that the individuals and groups referred to below have received under the 2005 Stock Option Plan, from the inception of the Plan through the date hereof.

<u>**Name and Position**</u>	**Innova Holdings, Inc. 2005 Stock Option Plan**		
	Dollar Value		**Number of Options**
Walter K. Weisel, Chief Executive Officer and Chairman (1)	$	50,000	5,000,000
Walter K. Weisel, Chief Executive Officer and Chairman (1)	$	150,000	15,000,000
Walter K. Weisel, Chief Executive Officer and Chairman (1)	$	50,000	5,000,000
Eugene Gartlan, Chief Financial Officer (2)	$	360,000	18,000,000
Sheri Aws, Corporate Secretary (3)	$	56,586	5,658,621
Sheri Aws, Corporate Secretary (3)	$	18,414	1,841,379
Craig Conklin, Director (4)	$	50,000	5,000,000
Craig Conklin, Director (4)	$	50,000	5,000,000
Gary McNear, Director (4)	$	50,000	5,000,000

Gary McNear, Director (4)	$	50,000	5,000,000
Martin Nielsen, Director (4)	$	50,000	5,000,000
Martin Nielsen, Director (4)	$	50,000	5,000,000
Non-Executive Employees (15 persons) (5)	$	686,256	50,425,486

(1) Includes options to purchase shares of common stock at $.01 per share, exercisable beginning on December 15, 2005, April 12, 2005 and March 10, 2006, respectively, and expiring on December 15, 2014, April 12, 2015 and March 10, 2016, respectively. Such options were issued as compensation for services performed on our behalf. The Company has estimated the dollar value as the fair value at the date of grant using the Black Scholes Model, which includes a volatility assumption of 79.00%, 44.19% and 44.19%, respectively, and a risk-free rate of 2.75%, 2.45% and 2.45%, respectively.

(2) Includes options to purchase shares of common stock at $.01 per share, exercisable beginning on June 22, 2005 and expiring on June 22, 2015. Such options were issued as compensation for services performed on our behalf. The Company has estimated the dollar value as the fair value at the date of grant using the Black Scholes Model, which includes a volatility assumption of 44.19% and a risk-free rate of 2.45%.

Additionally, Mr. Gartlan has 12,121,276 options that were granted to Stratex Solutions, Inc., a financial consulting business owned by Mr. Gartlan, in December 2004 with an exercise price of $.005 per share and vest monthly over 5 years. These options were modified in March 2006 to vest over three years.

(3) Includes options to purchase shares of common stock at $.01 per share and $.008, respectively, exercisable beginning on April 12, 2006 and February 16, 2005, respectively, and expiring on April 12, 2015 and February 16, 2014, respectively. Such options were issued as compensation for services performed on our behalf. The Company has estimated the dollar value as the fair value at the date of grant using the Black Scholes Model, which includes a volatility assumption of 44.19% and 79.00%, respectively, and a risk-free rate of 2.45% and 2.75%, respectively.

(4) Includes options to purchase shares of common stock at $.01 per share, exercisable beginning on December 15, 2005 and March 10, 2006, respectively, and expiring on December 15, 2014 and March 10, 2016, respectively. Such options were issued as compensation for services performed on our behalf. The Company has estimated the dollar value as the fair value at the date of grant using the Black Scholes Model, which includes a volatility assumption of 79.00% and 44.19%, respectively, and a risk-free rate of 2.75% and 2.45%, respectively.

(5) Includes options to purchase shares of common stock at a range of $.008 per share to $.023 per share, exercisable beginning at a range of December 8, 2001 to May 16, 2007, and expiring at a range of June 4, 2009 to May 16, 2016. Such options were issued as compensation for services performed on our behalf. The Company has estimated the dollar value as the fair value at the date of grant using the Black Scholes Model, which includes a range of volatility assumptions of 44.19% to 79.00% and range of risk-free rate of 2.45% to 2.75%.

Other than as set forth above, we have not issued any additional options under the 2005 Stock Option Plan, nor do we currently have any plans to issue any additional options.

RECOMMENDATION OF THE BOARD FOR PROPOSAL NO. 3:

THE BOARD RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDED AND RESTATED 2005 STOCK OPTION PLAN.

FORM 10-KSB AND FORM 10-QSB

OUR ANNUAL REPORT ON FORM 10-KSB FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005 TOGETHER WITH OUR QUARTERLY REPORT ON FORM 10-QSB FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, IS BEING DELIVERED TO YOU WITH THIS PROXY STATEMENT. IN ADDITION, UPON ORAL OR WRITTEN REQUEST OF ANY PERSON ENTITLED TO VOTE AT THE MEETING, ADDRESSED TO US, ATTENTION: SECRETARY, INNOVA HOLDINGS, INC., 17105 SAN CARLOS BOULEVARD, SUITE A6151, FORT MYERS, FL 33931, WE WILL PROVIDE WITHOUT CHARGE, A COPY OF OUR ANNUAL REPORT AND QUARTERLY REPORT WITHIN ONE (1) BUSINESS DAY OF THE COMPANY’S RECIEPT OF SUCH REQUEST. THE ANNUAL REPORT AND QUARTERLY REPORT ARE INCORPORATED IN THIS PROXY STATEMENT. YOU ARE ENCOURAGED TO REVIEW THE ANNUAL REPORT AND QUARTERLY REPORT TOGETHER WITH SUBSEQUENT INFORMATION FILED BY THE COMPANY WITH THE SEC AND OTHER PUBLICLY AVAILABLE INFORMATION.

COMMUNICATIONS WITH STOCKHOLDERS

Anyone who has a concern about our conduct, including accounting, internal accounting controls or audit matters, may communicate directly with our Chief Executive Officer or our non-management directors. Such communications may be confidential or anonymous, and may be submitted in writing addressed care of Sheri Aws, Corporate Secretary, Innova Holdings, Inc., 17105 San Carlos Blvd., Suite A6151, Fort Myers Beach, FL 33931. All such concerns will be forwarded to the appropriate directors for their review, and will be simultaneously reviewed and addressed by the proper executive officers in the same way that other concerns are addressed by us.

DEADLINE FOR FUTURE PROPOSALS OF STOCKHOLDERS

Proposals that a stockholder desires to have included in our proxy materials for our 2007 Annual Meeting of Stockholders must comply with the applicable rules and regulations of the Securities and Exchange Commission, including that any such proposal must be received by our Secretary at our principal office no later than May 31, 2007. It is suggested that such proposals be sent by Certified Mail, Return Receipt Requested. Our By-laws require a stockholder to give advance notice of any business, including the nomination of candidates for the Board of Directors, which the stockholder wishes to bring before a meeting of our stockholders. In general, for business to be brought before an annual meeting by a stockholder, written notice of the stockholder proposal or nomination must be received by our Secretary not more than 180 days prior to the anniversary of the preceding year's annual meeting. With respect to stockholder proposals, the stockholder's notice to our Secretary must contain a brief description of the business to be brought before the meeting and the reasons for conducting such business at the meeting, as well as other information set forth in our By-laws or required by law. With respect to the nomination of a candidate for the Board of Directors by a stockholder, the stockholder's notice to our Secretary must contain certain information set forth in our By-laws about both the nominee and the stockholder making the nominations. If a stockholder desires to have a proposal included in our proxy materials for our 2006 Special Meeting of Stockholders and desires to have such proposal brought before the same annual meeting, the stockholder must comply with both sets of procedures described in this paragraph. Any required written notices should be sent to Innova Holdings, Inc., 17105 San Carlos Blvd., Suite A6151, Fort Myers Beach, FL 33931 Attn: Secretary.

OTHER MATTERS WHICH MAY COME BEFORE THE SPECIAL MEETING

We know of no other matters to be presented at the Special Meeting, but if any other matters should properly come before the meeting, it is intended that the persons named in the accompanying form of proxy will vote the same in accordance with their best judgment and their discretion, and authority to do so is included in the proxy.

SOLICITATION OF PROXIES

The expense of this solicitation of proxies will be borne by us. Solicitations will be made only by use of the mail except that, if deemed desirable, our officers and regular employees may solicit proxies by telephone, telegraph or personal calls. Brokerage houses, custodians, nominees and fiduciaries will be requested to forward the proxy soliciting material to the beneficial owners of the stock held of record by such persons and we will reimburse them for their reasonable expenses incurred in this effort.

BY ORDER OF THE BOARD OF DIRECTORS

WALTER K. WEISEL
Chairman of the Board of Directors

Exhibit 1

CERTIFICATE OF AMENDMENT
TO
CERTIFICATE OF INCORPORATION
OF
INNOVA HOLDINGS, INC.

The undersigned, being the Chief Executive Officer and Secretary of INNOVA HOLDINGS, INC., a corporation existing under the laws of the State of Delaware, do hereby certify under the seal of the said corporation as follows:

1. The Certificate of Incorporation of the Corporation is hereby amended by inserting the following paragraph to the end of Article FOURTH:

“Upon the filing and effectiveness (the "Effective Time") of this Certificate of Amendment with the Delaware Secretary of State, every [eight/ten] outstanding shares of Common Stock shall without further action by this Corporation or the holder thereof be combined into and automatically become one share of Common Stock. The number of authorized shares of Common Stock of the Corporation and the par value of the Common Stock shall remain as set forth in this Certificate of Incorporation, as amended. No fractional share shall be issued in connection with the foregoing combination. All fractional shares shall be rounded up to the next whole number of shares. The capital of the Corporation will not be reduced under or by reason of any amendment herein certified.”

2. The amendment of the certificate of incorporation herein certified has been duly adopted by the unanimous written consent of the Corporation’s Board of Directors and a majority of the Corporation’s stockholders in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused its corporate seal to be hereunto affixed and this Certificate of Amendment of the Corporation's Certificate of Incorporation, as amended, to be signed by Walter K. Weisel, its Chief Executive Officer, and Sheri Aws, its Secretary, this __ th day of ________________________, 2006.

INNOVA HOLDINGS, INC.

By: ____________________________________
Walter K. Weisel, Chief Executive Officer

By: ____________________________________
Sheri Aws, Secretary

Exhibit 2

INNOVA HOLDINGS, INC.
AMENDED AND RESTATED
STOCK OPTION PLAN

I. PURPOSE AND DEFINITIONS

A. PURPOSE OF THE PLAN

The The Plan is intended to encourage ownership of Shares by Key Employees and Key Non-Employees in order to attract and retain such Key Employees in the employ of the Company or an Affiliate, or to attract such Key Non-Employees to provide services to the Company or an Affiliate, and to provide additional incentive for such persons to promote the success of the Company or an Affiliate.

B. DEFINITIONS

Unless otherwise specified or unless the context otherwise requires, the following terms, as used in this Plan, have the following meanings:

1. **Affiliate** means a corporation which is a parent or subsidiary of the Company, direct or indirect.

2. **Board** means the Board of Directors of the Company.

3. **Committee** means the committee to which the Board delegates the power to act under or pursuant to the provisions of the Plan, or the Board if no committee is selected. If the Board delegates powers to a committee, and if the Company is or becomes subject to Section 16 of the Exchange Act, then, if necessary for compliance therewith, such committee shall consist initially of not less than two (2) members of the Board, each member of which must be a "non-employee director," within the meaning of the applicable rules promulgated pursuant to the Exchange Act. If the Company is or becomes subject to Section 16 of the Exchange Act, no member of the Committee shall receive any Option pursuant to the Plan or any similar plan of the Company or any Affiliate while serving on the Committee unless the Board determines that the grant of such an Option satisfies the then current Rule 16b-3 requirements under the Exchange Act. Notwithstanding anything herein to the contrary, and insofar as it is necessary in order for compensation recognized by Participants pursuant to the Plan to be fully deductible to the Company for federal income tax purposes, each member of the Committee also shall be an "outside director" (as defined in regulations or other guidance issued by the Internal Revenue Service under Code Section 162(m)).

4. **Company** means Innova Holdings, Inc. a Delaware corporation, and includes any successor or assignee corporation or corporations into which the Company may be merged, changed, or consolidated; any corporation for whose securities the securities of the Company shall be exchanged; and any assignee of or successor to substantially all of the assets of the Company.

5. **Disability** or **Disabled** means permanent and total disability as defined in Section 22(e)(3) of the IRS Code.

6. **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute thereto.

7. **Key Employee** means an employee of the Company or of an Affiliate (including, without limitation, an employee who also is serving as an officer or director of the Company or of an Affiliate), designated by the Board or the Committee as being eligible to be granted one or more Options under the Plan.

8. **Key Non-Employee** means a non-employee director, consultant, or independent contractor of the Company or of an Affiliate who is designated by the Board or the Committee as being eligible to be granted one or more Options under the Plan.

9. **Option** means a right or option granted under the Plan all of which shall be nonstatutory options which are not intended to be Incentive Options.

10. **Option Agreement** means an agreement between the Company and a Participant executed and delivered pursuant to the Plan.

11. **Participant** means a Key Employee to whom one or more Options are granted under the Plan, and a Key Non-Employee to whom one or more Options are granted under the Plan.

12. **Plan** means this Stock Option Plan, as amended from time to time.

13. **Shares** means the following shares of the capital stock of the Company as to which Options have been or may be granted under the Plan: treasury shares or authorized but unissued Common Stock, or any shares of capital stock into which the Shares are changed or for which they are exchanged within the provisions of Article VI of the Plan:

II. SHARES SUBJECT TO THE PLAN

The aggregate number of Shares as to which Options may be granted from time to time shall be Two Hundred Million (200,000,000) Shares (subject to adjustment for stock splits, stock dividends, and other adjustments described in Article VI hereof).

If an Option ceases to be "outstanding," in whole or in part, the Shares which were subject to such Option, if the Option was not exercised, shall be **available2,488,000** 11,483,000 926,000 14,897,000

Loss from operations
(3,059,000) (10,967,000) (243,000) (14,269,000)

Interest expense
(160,000) - (133,000) (293,000)

Other income/(expense)
(288,000) - 144,000 (144,000)

Net loss before taxes
(3,507,000) (10,967,000) (232,000) (14,706,000)

Income tax benefit
- - 82,000 82,000

Noncontrolling interest
- 27,000 - 27,000

Net (loss) income to common shareholders
$(3,507,000) $(10,940,000) $(150,000) $(14,597,000)

Long lived assets
$6,602,000 $17,976,000 $22,444,000 $47,022,000

Capital expenditures
$543,000 $456,000 $318,000 $1,317,000

Fixed assets held for sale
$10,642,000 $10,642,000

	Nine Months Ended September 30, 2009			
	Corporate (1)	NutraCea	Irgovel	Consolidated
Net revenue	$-	$11,023,000	$14,031,000	$25,054,000
Cost of goods sold	-	8,358,000	11,981,000	20,339,000
Gross profit	-	2,665,000	2,050,000	4,715,000
Depreciation and amortization	1,709,000	1,075,000	729,000	3,513,000
Other operating expenses	9,129,000	15,082,000	2,334,000	26,545,000
Loss from operations	(10,838,000)	(13,492,000)	(1,013,000)	(25,343,000)
Interest expense	(1,243,000)	-	(458,000)	(1,701,000)
Other income/(expense)	1,155,000	-	318,000	1,473,000
Net loss before taxes	(10,926,000)	(13,492,000)	(1,153,000)	(25,571,000)
Income tax benefit	-	-	282,000	282,000
Noncontrolling interest	-	108,000	-	108,000
Net (loss) income to common shareholders	$(10,926,000)	$(13,384,000)	$(871,000)	$(25,181,000)
Long lived assets	$6,602,000	$17,976,000	$22,444,000	$47,022,000

Capital expenditures	$543,000	$456,000	$318,000	$1,317,000
Fixed assets held for sale		$10,642,000		$10,642,000

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	Three Months Ended September 30, 2008			
	Corporate (1)	NutraCea	Irgovel	Consolidated
Net Revenue	$-	$3,844,000	$7,628,000	$11,472,000
Cost of Goods Sold	-	3,232,000	5,783,000	9,015,000
Gross Margin	-	612,000	1,845,000	2,457,000
Depreciation & Amortization	254,000	421,000	273,000	948,000
Other operating expenses	3,635,000	735,000	761,000	5,131,000
Gain/(Loss) from Operations	(3,889,000)	(544,000)	811,000	(3,622,000)
Interest Expense	(344,000)	-	41,000	(303,000)
Other Income/(Expense)	68,000	-	69,000	137,000
Net Income/(Loss) before taxes	(4,165,000)	(544,000)	921,000	(3,788,000)
Income tax expense	-	1,000	(223,000)	(222,000)
Non-controlling interest	-	-	-	-
Net (loss) income to common shareholders	$(4,165,000)	$(543,000)	$698,000	$(4,010,000)
Long Lived Assets	$2,673,000	$58,770,000	$20,742,000	$82,185,000
Capital Expenditures	$2,433,000	$19,528,000	$314,000	$22,275,000

	Nine Months Ended September 30, 2008			
	Corporate (1)	NutraCea	Irgovel	Consolidated
Net Revenue	$-	$12,078,000	$16,244,000	$28,322,000
Cost of Goods Sold	-	10,532,000	11,490,000	22,022,000
Gross Margin	-	1,546,000	4,754,000	6,300,000
Depreciation & Amortization	741,000	1,110,000	273,000	2,124,000
Other operating expenses	12,971,000	4,359,000	2,385,000	19,715,000
Gain/(Loss) from Operations	(13,712,000)	(3,923,000)	2,096,000	(15,539,000)
Interest Expense	(107,000)	-	(341,000)	(448,000)
Other Income/(Expense)	332,000	-	(90,000)	242,000
Net Income/(Loss) before taxes	(13,487,000)	(3,923,000)	1,665,000	(15,745,000)
Income tax expense	-	(35,000)	(505,000)	(540,000)
Non-controlling interest	-	70,000	-	70,000
Net (loss) income to common shareholders	$(13,487,000)	$(3,888,000)	$1,160,000	$(16,215,000)
Long Lived Assets	$2,673,000	$58,770,000	$20,742,000	$82,185,000
Capital Expenditures	$2,433,000	$19,528,000	$314,000	$22,275,000

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

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

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	Three Months Ended September 30,	
	2009	2008
Net revenue from customers:		
United States	$ 2,611,000	$ 4,333,000
Brazil	4,932,000	7,005,000
Other International	717,000	134,000
	$ 8,260,000	$ 11,472,000
Property, plant and equipment, net		
United States	$ 21,344,000	$ 30,842,000
Brazil	13,499,000	7,905,000
	$ 34,843,000	$ 38,747,000

	Nine Months Ended September 30,	
	2009	2008
Net revenue from customers:		
United States	$ 9,108,000	$ 11,980,000
Brazil	13,432,000	14,524,000
Other International	2,514,000	1,818,000
	$ 25,054,000	$ 28,322,000
Property, plant and equipment, net		
United States	$ 21,344,000	$ 30,842,000
Brazil	13,499,000	7,905,000
	$ 34,843,000	$ 38,747,000

Note 17. Warrants

Anti-dilutive warrants

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

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

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

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

In July 2009, under the employment agreement with the Company’s current Chief Executive Officer, he was granted options at an exercise price which triggered issuance of additional anti-dilutive warrants. As a result the Company issued 6,967,000 additional warrants at a weighted average exercise price of $0.60 to existing holders.

Warrant liability was $1,608,000 as of September 30, 2009 resulting in warrant liability income of $2,305,000 or earnings per share of $0.01, included in other income for the period ended September 30, 2009.

Series D Warrants

The Company issued 4,545,000 Series D warrants under an effective registration statement in October 2008. The warrants were silent as to any penalties should the Company be unable to maintain the effectiveness of the registration and accordingly, the warrants should have been recorded as a liability as of their issuance date and December 31, 2008. The Company had not previously accounted for these warrants as separate instruments. The Company recorded the fair value of its 4,545,000 Series D warrants totaling $1,156,000 as warrant liability and the corresponding expense as of January 1, 2009. In May 2009 the Series D Warrants were exchanged for the same number of Series E Warrants. The fair value related to the Series E Warrants was $808,000 as of September 30, 2009. The Series D Warrants and Series E Warrants were valued using the Lattice Model. The net warrant liability expense associated with the Series D Warrants and the Series E warrants is $808,000 for the period ended September 30, 2009, namely the $1,156,000 of initial expense recorded on January 1, 2009 offset by income of $348,000 representing the change in the warrant liability value from January 1, 2009 to September 31, 2009. The Company’s management determined that recording the $1,156,000 warrant expense in the first quarter of 2009 instead of recording that expense in the fourth quarter of 2008 does not materially misstate the financial statements of any periods affected.

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

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

	Outstanding Warrants	Weighted Average Exercise Price
January 1, 2009		
Series D warrants	4,545,000	$ 0.55
Adoption of ASC 815-40-15 anti-dilutive warrants	28,723,000	$ 1.77
Exchange of Warrants:		
Series D warrants Cancelled	(4,545,000)	$ 0.55
Series E warrants issued	4,545,000	$ 0.30
Additional warrants issued in connection with anti-dilutive warrant triggering events	9,533,000	$ 0.93
Total anti dilutive and Series E warrants outstanding at September 30, 2009	42,801,000	$ 1.24

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

	January 1, 2009	September 30, 2009
Risk-free interest rate	0.66% - 1.50%	0.40% - 2.20%
Expected volatility	93%	109%
Expected life (years)	1.75 - 4.80	1.01 - 4.75
Annual dividend yield	$ 0	$ 0

Other Warrants

The Company has issued to investors certain warrants that do not contain anti-dilutive features and hence, qualify as equity warrants. The Company valued these warrants using the Black-Scholes-Merton model upon issuance. As of September 30, 2009, there were 1,546,000 of other warrants outstanding and exercisable with a weighted average exercise price of $1.86 and expected life of 1.33 years.

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Note 18. Fair Value Measurement

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

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

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

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

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

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

	2009				2008
	Level 1	Level 2	Level 3	Total	Total
Warrant liabilities (1)	$-	$-	$2,416,000	$2,416,000	$-
Total liabilities at fair value	$-	$-	$2,416,000	$2,416,000	$-

(1) Represents fair value of warrant liabilities established as a result of adoption of FASB ASC 815, “Derivatives and Hedging” (FASB ASC 815) (previously EITF 07-5, “Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity’s Own Stock”). Fair value of the warrant liabilities was determined using the Lattice Model. Refer to Note 17 to the Condensed Consolidated Financial Statements included herein.

Reconciliation of Changes in Level 3 Balances

The following table summarizes the changes in level 3 items measured at fair value on a recurring basis on the Company’s balance sheet for the nine period ended September 30:

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	2009						
	Adoption of ASC 815-40-15 as of January 1, 2009	Total Realized/ Unrealized (Gains)/ Losses (1)	Record Series D Warrants at fair value as of January 1, 2009 (see Note 17)(1)	Issuance of new Warrants (1)	Net Transfers Into/(Out of) Level 3	Fair value at September 31, 2009	Change in Unrealized (Gains)/Losses on Instruments Still Held
Warrant liabilities	$3,913,000	(3,333,000)	$1,156,000	$680,000	$-	$2,416,000	$ (3,333,000)
Total Level 3 fair value	$3,913,000	(3,333,000)	$1,156,000	$680,000	$-	$2,416,000	$ (3,333,000)

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

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

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

	2009			
	Level 1	Level 2	Level 3	Total
Held-for-sale fixed assets (1)	$-	$-	$10,642,000	$10,642,000
Held-for-sale intangibles (2)	-	-	750,000	750,000
Lake Charles building (3)	-	-	1,251,000	1,251,000
Lake Charles equipment (4)			583,000	583,000
Total assets at fair value	$-	$-	$13,226,000	$13,226,000

(1) Represents land, building, equipment and construction in progress at our Dillon, Montana and Phoenix, Arizona facilities. The fair value was measured based on third party appraisals, offers from potential buyers and subsequent sale of the assets. Refer to Note 6 to the Consolidated Financial Statements included herein.

(2) Represents Equine Trademarks held for sale as of December 31, 2009. The fair value was determined based on the offers received from potential buyers. The Equine Trademarks were sold to an existing customer of our equine products in April 2010. Refer to Note 7 to the Consolidated Financial Statements included herein.

(3) The Company recorded an impairment of $2,300,000 during the third quarter of 2009. The fair value of the building was based on a written offer made to FRM and a third party appraisal. Refer to Note 6 to the Consolidated Financial Statements included herein.

(4) Represents oil pressing equipment at our Lake Charles, Louisiana held for sale as of September 31, 2009. The fair value was measured based on management's intention to contribute the equipment at cost to the Grain Enhancement joint venture in Indonesia.

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Note 19. Restatement

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

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

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

- The Company determined that a $2.0 million sale of its RiceNShine product in December 2007 did not meet accounting requirements for revenue recognition in a bill and hold transaction. Accordingly, the transaction should not have been recognized as revenue in the Company's 2007 results. The Company reversed this sale which resulted in a reduction of revenue of $2.0 million, a reduction of cost of goods sold of $1.3 million, and a reduction of net income of $0.7 million. The revenues, costs of goods sold, and net income from this sale were ultimately recognized in the four quarters of 2008 and the first quarter of 2009 as follows (in millions):

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

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

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

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

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

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

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

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

- In April 2007, the Company began leasing the office space that it currently occupies as its corporate headquarters in Phoenix, Arizona. As part of the lease arrangement, the landlord provided certain moving and rental incentives to the Company. The rental incentives provided funds which the Company used for leasehold improvements of the office space. The Company did not properly account for the incentives provided by the landlord. The Company accounted properly for these transactions as part of its restatement of the Consolidated Financial Statements for fiscal 2007, the second, third, and fourth quarters of fiscal 2007, and the first three quarters of fiscal 2008. The restatement increased rent expense by $139,000 for the second quarter of 2007 and decreased rent expense by $42,000 for the third and fourth quarters of 2007 and for each of the first three quarters of 2008.

- In the second quarter of 2007, the Company recognized revenue on an approximately $2.1 million sale to a nutraceutical distributor. The customer made payments during the third and fourth quarters of 2007, and a balance of approximately $1.4 million remained at the end of 2007. The Company established a reserve for doubtful accounts for the remaining amount as of December 31, 2007. Based upon facts discovered in the Additional Findings, the Company concluded that the sale did not meet the criteria for revenue recognition, and therefore restated the transaction. The restatement resulted in a reduction to the 2007 revenue of approximately $1.4 million and a reduction to the 2007 bad debt expense of approximately $1.4 million.

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

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Condensed Consolidated Balance Sheet
(Unaudited)

	As of September 30, 2008		
	As Previously Reported	Adjustments	As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 8,702,000	$ 12,000	$ 8,714,000
Restricted cash	2,363,000	-	2,363,000
Trade accounts receivables, net of allowance for doubtful accounts of $3,177,000	2,992,000	-	2,992,000
Inventories	4,945,000	36,000	4,981,000
Notes receivable, current portion, net of allowance for doubtful notes receivable of $543,000	921,000	-	921,000
Deposits and other current assets	3,248,000	492,000	3,740,000
Total current assets	23,171,000	540,000	23,711,000
Restricted cash	1,344,000	-	1,344,000
Property, plant and equipment, net	46,652,000	801,000	47,453,000
Equity method investment	11,751,000	(5,000,000)	6,751,000
Intangible assets, net	5,139,000	-	5,139,000
Goodwill	52,668,000	333,000	53,001,000
Other non-current assets	124,000	-	124,000
Total assets	$ 140,849,000	$ (3,326,000)	$ 137,523,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	$ 15,126,000	$ 311,000	$ 15,437,000
Deferred rent incentive - current portion	-	168,000	168,000
Notes payable, current portion	710,000	147,000	857,000
Deferred revenue	-	105,000	105,000
Total current liabilities	15,836,000	731,000	16,567,000
Long-term liabilities:			
Deferred rent incentive - net of current portion	-	1,176,000	1,176,000
Notes payable, net of current portion	4,379,000	(47,000)	4,332,000
Other non-current liabilities	-	999,000	999,000
Total liabilities	20,215,000	2,859,000	23,074,000
Shareholders' equity:			
Common stock, no par value, 350,000,000 shares authorized, 167,994,000 shares issued and outstanding	199,185,000	-	199,185,000
Investment from Parent			
Accumulated deficit	(78,594,000)	(6,185,000)	(84,779,000)
Accumulated other comprehensive income	43,000	-	43,000

Total shareholders' equity	120,634,000		(6,185,000)	114,449,000
Total liabilities and shareholders' equity	$ 140,849,000	$	(3,326,000) $	137,523,000

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Condensed Consolidated Statement of Operations
(Unaudited)

	Three Months Ended September 30, 2008		
	As Previously Reported	Adjustments	As Restated
Revenues			
Net product revenue	$ 11,201,000	$ 271,000	$ 11,472,000
Total revenue	11,201,000	271,000	11,472,000
Cost of goods sold	8,704,000	311,000	9,015,000
Gross profit	2,497,000	(40,000)	2,457,000
Operating expenses			
Selling, general and administrative	6,484,000	(966,000)	5,518,000
Research and development	266,000	-	266,000
Bad debt expense	-	231,000	231,000
Professional fees	303,000	(11,000)	292,000
Gain, net of losses, on retirement of assets	(211,000)	(17,000)	(228,000)
Total operating expenses	6,842,000	(763,000)	6,079,000
Loss from operations	(4,345,000)	723,000	(3,622,000)
Other income (expense)			
Interest income	176,000	-	176,000
Interest expense	(107,000)	(196,000)	(303,000)
Loss on equity method investments	(35,000)	14,000	(21,000)
Other expense	-	(18,000)	(18,000)
Total loss before income taxes and minority interests	(4,311,000)	523,000	(3,788,000)
Income tax expense	(222,000)	-	(222,000)
Net loss available to common shareholders	$ (4,533,000)	$ 523,000	$ (4,010,000)
Net loss earnings per share			
Basic	$ (0.03)	$ 0.00	$ (0.02)
Diluted	$ (0.03)	$ 0.00	$ (0.02)
Weighted average number of shares outstanding			
Basic	167,866,000	167,866,000	167,866,000
Diluted	167,866,000	167,866,000	167,866,000

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Condensed Consolidated Statement of Operations
(Unaudited)

	Nine Months Ended September 30, 2008		
	As Previously Reported	Adjustments	As Restated
Revenues			
Net product revenue	$ 26,483,000	$ 1,839,000	$ 28,322,000
Total revenue	26,483,000	1,839,000	28,322,000
Cost of goods sold	20,775,000	1,247,000	22,022,000
Gross profit	5,708,000	592,000	6,300,000
Operating expenses			
Selling, general and administrative	17,534,000	(532,000)	17,002,000
Research and development	1,268,000	-	1,268,000
Bad debt expense	-	413,000	413,000
Professional fees	3,385,000	(332,000)	3,053,000
Loss, net of gains, on retirement of assets	462,000	(359,000)	103,000
Total operating expenses	22,649,000	(810,000)	21,839,000
Loss from operations	(16,941,000)	1,402,000	(15,539,000)
Other income (expense)			
Interest income	597,000	119,000	716,000
Interest expense	(448,000)	-	(448,000)
Loss on equity method investments	(115,000)	-	(115,000)
Other income (expense)	-	(359,000)	(359,000)
Total loss before income taxes and minority interests	(16,907,000)	1,162,000	(15,745,000)
Income tax expense	(541,000)	1,000	(540,000)
Minority interests	70,000	-	70,000
Net loss available to common shareholders	$ (17,378,000)	$ 1,163,000	$ (16,215,000)
Net loss earnings per share			
Basic	$ (0.12)	$ 0.01	$ (0.11)
Diluted	$ (0.12)	$ 0.01	$ (0.11)
Weighted average number of shares outstanding			
Basic	147,947,000	147,947,000	147,947,000
Diluted	147,947,000	147,947,000	147,947,000

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Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2008		
	As Previously Reported	Adjustments	As Restated
Cash flow from operating activities:			
Net loss	$ (17,378,000)	$ 1,093,000	$ (16,285,000)
Adjustments to reconcile net loss to net cash from operating activities:			
Depreciation and amortization	2,870,000	69,000	2,939,000
Provision for doubtful accounts and notes	633,000	(62,000)	571,000
Stock-based compensation	1,956,000	-	1,956,000
Loss on equity investments	115,000	-	115,000
Loss on sale of assets	331,000	-	331,000
Changes in operating assets and liabilities:			
Trade accounts receivable	121,000	134,000	255,000
Inventories	(2,695,000)	55,000	(2,640,000)
Other current assets	(282,000)	79,000	(203,000)
Accounts payable and accrued expenses	5,730,000	1,204,000	6,934,000
Deferred rent incentive	-	(126,000)	(126,000)
Deferred revenue	(89,000)	(1,815,000)	(1,904,000)
Net cash used in operating activies	(8,688,000)	631,000	(8,057,000)
Cash flows from investing activities:			
Issuance of notes receivable	(294,000)	-	(294,000)
Proceeds of payments from notes receivable	7,025,000	(5,000,000)	2,025,000
Purchases of property and equipment	(21,989,000)	(286,000)	(22,275,000)
Investment in Irgovel, net of cash acquired	(14,971,000)	-	(14,971,000)
Investment in PIN	(10,675,000)	5,000,000	(5,675,000)
Restricted cash	(1,158,000)	-	(1,158,000)
Purchases of other assets, intangibles and goodwill	(40,000)	(333,000)	(373,000)
Net cash used in investing activities	(42,102,000)	(619,000)	(42,721,000)
Cash flows from financing activities:			
Proceeds from equity financing, net of expenses	18,775,000	-	18,775,000
Principal proceeds on notes payable, net of discount	(1,076,000)	100,000	(976,000)
Registration costs	(104,000)	-	(104,000)
Proceeds from exercise of common stock options and warrants	745,000	-	745,000
Net cash provided by financing activities	18,340,000	100,000	18,440,000
Effect of exchange rate changes on cash and cash equivalents	(146,000)	-	(146,000)
Net decrease in cash	(32,596,000)	112,000	(32,484,000)
Cash, beginning of period (Restated)	41,198,000	-	41,198,000

Cash, end of period	$ 8,602,000	$ 112,000	$ 8,714,000

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Note 20. Subsequent Events

Sale of Assets

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

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

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

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

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

Employment related

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

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The amendment increases Mr. Short's base salary on the Company's plan of re-organization effective date November 30, 2010 (Plan Effective Date) to $375,000 from $350,000. In addition, NutraCea agreed to pay Mr. Short, within ten days of the Plan Effective Date, (i) an initial bonus of $100,000 (as previously provided for in the initial employment agreement), and (ii) a bonus in an amount up to $300,000 subject, among other things, to certain restrictions imposed by the Amended Plan.

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

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

On July 2, 2010, NutraCea entered into an amendment to employment agreement with Mr. Gingras, amending Mr. Gingras' employment agreement dated July 28, 2009 to automatically extend the term of his employment. The amendment increases Mr. Gingras' base salary on the Plan Effective Date to $300,000 from $275,000. In addition, NutraCea agreed to pay Mr. Gingras, within ten days of the Plan Effective Date, (i) an initial bonus of $100,000 (as previously provided for in the initial employment agreement), and (ii) a bonus in an amount up to $300,000 subject, among other things, to certain restrictions imposed by the Amended Plan.

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

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

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

Other

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

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On March 2, 2010, NutraCea received a “Wells Notice” from the Securities and Exchange Commission (the “SEC”) in connection with a previously disclosed ongoing investigation by the staff of the SEC’s Division of Enforcement (the “Staff”). The Wells Notice informed the Company that the Staff has made a preliminary determination to recommend that the SEC bring a civil injunctive action against NutraCea for possible violations of Section 17(a) of the Securities Act of 1933 and Sections 10(b), 13(a), 13(b)(2)(A) and13(b)(2)(B) of the Securities Exchange Act of 1934, and Rules 10b-5, 12b-20, 13a-1 and 13a-13 there under. In connection with the contemplated civil injunctive action, the Staff may seek a permanent injunction and civil penalty against NutraCea. NutraCea has been cooperating with the SEC with respect to the investigation.

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

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

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

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

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

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

In February 2008, we acquired 100% ownership of Industria Riograndens De Oleos Vegetais Ltda. ("Irgovel"), a limited liability company organized under the laws of the Federative Republic of Brazil, which operates a rice-bran oil manufacturing facility in Pelotas, Brazil (see Note 10 to the Consolidated Financial Statements included herein). Concurrent with that acquisition we began reporting in two business segments; the NutraCea segment which manufactures and distributes ingredients primarily derived from SRB and the Irgovel segment which manufactures rice-bran oil and fatted and defatted SRB products in Pelotas, Brazil (see Note 10 to the Condensed Consolidated Financial Statements included herein).

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Our NutraCea segment is primarily engaged in the manufacturing of SRB at four locations in California and Louisiana (a fifth location in Texas was closed in May 2009) for various consumptive uses. In addition, we have the capability to custom manufacture various grain based products for human food ingredient companies at our facility in Dillon, Montana. Our Phoenix, Arizona facility, which became operational in February 2009, was not brought into full production and was sold in 2010. We have specialized processing equipment and techniques for the treatment of rice grain products to cook, convert, isolate, dry and package finished food ingredients used in the formulation of health food and consumer food finished products. NutraCea RiSolubles, a highly nutritious, carbohydrate and lipid rich fraction, is produced at our Dillon, Montana facility along with RiFiber, a fiber rich derivative and RiBalance, a complete rice bran nutritional package. NutraCea believes that these manufacturing capabilities are unique among grain processors, with custom processing capabilities suited to numerous food applications. In May 2008, NutraCea was granted USDA/FSIS approval to use SRB as an enhancer into meat products such as meat and poultry sausages that contain binders, nugget-shaped patties, meatballs, meatloaf, and meat and poultry patties. Sales of human food products were approximately 51.8% of total sales in the NutraCea segment in 2009, while the balance of 48.2% of sales made were of animal food products. Our manufacturing assets which consist of equipment and building at our Dillon, Montana facility are available for sale as of December 31, 2009.

Our Irgovel segment manufactures rice-bran oil (“RBO”) and fatted and defatted rice bran (“DRB”) products for both the human and animal food markets in Brazil and internationally. Irgovel owns the largest rice bran processing facility in South America and is the only Brazilian company to produce oil from rice for human consumption. The extraction of oil from rice bran produces crude RBO and with further refining results in human edible RBO. After extraction, the resulting DRB can be sold into either the human or animal nutrition food channels. Sales of human food products were approximately 21.4% of total sales in 2009, industrial oils were approximately 40.2% of sales, and the remaining 38.4% of sales was of animal food products. On December 29, 2010 Nutra SA LLC, NutraCea’s wholly owned subsidiary sold approximately 35.6% of its ownership of Irgovel to AF Bran Holdings-NL LLC and AF Bran Holding LLC (see Note 10 to the Condensed Consolidated Financial Statements).

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

Results of Operations

THREE MONTHS ENDED September 30, 2009 AND 2008

For the three months ended September 30, 2009, the Company’s net loss was ($14,597,000), or ($.08) per share, compared to ($4,010,000) or ($.02) per share, in the same period of 2008, a significantly increased loss of $10,587,000. The change is attributable to a charge for impairment of assets totaling $10,339,000 in the third quarter of 2009 associated with our: (i) Phoenix building and equipment, (ii) Lake Charles facility and (iii) certain equine product related trademarks.

Our consolidated net revenues for the three months ended September 30, 2009 of $8,260,000 decreased $3,212,000 from the $11,472,000 recorded in the same period last year. Revenues generated by the NutraCea segment declined overall by $799,000 (21%) and the Irgovel segment decreased $2,413,000 (32%). NutraCea segment revenue for the 2009 quarter was negatively impacted by reduced revenues of $825,000 associated with the deconsolidation of VLI. Revenue from the Irgovel segment was negatively impacted by an overall decline in pricing levels throughout 2009. Worldwide food prices in 2008 were experiencing a significant run up and were impacting prices throughout the food industry.

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Gross profit in the three months ended September 30, 2009 was $1,782,000 (22%) compared to $2,457,000 (21%) in 2008, a decrease of $675,000. The NutraCea segment contributed $821,000 (27%) to gross profit and the Irgovel segment contributed $961,000 (18%). The NutraCea segment experienced improvement in gross profit, 27% compared to 16% due to multiple factors. In July 2009, due to low utilization of plant capacity, the Mermentau and Lake Charles facilities were temporarily idled resulting in better overall efficiency at remaining facilities. The full impact of operating personnel layoffs in May 2009 also contributed to lower NutraCea segment cost of sales. Additionally in 2008, historically high raw bran prices resulted in higher 2008 costs as compared to 2009. As noted above, the Irgovel segment experienced a significant decline in prices during 2009. Combined with a shift to lower margin products and higher raw bran costs, these factors resulted in gross profit decreasing by $884,000, a decline in gross profit percentage from 24% to 18%. The following table illustrates the contribution by each of our segments during the three months ended:

	For Thee Months											
	September 30, 2009						September 30, 2008					
	Consolidated	%	NutraCea	%	Irgovel	%	Consolidated	%	NutraCea	%	Irgovel	
Net product sales	$8,243,000		$3,028,000		$5,215,000		$11,464,000		$3,836,000		$7,628,000	
Royalty and licensing	17,000		17,000				8,000		8,000			
Total revenues	8,260,000	100	3,045,000	100	5,215,000	100	11,472,000	100	3,844,000	100	7,628,000	1
Cost of sales	6,478,000	78	2,224,000	73	4,254,000	82	9,015,000	79	3,232,000	84	5,783,000	7
Gross profit	$1,782,000	22	$821,000	27	$961,000	18	$2,457,000	21	$612,000	16	$1,845,000	2

Sales, General and Administrative ("SG&A") expenses were $5,102,000 and $5,749,000 for the three months ended September 30, 2009 and 2008, respectively, a decrease of $647,000 (11%). The changes in components making up SG&A expense are detailed in the following schedule:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Increase (Decrease)
Payroll and Benefits	$ 1,516,000	$ 2,472,000	$ (956,000)
Sales & Marketing	163,000	362,000	(199,000)
Operations	219,000	350,000	(131,000)
Depreciation and Amortization	876,000	675,000	201,000
Stock Option and Warrant Expense	206,000	466,000	(260,000)
Other SG&A	992,000	242,000	750,000
Total NutraCea Segment SG&A	3,972,000	4,567,000	(595,000)
Irgovel SG&A	1,130,000	1,182,000	(52,000)
Total Consolidated SG&A	$ 5,102,000	$ 5,749,000	$ (647,000)

The decline in SG&A is primarily due to decreased expenses in the NutraCea segment, a direct result of layoffs of corporate personnel that occurred in May and July of 2009 and the reduction in sales and marketing expenses associated with fewer salesmen. The NutraCea segment also experienced lower Stock Option and Warrant Expense. However, it was offset by higher depreciation associated with the Phoenix and Lake Charles facilities that were idle throughout the 2009 quarter. SG&A at the Irgovel segment was relatively flat. Other expense in the third quarter of 2008 included income of $943,000 associated with the restatement of VLI.

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Research and Development ("R&D") expenses were $167,000 and $266,000 for the three months ended September 30, 2009 and 2008, respectively, a decrease of $99,000. R&D activities were curtailed in 2009 due to cash constraints and a reduction in scientific staff.

In the three months ended September 30, 2009, the NutraCea segment recorded charges for impairment of two idle plant facilities and one intangible asset. The net carrying value for idle Phoenix building and equipment was written down by $6,512,000 and the idle Lake Charles facility by $2,333,000. Trademarks associated with certain equine products were written down by $1,494,000.

Professional fees were $457,000 and $292,000 for the three months ended September 30, 2009 and 2008, respectively, a increase of $165,000. Professional fees are expenses associated with consultants, accounting and auditing services, SOX 404 compliance, and outside legal counsel. Legal fees were higher in the 2009 quarter due to the ongoing SEC investigation and financial restatement efforts.

The loss from other income (expense), net, increased from ($166,000) for the three months ended September 30, 2008 to a loss of ($437,000) for 2009, an increase of $271,000. The increase is due to minor changes in the individual components of other income and expense as shown below:

	For Three Months					
	September 30, 2009			September 30, 2008		
	Consolidated	NutraCea	Irgovel	Consolidated	NutraCea	Irgovel
Interest income	$119,000	$36,000	$83,000	$176,000	$188,000	$(12,000)
Interest expense	(293,000)	(161,000)	(132,000)	(303,000)	(344,000)	41,000
Loss from equity investments	(151,000)	(151,000)	-	(21,000)	(21,000)	-
Gain/(loss) on foreign exchange	62,000	-	62,000	-	-	-
Warrant liability expense	(74,000)	(74,000)	-	-	-	-
Other income (expense)	(100,000)	(99,000)	(1,000)	(18,000)	(27,000)	9,000
Total other (expenses) income	$(437,000)	$(449,000)	$12,000	$(166,000)	$(204,000)	$38,000

NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

For the nine months ended September 30, 2009, the Company's net loss was ($25,181,000), or ($.14) per share, compared to ($16,215,000) or ($.11) per share, in the same period of 2008, an increased loss of $8,966,000. The increased loss for the period is primarily the result of impairing assets in the third quarter of 2009 as discussed above. If the impairment charges are added back the net loss would have been $14,842,000 which would have been an improvement of $1,373,000 (8%) over the nine months ended September 30, 2008.

Our consolidated net revenues for the nine months ended September 30, 2009 of $25,054,000 decreased $3,268,000 from the $28,322,000 recorded in the same period for 2008. NutraCea segment revenues decreased by $1,055,000 (9%). Irgovel segment revenues declined $2,213,000 (14%). NutraCea segment revenues in 2009 were impacted by the loss of a private label customer resulting in lost revenue of $357,000 and the lost revenue of $2,310,000 associated with the deconsolidation of VTL in the fourth quarter of 2008. The decreases in the NutraCea segment were offset by the continuing growth of remaining business. For the Irgovel segment, the 2008 period only comprises the period beginning with the February 19, 2008 acquisition date.

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Gross profit for the nine months ended September 30, 2009 was $4,715,000 (19%) compared to $6,300,000 (22%) a decrease of $1,585,000 compared to the same period last year. The NutraCea segment contributed $2,665,000 (24%) to gross profit and the Irgovel segment contributed $2,050,000 (15%). The NutraCea segment experienced significant improvement in margin percentage in 2009 when compared to 2008 due to the high cost of sales incurred in 2008 attributed to historically high raw bran prices and the phasing out of high margin products. During the three months ended March 31, 2008 we recorded a charge to cost of good of $515,000 on our NutraCea segment relating to a credit to a customer to reimburse them for products purchased by them during 2007 ultimately determined by the customer to not meet their specifications. Irgovel segment margins were negatively impacted by declining price levels, an unfavorable shift in sales mix, higher raw bran costs and significantly increased plant maintenance costs. The following table illustrates the contribution by each of our segments during the nine months ended:

	For Nine Months										
	September 30, 2009						September 30, 2008				
	Consolidated	%	NutraCea	%	Irgovel	%	Consolidated	%	NutraCea	%	Irgov
Net product sales	$25,015,000		$10,984,000		$14,031,000		$28,283,000		12,039,000		16,244,0
Royalty and licensing	39,000		39,000				39,000		39,000		
Total revenues	25,054,000	100	11,023,000	100	14,031,000	100	28,322,000	100	12,078,000	100	16,244,0
Cost of sales	20,339,000	81	8,358,000	76	11,981,000	85	22,022,000	78	10,532,000	87	11,490,0
Gross profit	$4,715,000	19	$2,665,000	24	$2,050,000	15	$6,300,000	22	$1,546,000	13	$4,754,00

Sales, General and Administrative ("SG&A") expenses were $16,194,000 and $17,002,000 in the nine months ended September 30, 2009 and 2008, respectively, a decrease of $808,000 (5%). The changes to components making up SG&A expense are detailed in the following schedule:

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Increase (Decrease)
Payroll and Benefits	$5,622,000	$5,874,000	$(252,000)
Sales & Marketing	553,000	835,000	(282,000)
Operations	670,000	869,000	(199,000)
Depreciation and Amortization	2,784,000	1,430,000	1,354,000
Stock Option and Warrant Expense	398,000	2,286,000	(1,888,000)
Other SG&A	3,332,000	2,655,000	677,000
Total NutraCea Segment SG&A	13,359,000	13,949,000	(590,000)
Irgovel SG&A	2,835,000	3,053,000	(218,000)
Total Consolidated SG&A	$16,194,000	$17,002,000	$(808,000)

The decline in SG&A is primarily a combination of: (i) reduced payroll and benefits and sales and marketing expenses associated with the May and July 2009 reductions in force, (ii) reduced stock option and warrant expense, (iii)

increased depreciation expense associated with the idle Phoenix and Lake Charles facilities. The Irgovel segment experienced a favorable reduction of expense associated with the efforts to streamline management and rationalize overhead in the periods after June 30, 2008.

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Research and Development ("R&D") expenses were $841,000 and $1,268,000 for the nine months ended September 30, 2009 and 2008, respectively, a decrease of $427,000. R&D activities were significantly curtailed in 2009 due to cash constraints and a reduction in scientific staff.

In the nine months ended September 30, 2009, the NutraCea segment recorded charges for impairment of two idle plant facilities and one intangible asset. All impairment was recorded in the third quarter. The net carrying value for idle Phoenix building and equipment was written down by $6,512,000 and the idle Lake Charles facility by $2,333,000. Trademarks associated with certain equine products were written down by $1,494,000.

In the nine months ended September 30, 2009 our bad debt expense was $(66,000) compared to $413,000 in the nine months ended September 30, 2008. A significant portion of bad debt expense in 2008 was related to VLI and customers we no longer do business with or product lines we no longer sell.

Professional fees were $2,408,000 and $3,053,000 for the nine months ended September 30, 2009 and 2008, respectively, a decrease of $645,000. Professional fees are expenses associated with consultants, accounting and auditing services, SOX 404 compliance, and outside legal counsel. This decrease in primary due to fees related to a $500,000 accrual booked in 2008 for a brokers fee related to Medan. The remaining decrease is consulting fees related to the purchase of Irgovel and SOX 404 compliance incurred in 2008.

The loss from other income (expense), net, increased from $(206,000) for the nine months ended September 30, 2008 to a loss of ($228,000) for 2009, an increase of $22,000. The increase is due primarily to adoption of SFAS No. 161 ("ASC 815") in January 2009. The result of adopting ASC 815 resulted in warrants to purchase 42,800,942 shares of our common stock (previously treated as equity pursuant to the derivative treatment exemption) not being afforded equity treatment. Effective January 1, 2009, we reclassified the fair value of these common stock warrants from equity to liability status. This created an initial liability of $3,913,000 upon adoption. Combined with Series D warrant liability, the total liability at the beginning of the year was $5,069,000. As of September 30, 2009, the liability had decreased to $2,416,000 due to a combination of new warrants being issued, a conversion of Series D warrants to Series E warrants and a decline in the value of existing warrants. The warrant liability income of $2,653,000 was offset by $1,156,000 of expense associated with the initial recording of Series D warrants in January 2009. Interest expense for the NutraCea segment increased by $1,136,000 due to the Wells Fargo Bank loan that did not exist in 2008. Specific changes to other income and expense components are as follows:

	For Nine Months					
	September 30, 2009			September 30, 2008		
	Consolidated	NutraCea	Irgovel	Consolidated	NutraCea	Irgovel
Interest income	$376,000	$44,000	$332,000	$716,000	$645,000	$71,000
Interest expense	(1,701,000)	(1,243,000)	(458,000)	(448,000)	(107,000)	(341,000)
Loss from equity investments	(203,000)	(203,000)	-	(115,000)	(115,000)	-
Gain/(loss) on foreign exchange	(91,000)	(72,000)	(19,000)	-	-	-
Warrant liability income	1,497,000	1,497,000	-	-	-	-
Other income (expense)	(106,000)	(111,000)	5,000	(359,000)	(198,000)	(161,000)
Total other (expenses) income	$(228,000)	$(88,000)	$(140,000)	$(206,000)	$225,000	$(431,000)

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2009 our cash and cash equivalents were $137,000. Our cash decreased by $4,730,000 in the nine months ended September 30, 2009 from our cash position of $4,867,000 at December 31, 2008.

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We have $2,985,000 of restricted cash all classified as current assets. The restricted cash amount includes a balance of approximately $1,071,000 which is restricted by contract as security on our corporate office lease in Phoenix. The amount of restricted cash required under the office lease decreases annually over the period of five years per the terms of the lease agreement. The lease expires in 2016. The remaining amount of approximately $1,914,000 represents restricted cash to cover certain litigation matters under the purchase agreement terms of the acquisition of Irgovel.

Cash used in operating activities was $5,498,000 for the period ended September 30, 2009, compared to net cash used in operations in the same period of 2008 of $8,057,000, a decrease of $2,559,000. Cash used in operating activities for the period ended September 30, 2009 was primarily driven by a net loss of $25,289,000 offset by non-cash depreciation and amortization of $5,376,000, impairment of fixed assets and intangibles totaling $10,339,000, warranty liability income of $1,629,000, an decrease in other current assets of $1,154,000 and an increase in accounts payable and accrued liabilities of $1,417,000.

Cash provided by/(used in) investing activities was $3,091,000 and ($42,721,000) for the periods ended September 30, 2009 and 2008, respectively. This decrease of $45,803,000 was primarily due to our plant expansion projects (Lake Charles and Phoenix), the acquisition of Irgovel, and our investments in subsidiaries that occurred in 2008.

Cash provided by/ (used in) financing activities was ($2,371,000) and $18,440,000 for the periods ended September 30, 2009 and 2008, respectively. This decrease in cash provided in financing activities is primarily due to an equity financing proceeds of $18,775,000 in 2008 and no equity financing proceeds in 2009.

Our working capital position was $5,698,000 and ($3,298,000) as of September 30, 2009 and December 31, 2008, respectively.

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 financing and liquidity support or market risk or credit risk support to the Company.

CRITICAL ACCOUNTING POLICIES

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

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

Recent accounting pronouncements

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

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

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

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

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

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

On January 1, 2009, the Company adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB 51 ("ASC 810"). This update to ASC 810 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements (which is codified in ASC 810), to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. This update to ASC 810 requires, among other items, that a noncontrolling interest be included in the consolidated balance sheet within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and noncontrolling interest's shares and, separately, the amounts

of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The result of the adoption of the requirements under ASC 810 is included in the Company's Condensed Consolidated Financial Statements and did not have a material impact.

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

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

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

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

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the Company's market risk, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report filed on Form 10-K. Our cash and cash equivalents have been maintained only with maturities of 30 days or less. Our short-term investments have interest reset periods of 30 days or less. These financial instruments may be subject to interest rate risk through lost income should interest rates increase during their limited term to maturity or resetting of interest rates. As of September 30, 2009 our NutraCea segment had notes payable of $5,180,000 outstanding bearing interest of 8% payable over 4 years and our Irgovel segment had notes payable of $5,206,000 outstanding bearing interest from 2.8% to 21.4% payable over 2.3 to 9.5 years (see Note 12 Notes Payable and Long-term Debt to the Condensed Consolidated Financial Statements included herein). Future borrowings, if any, would bear interest at negotiated rates and would be subject to interest rate risk. We do not believe that a hypothetical adverse change of 10% in interest rates would have a material effect on our financial position.

Item 4. Controls and Procedures

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

With the exception of hiring an outside counsel to assist management in 1) recording timely board meeting minutes, and 2) review corporate governance policies and procedures, there were no changes in our 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Various lawsuits, claims, proceedings and investigations are pending involving us as described below in this section. In accordance with ASC 450, Accounting for Contingencies, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In addition to the matters described herein, we are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, which in our opinion will not have a material adverse effect on our financial condition, cash flows or results of operations.

Irgovel Stockholders Lawsuit

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

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

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

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Shareholder Class Action

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

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

Shareholder Derivative Action

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

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

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

SEC Enforcement Investigation

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

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

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

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

Halpern

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

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Farmers' Rice Milling

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

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

Item 1A. Risk Factors

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

Risks Related to Our Emergence from Bankruptcy

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

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

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The Company's obligations under its confirmed Plan of Reorganization

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

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

Although we emerged from bankruptcy under Chapter 11 Reorganization on November 30, 2010, the effective date of the Amended Plan, we cannot assure you that having been subject to bankruptcy protection will not adversely affect our operations going forward, including our ability to negotiate favorable terms from suppliers, partners and others and to attract and retain customers. The failure to obtain such favorable terms and attract and retain customers could adversely affect our financial performance.

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

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

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

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

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

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

Risks Related to Our Business

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

The Company's cash flows from operating activities used \$5.5 million and \$8.1 million for the nine month period ended September 30, 2009 and 2008, respectively. We cannot assure you that we will be able to achieve or sustain revenue growth, profitability, or positive cash flow on either a quarterly or annual basis or that profitability, if achieved, will be sustained. No adjustments have been made to the financial statements that might result from the outcome of this uncertainty. If we are unable to achieve or sustain profitability, we may not be financially viable in the future and may have to curtail, suspend, or cease operations, restructure existing operations to attempt to ensure future viability, or pursue other alternatives such as filing for bankruptcy, pursuing dissolution and liquidation or seeking to merge with another company or sell all or substantially all of our assets.

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

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

- We incurred substantial unanticipated costs for accounting and legal fees during 2009 in connection with the restatement. Although the restatement is complete, we expect to continue to incur additional legal costs as noted below.

- As a result of the restatement, we were named in a number of lawsuits as discussed in Item 1 of Part II of this Quarterly Report, "Legal Proceedings" and Note 14, "Litigation, Other plaintiffs may bring additional actions with other claims, although such claims are most likely barred by the discharge injunction resulting from the confirmation of the Amended Plan. If such actions are brought and are not barred by the discharge injunction, we may incur substantial defense costs regardless of the outcome of these actions and insurance may not be sufficient to cover the losses we may incur. Likewise, such actions might cause a diversion of our management's time and attention. If we do not prevail in one or more of these actions, we could be required to pay substantial damages or settlement costs, which could adversely affect our business, financial condition, results of operations and liquidity.

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

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

We have not yet achieved positive cash flow.

We have not generated a positive cash flow from operations continuously period to period since commencing operations. Management is reassessing the business to identify core and non-core assets. To raise additional cash funding, non-core assets and/or business units will be offered for sale. Additionally, increased focus and attention will be undertaken in an effort to reduce operating expenses to increase cash flow and fund current operations in our NutraCea Segment.

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

There are significant market risks associated with our business.

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

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We may face difficulties integrating businesses we acquire.

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

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

These purchases also involve numerous risks, including:

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

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

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

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

- cultural differences in the conduct of business;
- fluctuations in foreign exchange rates;
- greater difficulty in accounts receivable collection and longer collection periods;
- impact of recessions in economies outside of the United States;

- reduced protection for intellectual property rights in some countries;

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- unexpected changes in regulatory requirements;
- tariffs and other trade barriers;
- political conditions in each country;
- management and operation of an enterprise spread over various countries;
- the burden and administrative costs of complying with a wide variety of foreign laws; and
- currency restrictions.

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

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

We depend on a limited number of customers.

For the nine months ended September 30, 2009, one customer accounted for a total of 18.8% of the Company’s sales. At September 30, 2009, only one customer accounted for 18.5% of the Company’s accounts receivable.

For the nine months ended September 30, 2008, one customer accounted for a total of 18.7% of the Company’s sales. At September 30, 2008, two customers accounted for 47.5% of the total accounts receivable. These customers accounted for 25.0% and 22.5% of the total outstanding accounts receivable.

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

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

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

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

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

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

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

We are subject to credit risk due to concentration of our trade accounts receivables and notes receivables. As of September 30, 2009, one customer accounted for 18.5% of our $3,382,000 trade accounts receivable and one debtor accounted for $3,300,000 of the notes receivables reflected on our September 30, 2009 balance sheet. The inability of our significant customers and obligors to meet their obligations to us, may adversely affect our financial condition and results of operations.

We rely upon a limited number of product offerings.

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

We are dependent upon our marketing efforts.

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

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We rely upon an adequate supply of raw rice bran.

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

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

We face competition.

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

We must comply with our contractual obligations.

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

We have a high concentration of credit risk

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

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

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

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

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

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

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

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

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

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

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

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

We are dependent on key employees and consultants.

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

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

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

Risks Related to Our Stock

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Our Stock Price is Volatile.

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

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

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

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

- price and volume fluctuations in the overall stock market from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following securities were issued during the three month period ended September 30, 2009:

On July 7, 2009, the Company entered into an employment agreement with our Chief Executive Officer. Pursuant to the agreement, the Company issued our CEO an option to purchase 5,000,000 shares of our Common Stock at a strike price of $0.20 with a ten year expiration date.

On July 24, 2009, the Company entered into a consulting agreement with our interim Chief Financial Officer. The Company issued our interim CFO an option to purchase 100,000 shares of our Common Stock at a strike price of $0.20 with a five year expiration date for these services.

On July 28, 2009, the Company amended the Chief Operating Officer's employment agreement. Pursuant to the amendment, the Company issued our COO an option to purchase 1,500,000 shares of our Common Stock at a strike from of $0.22 with a five year expiration date.

On August 3, 2009, the Company issued an option to purchase 750,000 shares of our Common Stock at a strike price of $0.24 with a three year expiration date to our Executive VP of Latin America.

On August 14, 2009, the Company issued an option to purchase 411,750 shares of our Common Stock to its current directors in lieu of cash for services provided in the first six months of 2009 at a strike price of $0.22 with a five year expiration date.

On August 17, 2009, the Company issued an option to purchase 500,000 shares of our Common Stock to a new employee with a strike price of $0.21 with a five year expiration date.

On August 20, 2009, the Company entered into an agreement to pay certain of its outstanding invoices in Common Stock to a law firm. The Company issued 200,000 shares of its common stock, with a value of $40,000.

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

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

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Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are attached hereto and filed herewith

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.1(1)	Stock Purchase Agreement, dated July 23, 2009, between Fortune Finance Overseas Ltd., and Medan, LLC.
10.2(2)	Forbearance Agreement and Amendment to Credit and Security Agreement with Wells Fargo Bank, National Association, dated July 31, 2009.
10.3(3)	Purchase Agreement between Ceautamed Worldwide, LLC and NutraCea, dated July 29, 2009.
10.4(4)	Employment Agreement between NutraCea and W. John Short.
10.5(4)	First Amendment of Employment Agreement between NutraCea and W. John Short.
10.6(5)	Employment Agreement between NutraCea and W. John Short.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Office Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) incorporated herein by reference to exhibits previously filed on Registrant's Current Report on Form 8-K, filed on July 28, 2009.
(2) incorporated herein by reference to exhibits previously filed on Registrant's Annual Report on Form 10-K, filed on October 20, 2009.
(3) incorporated herein by reference to exhibits previously filed on Registrant's Current Report on Form 8-K, filed on August 4, 2009.
(4) incorporated herein by reference to exhibits previously filed on Registrant's Current Report on Form 8-K, filed on July 10, 2009.
(5) incorporated herein by reference to exhibits previously filed on Registrant's Current Report on Form 8-K, filed on August 3, 2009.

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SIGNATURES

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

NUTRACEA (Registrant)

Dated: February 24, 2011

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

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